TRANSCRIPT OF MEETING
OF
STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA
February 28, 1953

****

(CALENDAR ITEM 20, RE LONG BEACH UNIT, VILLAGE "B"
FIELD, HAS BEEN REPRODUCED SEPARATELY ON ATTACHED

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PARTICIPANTS:  [PORTION OF MEETING IN THIS TRANSCRIPT]

THE COMMISSION:

Honorable Alan Cranston, Controller
Honorable Glenn M. Anderson, Chairman
Honorable Male Champion, Director of Finance

Mr. Frank J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL:

Mr. Jay L. Shavelson, Deputy Attorney General

APPEARANCES, IN THE ORDER OF THEIR APPEARANCE:

Mr. Conrad Reisch, City Attorney
City of Brisbane

Mr. Gerald Desmond, City Attorney
City of Long Beach

OFFICE OF ADMINISTRATIVE PROCEDURE, STATE OF CALIFORNIA
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NEXT MEETING

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MR. CRANSTON: Will the meeting please come to order? The first item to come before us is the confirmation of minutes of meetings of December 6, 1962 and of December 20, 1962. If there is no objection they stand approved as submitted, is that correct?

MR. HORTIG: Yes, sir.

MR. CRANSTON: In order to take up matters before us today which have attracted a large number of people to this hearing, we will seek to speed through the agenda and take up matters now where people are present, and leave until the end of the day those which are not controversial, where we have no people before us.

I have one request to take up an item which I have been assured will not take up any time, which is Item Classification 4 (j). If there is no objection, we will take that up now and then one or two other matters; then seek to get to the oil matter which will consume a large amount of time.

Applicant (j) is T. Jack Foster -- Assignment to Estero Municipal Improvement District of Mineral Extraction Lease P.R.C. 2613.1, San Bruno Shoal, San Mateo County, subject to continuing obligation of T. Jack Foster.

As I understand it, there is no objection to this.

MR. HORTIG: There are no objections, Mr. Chairman, and the application is for assignment of a lease which was issued heretofore pursuant to competitive public bidding; and the application is in full compliance with the statutes
and the rules and regulations of the Lands Commission; and the chair recommends approval.

CRANSTON: Bert, do you wish to comment?

LEVIT: No, I think not.

CRANSTON: Motion is in order to approve.

CHAMPION: Move.

CRANSTON: Motion is made to approve, seconded.

Is there anyone here who wishes to take up anything other than the Brisbane matter and the oil matter, before these two items? If not, let's proceed to Item Classification 6 -- Proposed Annexation.

HORTIG: Yes, Mr. Chairman. Pursuant to the provisions of the Government Code, the City of Brisbane, in exercising an annexation of additional territory to their existing city limits, submitted the requisition to the State Lands Commission for appraisal. The great portion of the area desired to be annexed was on tidelands and submerged lands; and the Commission's staff recommended appraisal and had recommended that the Commission authorize the notification to the City Council of the...
City of Brisbane that pursuant to requirements of the Government Code, the Commission has determined the present value of the State-owned tide and submerged lands proposed to be annexed under City of Brisbane Council Resolution No. 70 to be $14,584,000.

As of yesterday evening, the staff received a telegram reading:

"State Land Commission

The Bayshore Sanitary District, a public utility contests the Brisbane annexation. Your valuation of the tidelands is requested by Brisbane should consider Section 35313.1 of the Government Code. A letter follows explaining this. The Brisbane annexation proceedings are now in litigation in Superior Court. Please call my office to further discuss this subject.

Tom Bocci
Attorney Sanitary District"

Also from Mr. Bocci, a letter to State Land Commission, attention Bert Tucker, who is the supervisor of our commercial and recreation leasing section, who had been processing this application on behalf of the City of Brisbane:

"Dear Sir:

I represent 4,000 residents of Bayshore City and Bayshore Sanitary District who are contesting the right of the City of Brisbane to annex an entire area of land that includes tide and submerged lands."
"Under Section 35313.5 of the Government Code, your Commission, upon application, must set a value on the tidelands under the circumstances set forth in this Code section. In 35313.1, a formula is established for establishing the value to publicly owned property. This value is that which would be assessed to the property on the assessment rolls in the County Assessor's Office if privately owned. Since the two sections must correlate, it would appear that your valuation would be the valuation to be placed thereon by the County Assessor for assessed valuation purposes. Such a valuation would be less than 25% of market value.

"Since this is a most important issue to the City of Daly City, which is also annexing this area, the 4,000 residents of Bayshore City and the Bayshore Sanitary District, who are contesting the Brisbane annexation, I would respectfully ask that the interpretation to be made of 35313.5 Government Code section be in keeping with the remaining provisions of Section 35313.1 through .5.

Yours very truly,

Thomas L. Bocci"

MR. HORTIG (continuing) The proposed annexation report by the staff recommended to the Commission is in strict conformance with the same procedure which has been utilized at all times, with the approval of the Office of the Attorney General, in connection with applications of the same type; and there is no record in State Lands of any proposed annexation by the City of Daly City with respect to the subject area, as explained in the referenced letter from Mr. Bocci.

MR. CRANSTON: Does anyone here wish to appear on this matter?
MR. REISCH: Mr. Chairman, members of the Commission, my name is Conrad Reisch. I am the City Attorney of the City of Brisbane. The Mayor of the City, Mr. Turner, is present; and the City Manager, Mr. Brady, and some of the councilmen. We are prepared to answer any questions which you may have concerning this particular matter.

I can advise the members of the Commission unequivocally that the lands that are under the State Lands Commission, that are proposed for annexation to the City of Brisbane, are not included in any annexation being proposed to the City of Daly City.

GOV. ANDERSON: This Sanitary District group -- is this all located in Brisbane?

MR. REISCH: The Bayshore Sanitary District is a district operating under the Sanitary District Act of 1923. Its jurisdiction generally is in the area to the north of the city limits of the City of Brisbane.

GOV. ANDERSON: Does it cover the area that is to be annexed?

MR. REISCH: Some of the Sanitary District is in some of the area proposed to be annexed to the City of Brisbane. The major part of the Sanitary District is an area presently being proposed for annexation to the City of Daly City. There is no conflict with respect to boundaries in the areas proposed to be annexed to the City of Brisbane and the City of Daly City.
GOV. ANDERSON: The four thousand residents they state they represent, are those four thousand residents in Brisbane or just where are these four thousand people?

MR. REISCH: These four thousand people reside in the area proposed for annexation to the City of Daly City. I might add parenthetically that I am confident that Mr. Bocci does not represent four thousand.

MR. HORTIG: Mr. Chairman, the staff would like to suggest for consideration, however, in view of the fact that at least a portion of the area is the subject of litigation, possibly the clearest manner in which this matter could be disposed of would be consideration by the City of Brisbane to withhold action on its annexation application until the completion of the litigation; and thereafter the Lands Commission could process the application expeditiously in accordance with whatever judicial determinations had been made.

MR. CHAMPION: What relevance does that have to our evaluation?

MR. HORTIG: It has no relevance to our evaluation.

MR. CHAMPION: Why should we delay?

MR. HORTIG: Only, sir, because -- as Governor Anderson has pointed out previously with respect to applications of this type, an appraisal by the Lands Commission at this time of this order of magnitude could be alleged to have been one of the persuasive features in overcoming protests of citizens in the other area.
In other words, the Lands Commission appraisal submitted at this time could be the determining factor in resolving what is strictly a local problem; and the question is could the Lands Commission -- not deliberately, but unwittingly -- be placed in that position?

MR. CHAMPION: It seems to me we are just asked to comply with the statute. We are not asked to make any particular judgment. Whatever the result of our obligation to carry out the statute, that is something of local concern.

MR. HORTIG: This is the alternative of the two that the Commission has before it.

MR. CHAMPION: I move we approve the original staff recommendation.

GOV. ANDERSON: I'll second it.

MR. CRANSTON: Approval is moved, seconded, and without objection it is made unanimously.

MR. REISCH: Thank you, Mr. Chairman.

MR. CRANSTON: We will now proceed to the matter of the Long Beach Wilmington Oil Lease, having disposed of matters involving people present here on the agenda.

(The next item considered was Calendar Item 28: Unit Agreement, Unit Operating Agreement, Exhibits and Field Contractor Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County - L.B.W.O. 10,155. This item has been reproduced separately on stencils because of the number of copies required.)
MR. CRANSTON: We will return to Item Classification 3. Is Jay Shavelson still present?

MR. HORTIG: We are still in session.

MR. CRANSTON: Jay, I have an expediting question to ask you. I have always wondered if we need to read the details of the authorizations asked. I would like to ask if we can just take up the matters under Classification 3 ....

MR. SHAVELSON: My suggestion would be to go through the ordinary procedure, since you are required to have a public meeting.

MR. CRANSTON: Item Classification 3: Applicant
(a) I. Mills Beam -- five-year renewal of permit dated 1/22/58, issued by Department of Finance, to salvage abandoned cable from State-owned tide and submerged lands along the California coast -- to minimize hazards to shipping and facilitate harbor defense;

Item (b) State of California, Department of Fish and Game -- 49-year life-of-structure permit, two acres of sovereign lands of Eagle Lake, Lassen County, for boat-launching ramp and appurtenant facilities;

Item (3) State of California, Division of Highways -- Right-of-way easement, tide and submerged lands of Sacramento River, Shasta County, for bridge for State Highway Route II Sha 20 C;

Item (4) United States of America, Department of Defense -- Easement, 0.24 acre sovereign lands at City of
Coronado, San Diego County, for four fenced airplane approach lights for Runway 29 at Naval Air Station, North Island.

GOV. ANDERSON: I'll move.

MR. CHAMPION: Second.

MR. CRANSTON: Approval is moved, seconded, and adopted unanimously.

Classification 4 -- Applicant (a) American Telephone and Telegraph Company -- 49-year easement, 0.457 acre school lands, San Bernardino County, for underground coaxial cable; total rental $150.

MR. HORTIG: Mr. Chairman, for the information of the Commission, where such cable installation would cross the uplands and particularly across State lands as indicated here for this easement, all facilities will be underground.

MR. CRANSTON: Item (b) Kenneth E. Edmiston and Marjorie A. Edmiston -- Five-year grazing lease, 3840 acres school lands San Bernardino County, annual rental $38.40;

Item (c) E. I. Du Pont de Nemours and Company, Inc. -- 15-year lease, 1.35 acres tide and submerged lands of San Joaquin River near Antioch, for dock and dolphins for barges for chemical plant, annual rental $575.94;

Item (d) James A. Gallagher and Mary A. Gallagher -- 10-year lease Lot 37 Fish Canyon Cabin Site, Los Angeles County, annual rental $65;

Item (e) Howard J. McQuigg and Ruth McQuigg -- 10-year lease, Lot 62 Fish Canyon Cabin Site, Los Angeles
County, annual rental $65;

Item (f) Philip D. Tripp and Richard M. Russell — 10-year lease, Lot 46, Fish Canyon Cabin Site, Los Angeles County, annual rental $65;

Item (g) San Francisco Port Authority — I understand that is put over.

MR. HORTIG: It is the staff's request...

GOV. ANDERSON: (g) is off calendar, then?

MR. HORTIG: Yes.

MR. CRANSTON: Item (h) California Minerals Corporation — Assignment to Minerals Materials Company of a 50% interest for initial period of ten years, and approval of subleases from California Minerals Corporation and Mineral Materials Company, joint venturers doing business under the name of California Asbestos Company, to Atlas Corporation, of Mineral Extraction Leases P.R.C. 1511.2, et cetera, Fresno and San Benito counties;

Item (i) Continental Oil Company — Assignment to Douglas Oil Company of California of Oil and Gas Lease P.R.C. 1524.1, Huntington Beach Field, Orange County;

Item (j) T. Jack Foster ...

MR. HORTIG: This was the assignment acted on earlier this morning, Mr. Chairman.

MR. CRANSTON: Item (k) Pacific Gas and Electric Company — Amendment of right-of-way easement P.R.C. 2942.1, Sonoma County, to change the legal description, resulting
in an increase in acreage to 0.895 acre. Total rental to be increased from $1,856.61 to $2,491.65.

Item (1) Northern California Plywood, Inc. -- Acceptance of quitclaim deed for Lease P.R.C. 1861.1, Klamath River, Del Norte County -- logging operations completed.

Item (m) Karl Pierce, Feree Pierce, and Frank Pierce -- Deferment of operating requirements, Mineral Extraction Lease P.R.C. 2150.2, San Luis Obispo County, for lease year ending April 13, 1963. Chrome market depressed; grade of ore occurring within leased area cannot be mined economically at present.

Item (n) San Diego Gas and Electric Company -- Deferment of operating requirements, Mineral Extraction Lease P.R.C. 2094.1, San Diego County, for lease year ending March 9, 1963. Dredging operations required in construction of first and second units of South Bay Generating Station are completed; no further dredging contemplated at present.

GOV. ANDERSON: Frank, would you just briefly explain that item (h) -- the assignment to Minerals Materials Company?

MR. HORTIG: Well, there is an existing lease for extraction of various minerals at the junction of San Benito and Fresno counties at the mountain top, on which a portion of interest is being acquired from the present lessee.

GOV. ANDERSON: It is a half interest and no compensation at all?
MR. HORTIG: No, sir.

MR. CRANSTON: Motion is in order for approval of those items pending before us.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

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

Item 5 -- Authorization to exchange with the United States eighty acres of State school lands in Shasta National Forest for 54.10 acres Federal lands in Trinity County, the State and Federal lands being of approximately equal value -- pursuant to application of Kelso V. B. Young.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

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

We have acted on Item 6.


MR. CHAMPION: Move approval.

MR. CRANSTON: Approval is moved ....
GOV. ANDERSON: Second.

MR. CRANSTON: . . seconded, made unanimously.

Item 8 -- Authorization for Executive Officer to execute Compensatory Gas Royalty Agreement with Patrick A. Doheny for State's interest in bed of Sacramento River, Sycamore Area, Colusa and Sutter counties.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

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

Item 9 -- Authorization for issuance to high bidder, Union Oil Company of California, of proposed Oil and Gas Lease, tide and submerged lands, Santa Barbara County, Parcel 11. The staff has recommended approval of this.

MR. CHAMPION: What is involved in that?

MR. CRANSTON: The high bid?

MR. HORTIG: $267,000 high cash bonus offer.

GOV. ANDERSON: I'll move it.

MR. CHAMPION: Second it.

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

Item 10 -- Authorization for Executive Officer to offer Proposed Oil and Gas Lease, Santa Barbara County -- Parcel 13.

MR. CHAMPION: Move it.

GOV. ANDERSON: Second.
MR. CRANSTON: Approval is moved, seconded, made unanimously.

Item 11 -- Confirmation of transactions consummated by the Executive Officer pursuant to authority confirmed by the Commission at its meeting on October 5, 1959.

MR. CHAMPION: Move confirmation.

GOV. ANDERSON: Second.

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

Item 12 -- Confirmation of schedule of meetings of the State Lands Commission for 1963 calendar year, as indicated on pages 34 and 35. We have already had that before us but never adopted it.

MR. HORTIG: This is the schedule which was sent to you gentlemen in January.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

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

Item 13 -- Informative only, no Commission action required -- Report on status of major litigation. Frank, do you have anything?

MR. HORTIG: Not specifically -- the routine extensions of existing permits and other authorizations -- Are we on litigation?

MR. CRANSTON: Status of major litigation.
MR. HORTIG: No, no new litigation has been added since the last time we reported to the Commission.

MR. CRANSTON: On the next meeting, let's take one moment to discuss what we went through here today. What is your feeling? Should we schedule a substantial amount of time a month hence?

MR. CHAMPION: I'd like to ask Mr. Desmond a question in terms of the discussion on time we had here today. You indicated in your testimony a question of urgency on time because you want to go to work on the other existing contracts?

MR. DESMOND: That's right.

MR. CHAMPION: Now, what is the schedule which you consider you have to meet in order to meet that problem?

MR. DESMOND: We have not discussed this at all with Mr. Hortig or his office, but that will expire and it isn't the first day of March -- I believe it's March the 25th of next year the present L.B.O.D. contract runs out. We feel that -- dating back, again, to the time needed for preparing this -- let's say ninety days from that going backwards would take us to the latter part of November, which I would think would allow no time -- I would say it would have to go out to bid probably in the month of October.

GOV. ANDERSON: Is this going to take a great amount of time, inasmuch as it is reviewing and continuing with what you already have?
MR. DESMOND: Well, we don't know. We feel that the present contract, which is on a gross basis, should be changed. I mean, a different method -- the net profit basis -- should be the basis of proceeding, I believe. I think this is Mr. Hortig's view. I know he has expressed pleasure and appreciation that the contract here under consideration is on that basis. So I would say there would be a considerable period of time required.

GOV. ANDERSON: Well, the time for staff work on your part, I heard there would be a lot of staff work on your part to review this and reprepare this.

MR. DESMOND: I think so.

MR. CHAMPION: Frank, let me ask it another way. Starting from this end, how long do you think it would take for you to review the various questions that were raised in the hearing today and present your comments, and I presume Long Beach will also want to review and present comments; how long would it take you to do that?

MR. HORTIG: From the policy standpoint I could give you an estimate. There are a great number of questions which are either inherently or explicitly legal questions and I just have a feeling it is going to take longer to get a resolution of those than the operating and policy questions; so if I might pass the question to Jay --

MR. SHAVERSON: That's a difficult question.

Mr. Clark raised some interesting questions rather rapidly
and I'd like to sit down and assimilate them before I answer that question.

GOV. ANDERSON: Two months?

MR. SHAVELSON: Oh, yes.

MR. CHAMPION: Is there a chance that at the next meeting, as Alan suggested, we might be able to hear the comments on this and have a further discussion at the next meeting, or is that too soon?

MR. DESMOND: We were hoping you would say a special meeting in about two weeks' time; if the work cannot be accomplished then, depend upon the next one.

MR. CHAMPION: I think you will agree that some rather complex questions were raised.

MR. DESMOND: Yes.

MR. SHAVELSON: We have some internal problems and that is this -- that the Long Beach boundary litigation is set for pretrial in July and it so happens that I have done all of the work on the Long Beach Unit and I have also done all the work on the Long Beach boundary; and if I have under four to six weeks on this, it is going to create...

MR. CRANSTON: I think you are going to have more than four to six weeks.

MR. SHAVELSON: I believe so, or else have to shift it over to Howard Golden -- which means that he is going to have to familiarize himself -- which again means it would take more time than ordinarily. So until we
straighten this internal problem out ....

MR. CRANSTON: I think we should schedule a full
day for the next regular meeting. This would give us time
for the staff to work on it.

MR. CHAMPION: I think we ought to ask the
Attorney General to reinforce the troops on this matter.

MR. SHAVELSON: It is not a question of the number
of people. It is a question of getting familiarity with
the problem. The amount of work that went into our opinion,
I think, was four or five months almost.

MR. CHAMPION: Well, in view of the importance of
this to Long Beach and of the importance of it to the State
in terms of revenue -- I think if the statement was made
that we are in dire straits, it would be a little exag-
gerated; but we really ought to get more people familiar
with it.

MR. DESMOND: May I make this comment? If it
becomes the decision of the Commission that any substantial
changes be made, it really means a change also in the Unit
Agreement, Unit Operating Agreement, and I think that would
mean really starting over. We could not start over at this
time. Unless this is out in substantially the same form
within, I would say, a period of not more than six weeks'
time, then I think we should devote our attention entirely
to the other matter; and at some later time take this up.

MR. CHAMPION: Are you speaking only to the Unit
Agreement, or are you speaking to the Field Contractor's Agreement?

MR. DESMOND: I am speaking to the Field Contractor's contract. If the type of contract is changed, the Field Contractor's contract, that would mean the entire package has to be redone -- and this is something we have actually devoted, I would say, almost a full year to.

MR. CHAMPION: The Unit Operating contract did not come under great question here.

MR. DESMOND: Not a great deal, a few questions. One is tied to the other. If we start over, we start over the whole thing and we are not going to be able to do that.

GOV. ANDERSON: You mean if we attempted to, in a sense, break up this feeling towards monopoly and may be used that one suggestion of interests and still have the one operating unit, that this would mean starting all over again?

MR. DESMOND: I think it would.

GOV. ANDERSON: Why? And I was going to ask you earlier -- why didn't you get agreements in writing on the Unit Agreement before actually the contract itself?

MR. DESMOND: No reason not to. Mr. Shavelson, of course, commented there that we have all these letters -- as soon as it is approved, they are ready to sign.

GOV. ANDERSON: Why don't you get them signed up before?

MR. DESMOND: I made that suggestion. If the
Commission makes the condition that to let this contract out to bid that first there must be whatever assurances needed, that's fine. There is no other reason. I think you have heard these people. Now, several of the companies have advised that they are ready to sign and will do so upon approval of this agreement.

Now, if the agreements are not approved, why, of course, there is no point in proceeding. They have said as soon as they are approved, they will sign -- not as soon as the bid opens or the contract is open.

MR. CHAMPION: The question that was raised: Do you go through the procedure until you have got these commitments? And I think this is a fair question. In other words, is there any reason why they should not be asked to do this right now?

MR. DESMOND: We could do that.

MR. CHAMPION: Why don't we do it?

MR. DESMOND: All right.

MR. CRANSTON: I'd like to allocate two days next time. The next meeting is Thursday, March 28th. Why don't we schedule Wednesday, the 27th, and Thursday, the 28th?

That would give time for a full exploration at that time and we could see where we are.

GOV. ANDERSON: I would much rather see it go Friday and Saturday. Two days out of Legislature are murder.

(off-the-record discussion)
MR. CRANSTON: We should schedule the day and reserve the evening of the 28th and we will announce it may go into the evening.

MR. HORTIG: Mr. Chairman, there is a supplemental calendar item attached to your calendars and this requires action. It is pages 39 and 40 and it relates to legislation which has been introduced and can affect the legislative cognizance or operations of the Commission. It is recommended that the Commission authorize the Executive Officer to discuss the foregoing listed measures with the authors thereof, and to attend the respective legislative committee hearings for the purpose of presentation of reports of facts and existing Commission administrative procedure and regulations relative thereto.

MR. CHAMPION: You would be derelict in your duty if you didn't.

MR. HORTIG: If I didn't have such instructions I couldn't.

MEETING ADJOURNED 5:27 P.M.

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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, hearing reporter for the Office of Administrative Procedure, hereby certify that the foregoing twenty-one pages, and pages 1 through 144 of the Long Beach Wilmington Oil Field item reproduced on stencils by me, contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION at Sacramento, California, on February 28, 1963.


[Signature]

LOUISE H. LILLICO
STATE
LANDS COMMISSION
FEBRUARY 28, 1963
CALENDAR ITEM 28

UNIT AGREEMENT, UNIT OPERATING AGREEMENT, EXHIBITS, AND FIELD CONTRACTOR AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD:

MR. CRANSTON: We will now proceed with the matter of the Long Beach Wilmington Oil Field, having disposed of matters involving people present here on the agenda.

I'd like first to welcome members of the Special Senate Committee who are going to sit with us and keep track of this particularly vital matter: Senator O'Sullivan, Chairman of that Special Committee; Senator McCarthy, Senator Murdy, Senator Teale, Senator Arnold.

Frank, would you get word to Senator Kennick that we are about to take up this matter? I believe he would wish to be with us when we get to it. I believe he is on the Assembly floor.

Just to sort of set the framework for what we are going to be doing, I have a brief statement to read. Before the Lands Commission today for consideration are proposed agreements submitted by the City of Long Beach, setting forth terms for the development of the Long Beach Unit of the Wilmington Oil Field.

Revenues to the State of California from this development should run into hundreds of millions of dollars during the next thirty-five years. We hope that substantial revenue will be forthcoming soon enough to contribute significantly toward the relief of our present fiscal situation. Every dollar taken from the tidelands means that one dollar less must
come from the pockets of our taxpayers.

Petroleum engineers believe this field may prove to be the second richest in this country. Estimates of its recoverable oil range up to 1.5 billion barrels.

The purpose of this hearing primarily is to permit the City of Long Beach and other interested parties to express their views on these agreements. The Lands Commission will not reach a decision on this matter today. However, we will not procrastinate in our deliberations.

The Long Beach Unit (sometimes referred to as the East Wilmington Field) covers some 6,700 acres and includes 4,500 acres of tide and submerged lands held in trust by the City of Long Beach.

The Lands Commission will authorize no development inconsistent with the preservation of the natural beauty and recreational utility of the coastline.

In summary, it is the hope of the Lands Commission, with the help of those present today, to bring about the development of this oil field in keeping with the best interests of all the people of California.

I think first in order would be a statement by Frank Hortig of the issue before us. We will then proceed to hear from Long Beach, and then from those who would in any way wish to testify or add to the information. I would like the Senators or Assemblymen here to interpose their questions along the way, whenever they wish to do so.

Do you wish to proceed, Frank?

MR. HORTIG: Yes, Mr. Chairman. Summarizing from the calendar item, a copy of which is before all members of the Commission, the industry representatives, and the City, the City of Long Beach has submitted for approval by the State
Lands Commission, in accordance with applicable provisions of law, copies of a Unit Agreement, Unit Operating Agreement, Exhibits to the Unit Agreement and Unit Operating Agreement, and a Field Contractor Agreement, providing for the unitization of all oil, gas, and other hydrocarbons to be produced from a proposed Long Beach Unit.

The proposed Long Beach Unit is outlined on the air photo on the far wall from you gentlemen and includes both the upland area within the heavy white line to the north, which is to the upper part of the map, extending to the westerly boundary, which is the jagged north-south line to the left of the flood control channel and which you gentlemen see terminating in a curved pier section and extending easterly to the second diagonal line, trending approximately northeast-southwest; and if I may step to the map, I will outline this area again, as I have just attempted to describe it in words.

The westerly limit of the area proposed ultimately for inclusion in the Long Beach Unit would be the line I am tracing at the moment. Approximately the northerly limit would be the heavy white line, which I am also following, extending along the shore to the easterly limits of the ultimate unit development, southwesterly along the common boundary between the Cities of Long Beach and Seal Beach, and returning across the tide and submerged lands to join again the westerly limit.

Under discussion for development in the contracts which are before the State Lands Commission for consideration for approval are only two sets of parcels, being this area -- which is granted tide and submerged lands which have been granted by the Legislature to the City of Long Beach in trust heretofore -- and the area of uplands held in private ownership
and under lease to various oil companies and to various other oil operators.

The area between the two lines I have just traced, and hope that all the Committee can see it, at the easterly end of this map is the Alamitos State Beach Park parcel, of which the oil and gas are under the exclusive jurisdiction of the State Lands Commission; and the manner of development and the manner of commitment of that portion of the total area is not under consideration yet. This will be a matter for consideration of the State Lands Commission in the future.

The contracts which are under consideration by the Commission relate at this time, or would relate at this time, only to the granted tide and submerged lands and privately owned uplands within the geographic boundaries of the Long Beach unit. This is also shown, and possibly a little more clearly for you gentlemen, in the map which is an exhibit in the copy of the Unit Agreement you have before you.

SENATOR TEALE: Mr. Hortig, the unit to the west there -- that is presently in production?

MR. HORTIG: Senator Teale, the area to the west is presently being operated under two sets of contracts, also issued by the City of Long Beach and prior the time of the State of California having become associated in a supervisory capacity by reason of Chapter 29 of the Statutes of 1956. Immediately to the west of the westerly boundary of the proposed unit, and over to the curved pier section previously referred to, is the area which is under development and production by Richfield Oil Corporation; and the remainder of the area, along the Harbor frontage and extending out into the water, is the area that is under development by an organization known as the Long Beach Oil Development Company.
MR. CRANSTON: Senator Kennick, how about coming up here with the other Committee members? And welcome to our hearing.

ASSEMBLYMAN KENNICK: Thank you, Mr. Chairman.

MR. CRANSTON: Frank, do you want to proceed?

MR. HORTIG: Again in summary, prior to February 27, 1962, the offshore area just described for potential unit development, on which application has been received, was located within an area in which oil and gas drilling were prohibited by City ordinance.

On February 27, 1962, the Long Beach electorate approved an oil development ordinance for establishment and designation of a portion of the offshore area, being that area just described, as permitted drillsite areas, and specifically authorizing the development of such area from only four offshore islands as permitted drillsites, to be placed in the general area and to be located depending upon, particularly, the engineering and geologic determinations that would be made of exploration information, after exploration information would permit such operations.

The ordinance provided that in the development, the onshore and offshore areas are within geographic boundaries of a subsidence area which has been established by the Oil and Gas Supervisor; that repressuring operations can be expected to prevent and arrest subsidence and increase the amount of oil recoverable, and protect oil and gas waste in a unit under cooperative development of underlying pools.

Pursuant to the ordinance, any drilling operations must be conducted in a manner consistent with conservation practices, with exploitation operations to be conducted in a systematic plan of development, in an economic manner consistent with the best
oil field practice prevailing in the adjoining Wilmington Oil Field.

As a result of this proposal to the State Lands Commission staff, and predicated on a Long Beach Harbor Department recommendation that consideration be given to employing for development of the new unit area the same practices and methods and techniques as had been utilized heretofore by the Harbor Department -- specifically in connection with those same operations, Senator Teale, as are being conducted by Richfield Oil and Long Beach Oil Development Company -- the Commission staff expressed the need for preparation of an engineering and economic study of the previously existing operations, to prove their feasibility from an engineering and economic standpoint.

Such report was submitted by the City, and the staff also prepared a separate report, generally in concurrence as to findings -- particularly, that economic analysis of past performance under actual waterflood operations indicates that this has been an extremely effective method of increasing oil recovery, and that the oil revenue from the developed portion of the Long Beach tidelands will be considerably greater than it would have been if the waterflood program had not been undertaken. However, it must be noted that for application to the Long Beach Unit, the waterflood program conducted in the developed and partially depleted field will require modification because of reservoir characteristics which not only may but will certainly vary from those in the developed field which are expected, and some have already been found within the geographic boundary of the unit area.

The purpose of the agreement, if achieved by the City, is to accomplish the following: (1) To promote the conservation of oil and gas in the unitized formations and to secure other
benefits obtainable through the development and operation of the unitized formations as a unit under the terms, conditions, and limitations therein set forth; (2) To initiate and conduct repressuring operations in accordance with the provisions of the City ordinance and the Public Resources Code; and (3) to increase the maximum economic quantity of oil and gas ultimately recoverable from the unitized formations through repressuring operations.

Now, the surface area overlying the anticipated production zones within the entire unit area is approximately 6,700 acres, of which 4,500 acres lie within Tract 1. That Tract 1 is the tract of granted tide and submerged lands only. The total recoverable oil reserve.....

SENATOR DOLWIG: What do you mean by "only the tideland area"?

MR. HORTIG: Tract 1.

SENATOR DOLWIG: Tract 1?

MR. HORTIG: Yes.

SENATOR DOLWIG: Is that tract the upland area?

MR. HORTIG: The upland area is identified as Tracts 3 through 91, and the Alamitos State Beach Park is Tract 2. The area in green, Senator, which is the granted tide and submerged lands, is Tract 1; the passionate purple is Tract 2; and the yellow area is the upland private ownership; and this is a reproduction of the map which is in the document you have before you.

SENATOR DOLWIG: The proposed Unit Agreement covers all these tracts?

MR. HORTIG: All but Tract 2. The proposed Unit Agreement relates only at the present time to development of Tract 1 and those tracts, 3 through 91, in the upland. The unit did not include Tract 2, the Alamitos State Beach Park parcel, in which the oil and gas are under the jurisdiction of the State Lands.
Commission. The manner of development of the State Beach Park parcel is a matter of determination in the future.

SENATOR DOLWIG: In other words, development of that is in the future?

MR. HORTIG: Yes.

SENATOR TEALE: To the east of Tract 2 on that map, the heavy white line that goes out, what is that tract? Is that under development or what is it known as?

MR. HORTIG: That area, Senator Teale, is a State lease, P.R.C. 186, held at the present time jointly by Humble Oil and Refining Company and Texaco Inc. This is a lease awarded by the State Lands Commission under competitive public bidding, approximately in 1945. It is under development; it is under operation -- there are upwards of sixty producing wells on that lease.

SENATOR TEALE: Does that overlie a portion this?

MR. HORTIG: The heavy white line is a representation by the City of Long Beach as the possible estimated productive limits. This is not an interpretation by the State Lands Commission or State Lands Division staff.

SENATOR O'SULLIVAN: Mr. Hortig, what are returns annually from the Humble and Texaco lease?

MR. HORTIG: I am sorry, Senator -- It is a variable royalty rate, inasmuch as when the lease was awarded the bid factor was the royalty schedule to be applied to the individual production rate of each independent well, and it has ranged per well between the ranges of approximately sixteen per cent to something in excess of forty per cent royalty, Senator. We can, of course, and will, prepare for you....

SENATOR O'SULLIVAN: How much money did we get out of it last year?

MR. HORTIG: Offhand, again, this being one of seventy-
odd leases which we have under operation, I would hesitate to
answer; but we will prepare a tabulation of the specific area.

SENATOR O'SULLIVAN: Over the period of the lease since
1945 -- the history of that?

MR. CRANSTON: Complete history.

SENATOR DOLWIG: Could we have enough copies to give
to the members of the Senate Committee here?

MR. HORTIG: Of this same report?

SENATOR DOLWIG: Yes.

MR. HORTIG: Yes, sir.

MR. CRANSTON: Frank, do you want to proceed?

MR. HORTIG: Under the Unit Operating Agreement the
City is designated as Unit Operator in view of the fact that the
City is the holder in trust of the majority of the area which
would be developed, as grantee of the tide and submerged lands.
The Unit Operator shall have, subject to the terms, provisions
and limitations expressed in the Unit Agreement and in the Unit
Operating Agreement, the exclusive right to develop and operate
any committed parcels -- in the first instance only Tracts 1 and
3 through 91, as previously explained.

The Unit Agreement will become effective as of 7:00
o'clock a.m. following the first day of the calendar month which
commences after all the following events have occurred: --
which requires the commitment of Tract 1 as a committed parcel,
and that parcels which constitute sixty per cent of the surface
area of the Town Lot area have become committed parcels. There
are letters of intent and agreement already for far in excess of
sixty per cent of the Town Lot area to be committed; so that for
all practical intents and purposes, steps 1 and 2 already exist.

This would be followed by the City executing the Unit
Agreement and Unit Operating Agreement as Unit Operator; and
would require the City, as the Unit Operator and as to Tract 1, to have entered into a contract with a Field Contractor for the development and operation of the tract.

Finally, there would be the requirement, which is statutory, that the Unit Agreement be approved by the State Oil and Gas Supervisor, pursuant to the applicable provisions of the Public Resources Code.

Unless the Unit Agreement becomes effective on or before January 1, 1964, or such later date as may be stipulated in writing by the City and the participants of the Town Lot area, but prior to January 1, 1965, the entire agreement would be of no force and effect.

The principal matter, then, and the one of direct import and of primary consideration by the Commission here today, is as to the nature of the proposed Field Contractor Agreement, which the City proposes to award after approval by the Lands Commission to the highest bidder, pursuant to competitive public bidding; and the mechanisms as provided in the Field Contractor Agreement are detailed starting on Agenda Page 6, providing for payment by the Field Contractor to the City at a rate at the option of the City of an amount that would be prepayment for three years of an aggregate amount of fifty-one million dollars.

Of this fifty-one million dollars, fifty per cent would go to the State of California -- at the present time to the Water Fund, pursuant to the provisions of Chapter 29 of Statutes of 1956. It is anticipated in the contract that approximately at the end of the three-year period, by which time aggregate pre-payments of fifty-one million dollars have been made, net profits from the operation, by reason of actually having developed oil wells within the geographic limits of Tract 1 from four offshore islands only, will exceed a million-dollar-a-month payment, which
the operator has been making up to that time as part of the
fifty-one million dollar aggregate; and thereafter, when such net
profits do exceed such payment, then the City's option to receive
the aforesaid monthly payments will cease and all subsequent pay-
ments will remain on the basis of the bid percentage of net prof-
its accruing under the agreement -- in other words, in accordance
with the bid percentage of the net profit that was offered by
the Field Contractor to whom the City awarded the contract pursu-
ant to competitive public bidding.

The Field Contractor Agreement also provides for the
City Manager to exercise close supervision over the Field Contrac-
tor's operations, including the power to control all unit opera-
tions and to compel the Field Contractor to perform in accordance
with the City Manager's determinations and approvals.

MR. CRANSTON: Frank, we might clarify -- we don't
there -- before we proceed. You referred to the fifty-fifty
division with Long Beach under present law of the advance payments
and all future royalties. I think it should be clearly under-
stood that that division, which has been subject to discussion
recently, is in no way embodied in this contract and has nothing
to do with the adoption of this contract. We can adopt this con-
tract quite apart from the fact that there is presently a fifty-
fifty division, or quite apart from the fact that there may be a
revision of that.

MR. HORTIG: This is correct, Mr. Chairman, because
under Chapter 29 of the Statutes of 1956, adopted by the Legisla-
ture in settlement of the Mallon case -- which I am sure Senator
O'Sullivan and the other attorney members will recall -- the
provisions are that the City remit to the State fifty per cent
of the value of the oil and one hundred per cent of the value of
the gas derived from any operations on granted tide and submerged
lands under any contract. Inasmuch as this has been applicable to pre-existing contracts, the L.B.O.D. and Richfield contract, this would equally be applicable to any contract now approved by the City. The difference is that this is the first time since Chapter 29/56 that the City has proposed to enter into a new contract; and by the terms of the 1956 statute, the City may modify or enter into a new contract only with the advance approval of the State Lands Commission.

MR. CRANSTON: The point I want to make crystal-clear is that at this time we can consider this proposed contract and act on it whenever we wish to do so, wholly apart from what may be done in the future on the fifty-fifty division.

MR. HORTIG: That is correct. The provisions of Chapter 29 are wholly independent of any decision made now by the State Lands Commission.

MR. SHAELSON: In this connection, I might point out that Section 11.5.2 of the Unit Agreement provides that the State will receive that share of the production from Tract 1 to which it is entitled under Chapter 29 judgment as may now or hereafter be provided by law.

MR. CRANSTON: Thank you very much.

(Assemblymen Whetmore, Ashcraft and Deukmejian introduced)

MR. CRANSTON: Frank, would you clarify one other point if you can do it in a nutshell -- the difference between this contract with the Long Beach City area and the normal procedures which are purely under State jurisdiction, where we go to the bonus payment in contrast to the net profit situation here. I think that is important -- what we do in this situation and in other situations.

MR. HORTIG: Under existing State law, as detailed in Division 6 of the Public Resources Code, the State Lands
Commission may offer for lease tide and submerged lands and other lands under the jurisdiction of the Commission pursuant to competitive public bidding; but, limiting the offering to what is considered oil and gas leases -- that is, authorizing the successful lessee to remove the oil and gas at his cost and to compensate to the State for such removal -- the manner of compensation that can be offered can be elected in one of two directions at the option of the Commission: Either, on specification by the Commission, the bidders may offer to pay a cash payment or cash bonus in consideration for award of the lease and commit themselves to pay royalty on any production actually achieved, in accordance with the specifications in the lease; or the Commission can elect the alternative of awarding the lease to any bidder who offers to pay the highest percentage of royalty on the production which might be achieved, without requiring any cash bonus payment.

SENATOR DOLWIG: Mr. Chairman, I think it would be helpful if Mr. Hortig would compare this proposed agreement with the agreements you have at the present time, and point out how it differs from existing agreements. I think it would be more understandable.

MR. HORTIG: If I may, in response to Senator Dolwig, go to the existent form of agreement as utilized by the City of Long Beach and other areas under development and then compare the new agreement as to its modifications, in that form it is quite covered, Senator. In the case of the granted tidelands of the City of Long Beach, where the City of Long Beach is the operator for the State and the State is beneficiary in the proceeds of that operation only by reason of Chapter 29 of the Statutes of 1956 that a portion of the revenues be paid to the State, but that the City is the operator of these lands -- early in the development program and before the first lease was issued, and,
indeed, leases were under consideration for offer in Long Beach in the same general manner which is still used by the Lands Commission, under State law as I have just outlined a serious legal question was raised in that in an oil and gas lease title to oil and gas is conveyed to the lessee. The granting statutes for the grant of the tide and submerged lands to the City of Long Beach by the State of California prohibit the transfer or conveyance or alienation of any title by the City of Long Beach to these lands and, therefore, the question was raised whether possibly issuance of an oil and gas lease might be such a degree of conveyance of title as to invalidate the original tideland grant, resulting in the entire granted area reverting to the State of California.

So the City of Long Beach determined that the only certain method, in their opinion, for securing development of the area was not to issue an oil and gas lease but, rather, to enter into the oil business -- to have the oil and gas developed for the account of the City of Long Beach by what is effectively a service contractor. This is used in the colloquial sense. I hope the attorney members of the Legislative committees will forgive the lack of precision, but I am simply trying to state these things in their comparative perspective.

The Long Beach Oil Development ....

SEN. O'SULLIVAN: Do I understand this correctly? Title to the oil and gas passes to the lessee, is that correct?

MR. HORTIG: That is correct.

SEN. O'SULLIVAN: At that point, would it become taxable under the local county tax?

MR. HORTIG: Yes, and he pays the county mining tax and he pays the tax on the leasehold, as well as all his capital equipment.
SEN. O'SULLIVAN: Under this plan adopted by Long Beach and the plan contained in the unit program and the other document, the title to the oil does not pass to the original lessee?

MR. HORTIG: That is correct.

SEN. O'SULLIVAN: There is no tax revenue under the property tax of the local district?

MR. HORTIG: Only to the degree that the ultimate Field Operator-Contractor has capital equipment, which is taxable.

SEN. O'SULLIVAN: His equipment, but not the oil or gas is taxable?

MR. HORTIG: That is correct. Having developed this procedure for service contractors, both the parcels previously identified as the Long Beach Oil Development operation and the Richfield Oil Corporation operation to the west of the area under consideration here today are being operated under such service contracts for the City of Long Beach by L.B.O.D. and Richfield, respectively, with the compensation to the service contractor being a percentage of the gross cost of the operation.

SENATOR TEALE: Will you repeat that?

MR. HORTIG: The existent operations for development of tidelands which are in existence in Long Beach today are being conducted by an organization known as the Long Beach Oil Development and by Richfield Oil Corporation; are being conducted under service contracts which those organizations have with the City of Long Beach to conduct the oil operation, the compensation to the contractor from the City being a percentage of the gross cost of the operation.

The bid of L.B.O.D. in round numbers originally was that they would perform the service for a fourteen per cent payment of the gross cost of the operation and the contract was awarded on that basis. The bid of the Richfield Oil Corporation
offered to do it for four point five, approximately five per cent, of the total cost of the operation and for this the contractor renders the service to the City of providing all the technical personnel, the supervision, the processing, and handling of the crude oil production and the provision of a market for the sale of that crude oil; but the title to the oil has remained with the City up to the time it is sold on account of the City by the service contractor to whoever is the purchaser of the crude oil.

Now, the modification, primary modification, proposed in connection with the application for approval for the east Long Beach unit is that in the field service contractor agreement which would be put out to competitive public bidding, in a similar manner to that which was utilized for these prior service contracts, the biddable element would be the offering of the highest percentage of the net profit -- not related to the gross cost of the operation, but as to the highest percentage of net profits offered by the operating contractor to be paid to the City of Long Beach as a result of having been awarded the contract to develop the oil and gas within this Tract 1 area.

The first subdivision of this modification is that, also, under the L.B.O.D. and Richfield Oil contracts, the capital equipment -- the pipe, the pumping units, and so forth -- have been purchased by the City and financed by the City; whereas, under the current proposal, all capital costs for the entire operation would be borne by the Field Operating Contractor.

SENATOR TEALE: In other words, a percentage of the net profits...

SENATOR DOLWIG: What do you mean by "net profits"?

MR. HORTIG: This would be the biddable element. In other words, the field service contractor who would be awarded the bid under the proposal under consideration here would propose
to conduct the operation and pay the City the highest percentage of the net profit.

SENATOR DOLWIG: Who determines the net profit?

MR. HORTIG: The manner of determination of the net profit is spelled out in the Unit Agreement, as to what costs are chargeable to the operation, and the costs are subtracted from the oil produced -- the differential would be the net profit; and of that net profit, the highest percentage offered to be paid to the City would be the determinant in awarding the contract.

SENATOR DOLWIG: Has the State entered into any contract on any State-owned tidelands of a similar nature?

MR. HORTIG: Remotely similar, sir, in that we have an oil and gas contract with Standard Oil of California for a portion of the bed of the Sacramento River which flows through the Rio Vista gas field, on which the State is being compensated at the rate of approximately fifty-one per cent of the net profits.

ASSEMBLYMAN WHETMORE: Does this substitute the net profit concept for the cost-plus concept?

MR. HORTIG: That is correct.

MR. CHAMPION: As I understand it, Mr. Hortig, we could not, on a straight State lease, follow this procedure under present State law.

MR. HORTIG: Under present State law, rc.

SENATOR DOLWIG: Would you give me the answer to Mr. Champion's question?

MR. CRANSTON: He said under present State law we could not on State-owned tidelands operate under this kind of procedure.

MR. CHAMPION: Only with Long Beach can we go into this type of operation. The State could not enter them because
of our law on leasing.

SENATOR O'SULLIVAN: Does the State have any studies showing the size of this field, the possible production, and its present values?

MR. HORTIG: Only in general terms, Senator O'Sullivan, for the reason that the area under discussion has yet to have its first producing well drilled into it; and, secondly, the only data that are available are a real scattering of core holes which have been drilled from mobile marine equipment over the area, which give a series of possible indications but nothing to a degree of precision.

All estimates that have been published are necessarily predicated on the assumptions, by and large, of these core holes, the results of which have been made public, indicating that there is a high potentiality for oil and gas accumulations to exist over the majority of the area; the fact that the Wilmington Oil Field, which is the largest oil field in California, adjoins and lies immediately to the west; and the fact that the State has a producing oil and gas lease with over sixty producing wells immediately to the east -- giving an approximate basis for estimating that if the averages from east to west should hold and considering the areal extent of the possible productive limits, up to one and one-half billion barrels of oil could be producible under repressuring methods of operation and using the technologies which are, in fact, used in the oil fields today.

SENATOR O'SULLIVAN: Based on that, what would that amount to?

MR. HORTIG: On top of the ground, and assuming for ease of average three dollars per barrel -- three billion dollars. This, of course, does not provide for the tremendous cost of developing and producing this oil from under the harbor area.
or the area adjoining the harbor -- the underwater area offshore from Long Beach. Actual net return estimates have been made ranging from a possibility of, again, a gross ultimate return for the life of the field of a billion dollars to again a billion and a half dollars net -- which, under the present distribution formula under Chapter 29, would net to the State of California a half billion dollars, as well as to the City of Long Beach; on the higher estimate, seven hundred fifty million dollars each.

SENATOR O'SULLIVAN: Do those estimates include the entire area lying within the heavy line?

MR. HORTIG: No, sir; they do not. These include only that area down to the Alamitos State Beach Park parcel on the east, as described.

MR. CHAMPION: To or through?

MR. HORTIG: To Tract 2, exclusive of Tract 2; and on Tract 2, when developed and whatever it's potentiality is, the benefits will accrue one hundred per cent to the State of California, because this is not an area that is in the status of granted tide and submerged lands as far as oil and gas is concerned.

SENATOR O'SULLIVAN: In regard to the Alamitos parcel, what is the value of that?

MR. HORTIG: We have no current estimate, Senator, that I think we can quote because this is an area to be considered for development either in conjunction with or separately from the contracts under consideration here today, in the future; but there definitely will be values and they will accumulate one hundred per cent to the State.

SENATOR O'SULLIVAN: You would assume, though, that that section there would approximately be per unit worth as much as the one you previously referred to?
MR. HORTIG: It could well be.

SENATOR O'SULLIVAN: Or at least as much as the Humble-Texaco deal?

MR. HORTIG: Well, Senator, together with everything else being unique in California, particularly so is our geology, and particularly in southern California and the area towards the west, has at least seven separate fault blocks -- which, from the standpoint of the engineer, are seven different worlds; so the decision of what is actually going to happen as to unit faults would be hazardous to make at the present time, before we have further core hole and other data.

MR. CHAMPION: There are no core holes in the Alamitos area?

MR. HORTIG: There are no core holes that have been drilled in the State Beach parcel.

SENATOR O'SULLIVAN: Why haven't we drilled that -- core-tested it?

MR. HORTIG: Because of the nominal practice of the State, dictated by the State law, that exploration results of State-owned parcels may not be made public and, indeed, it would be a misdemeanor for the State Lands Commission to do so pursuant to the Public Resources Code. This section of the law does not apply to Long Beach exploration -- to core holes on their granted tide and submerged lands.

SENATOR O'SULLIVAN: The statute goes to making the news public?

MR. HORTIG: The statute goes to withholding the news.

SENATOR O'SULLIVAN: The information has been gathered?

MR. HORTIG: No, sir; it has not -- because there has been no exploration on the Alamitos State Beach Park parcel because title to the oil and gas was in litigation with the City of
Long Beach and this litigation was only resolved early last year; and, as a matter of fact, almost concurrently with the development or the modification of the anti-drilling ordinance by the City of Long Beach; and all staff efforts have had to be devoted to bring this proposal of the City of Long Beach to a point where it could be presented to the Lands Commission.

SENATOR O'SULLIVAN: I don't mean to convey any criticism by my questions.

MR. HORTIG: I appreciate that, Senator. I am just trying to answer the questions as they occur.

MR. CHAMPION: In pursuit of the Senator's point, I realize there can be no validity to this figure you have been using in your calculations; but assuming there is the same kind of potential in the Park area as the other, what order of magnitude are we talking about in terms of money?

MR. HORTIG: Well, actually, there are estimates of so-called initial equity allocations as to what oil and gas values may be contributed by the various parcels, which at the present time range for guesstimating at eighty-five per cent of the grand total would be contributed by Tract 1; five to seven per cent by Tract 2; and the remainder of the one hundred per cent by the upland areas. It is not only a surface area problem; it is a matter of possible productive limits and complication of productive capacity by these numerous faults which we do know exist and, as I said, make every fault block to some extent practically a different world so far as probabilities are concerned.

SENATOR DOLWIG: Mr. Hortig has just given us the estimated production on Tract 1. Mr. Chairman, do you have an opinion from the Attorney General that this contract is legal?

MR. CRANSTON: The representative of the Attorney
General is here and can speak to that point.

MR. HORTIG: If I may point out, on page 7 of the agenda item, Senator Dolwig . . . .

SENATOR DOLWIG: I have read that and would like it clarified.

MR. HORTIG: Having paraphrased the Attorney General, I pass it back to the Attorney General.

MR. SHAVELSON: Yes, Senator; without, of course, expressing any opinion as to its efficacy or desirability, we have determined that it is the type of contract that the Commission may approve if it determines it is to the best interests of the State.

SENATOR DOLWIG: Mr. Hortig, you have given us the estimated production of Tract 1, haven't you?

MR. HORTIG: Well, both on Tracts 1 and Tracts 3 through 91.

SENATOR DOLWIG: Eighty-five per cent for Tract 1 . . . .

MR. HORTIG: Eighty-five per cent of a billion and a half barrels.

SENATOR DOLWIG: What are the limits of Tract Number 1?

MR. HORTIG: As shaded in green in the map to my right, in Exhibit B to your right. This is described by metes and bounds in the proposed Unit Agreement.

SENATOR DOLWIG: Has the metes and bounds description been approved by the Lands Commission in Tract 1?

MR. HORTIG: This is one of the items under consideration in connection with the approval by the State Lands Commission, and today is the first time that this matter is being presented to the State Lands Commission, so the State Lands Commission has not yet approved it. Additionally, of course, there is the question . . . .
SENATOR DOLWIG: Pardon me, don't go off on that. Has there been a metes and bound description of Tract 1?

MR. HORTIG: There is a proposed metes and bounds description for the purposes of this agreement, but not to be binding as or indicating that the location of the ordinary high water mark is the shoreward boundary of the granted tide and submerged lands.

SENATOR DOLWIG: Well, Mr. Chairman, is there a metes and bounds description of Tract Number 1?

MR. HORTIG: Yes.

SENATOR DOLWIG: And has the staff done it or has Long Beach done it?

MR. HORTIG: The City of Long Beach has developed it and presented it for consideration of approval for the purposes of this agreement only, in that it is provided also in the agreement that if, in the future as a result of adjudication -- and, as you are aware, Senator, there is litigation between the State of California and the City of Long Beach as to the location of the ordinary high water mark, as to the shoreward delimiting line of the granted tide and submerged lands, but in the segment west of the area under discussion here -- as and when the courts decide and establish the criteria and determine where this dividing line is located legally, if in the application of this criteria the boundary line (the dividing line) would be found to be at a location different than agreed to for purposes of this agreement, there will thereupon be an adjustment of the description of Tract 1 and a re-allocation of the equities and any other allocations that have been made on Tract 1 -- whether the line moves shoreward or seaward.

SENATOR DOLWIG: Mr. Chairman, may I ask the Attorney General what the status of that litigation is?
MR. CRANSTON: Yes. Jay Shavelson is representing the Attorney General's Office.

MR. SHAVELSON: Yes, Senator. First of all, the area in litigation is in the Long Beach Harbor District. It does not include the lands that are involved in the Long Beach Unit. The status of the Long Beach boundary litigation is that it is set for a pretrial hearing at the beginning of July and is expected to go to trial shortly thereafter.

SENATOR DOLWIG: Mr. Chairman, there is pending litigation which raises the question of the problem between the Federal Government and the State. Would this be involved at all in Tract Number 1?

MR. SHAVELSON: No, Senator. The area here is undisputedly City lands under the provisions of the Submerged Lands Act, which provides it has quitclaimed to the State and its respective grantees all lands within three miles of the coast. We don't know where the coast is yet; but at least, since these areas are always within three miles of the actual shoreline, there is no problem as far as the Federal Government is concerned.

The Federal Government has the right of first purchase of the oil and gas produced in both Tract 1 and 2; and as far as Tract 1 is concerned, there is a specific provision in the proposed contract recognizing that right.

MR. HORTIG: Might I add that first right of purchase is restricted to times of national emergency only.

SENATOR DOLWIG: The only question that I raise, Mr. Shavelson: If there is a question insofar as the seaward line is concerned, this could involve the Federal Government; could it not?

MR. SHAVELSON: I don't think so, Senator. The three-mile line ....
MR. HORTIG: I can answer that.

MR. SHAVELSON: Go ahead.

MR. HORTIG: Senator, may I direct your attention to this map? A line approximately three miles offshore is indicated as the southerly boundary, City of Long Beach. The most seaward description for Tract 1 is the line which terminates the green-shaded area and it is inconceivable that a relocation of the ordinary high water mark on judicial determination could be in such order of magnitude as to actually move Tract 1 far enough seaward that the outer boundary of Tract 1 would even approach the southerly boundary of Long Beach, which is three miles off the mainland.

SENATOR DOLWIG: There is no problem, then?

MR. HORTIG: There could be no practical problem.

SENATOR DOLWIG: Insofar as your other fields are concerned, Alamitos field, and so forth, where you have agreements with Long Beach have there been metes and bounds descriptions of those areas by the City of Long Beach; and if so, have they been approved by the State Lands Commission?

MR. HORTIG: There are metes and bounds descriptions, Senator, and they were not approved by the State Lands Commission because they were entered into before the State Lands Commission had any authority to approve or disapprove because these other contracts were all made prior to 1956.

SENATOR DOLWIG: Then you don't have metes and bounds descriptions?

MR. HORTIG: There are metes and bounds descriptions in the contract documents themselves, but they have not been approved and, of course, a portion of those lines are actually the subject matter of the litigation on which Mr. Shavelson reports.

SENATOR DOLWIG: Was it inherent in that litigation?
MR. SHADELSON: Not the boundary of the contract areas, but the boundaries of the areas which are held in trust by the City for the State. In other words, the contract areas are fixed areas. With one minor exception, they are undisputed tide and submerged lands.

SENATOR DOLWIG: The reason for my question, Mr. Chairman, is that this will affect the production and the amount of money the State would get out of these various agreements.

My next question is: Is the status of Tract Number 1 different than the existing tracts now under lease or under operating agreements?

MR. SHADELSON: They are in several respects. One is that the engineering determination of the tidelands is an easier matter in the downtown area of Long Beach than it is in the area of Long Beach Harbor District, where it is a highly complex problem relating back to the original Rancho grants and the statutes, therefore, on the inland waters. Here we have a straight coast line and the problem of determination is a much simpler one.

SENATOR DOLWIG: Mr. Shavelson, may I ask you, then, do you understand on the basis of your review of these contracts that there has been a metes and bounds description of Tract Number 1?

MR. SHADELSON: The description in the exhibit on Tract Number 1 insofar as the landward boundary is concerned is northerly into the mean high tide line.

SENATOR DOLWIG: I don't want to take up the time. I am interested in the other boundary insofar as the ocean boundary is concerned.

MR. SHADELSON: That is in terms of distance from the mean high tide line. I think I can give you a report on that later on as far as metes and bounds; it is described.
MR. CRANSTON: Without giving the details, you can state there is a metes and bounds description?

MR. SHAVELSON: Yes, it is definite to the extent that it refers to the mean high tide line; otherwise it is metes and bounds.

SENATOR DOLWIG: This is a matter which will be reviewed by the Commission?

MR. SHAVELSON: Yes.

SENATOR DOLWIG: Thank you very much, Mr. Chairman.

MR. CRANSTON: Frank, do you want to continue?

MR. HORTIG: Now, in the review by the Office of the Attorney General, as reported on page 7 of the agenda item, it was suggested -- or it was stated that it was concluded that the Commission may consider for review and approval the documents which have been submitted by the City of Long Beach as being legally sufficient, provided that the Commission secures additional commitments recommended and makes the necessary policy determinations.

Now, the additional recommended commitments are set forth in a separate agreement, approved by the Office of the Attorney General and by the City of Long Beach, which are attached to this agenda item as Exhibit A and do not purport to vary the terms of the unitization agreement or the Field Contractor Agreement; but it is the opinion of the Office of the Attorney General that these additional agreements are valid and enforceable as between the City and the State. These conditions, as outlined on Exhibit A following the agenda item (following page 8) as you have it before you, relates to the subjects of providing for a minimization of distortion of the relative quantities of oil and dry gas allocated to Tract Number 1 in connection with changes in tract assignments; provisions relative to the use of
gas in connection with unit operations; provision to assure that
necessity of further Commission approval of agreements is not
affected as a result of approval of the basic contracts; provi-
sion for elimination of profit or loss from the one per cent
overhead allowance to the operator; and provision to give the
Commission a chance to study and criticize any development plans;
a specification providing that it is understood that the Commis-
sion approval in connection with these contracts, if granted,
extends only as to Tract Number 1 and, therefore, Tract 2, the
Alamitos State Beach Park parcel, is still to be determined as to
future development programs by the State Lands Commission; and a
specification of a series of operating standards for operating
procedures, to assure that operations will be conducted in order
to achieve the balanced goal of attaining the maximum quantity of
oil in accordance with good engineering practice; provision that
the State will be consulted and kept informed on proposed pro-
gramming on all matters concerning the City's relationship with
the Field Contractor; and an apparently minor, but possibly essen-
tial item, requiring the use of electric motors in the future in
connection with operations, so as to minimize the use of natural
gas for this purpose -- which natural gas might otherwise be
distributed through the Municipal Gas Department of the City of
Long Beach and result in an operating revenue of benefit to the
State of California.

In addition to these commitments recommended and agreed
to between the Office of the Attorney General and the City of
Long Beach, the staff feels that the Commission may wish to con-
sider the following:

First, the unit agreement is to become effective upon
commitment of sixty per cent of the Town Lot area. The City has
been assured that more than the required sixty per cent of the
participating Town Lot area will be committed to the agreement and we do have a map and information here today that show that this is the case, together with informal assurances that all parcels of more than one acre whose commitment will be necessary in order to carry out unit operations will be committed.

This matter was flagged in this item for Commission consideration to indicate that it was a problem; and at the time of preparation of the item, the substantiating data were not as completely available as they have been brought to the meeting today by the City of Long Beach; so that this item actually becomes one of report to the Commission simply that the requirements necessitated or brought about by the specifications in the Unit Agreement apparently will be met, and can be met, and that there are sufficient letters of intent, commitment, and so forth, in anticipation of the approval of this agreement that this matter will not be one that will in any wise jeopardize the ultimate execution of the agreement.

Also, it should be brought to the attention of the Commission that, in accordance with the provisions of the Field Contractor Agreement, the successful bidder will acquire control of the production from Tract Number 1 -- or would acquire it -- which can ultimately represent a considerable portion of the total possible California production. In view of the fact that such bidder could already control substantial other production within the State, it has been suggested that it might be desirable to consider the effect of this control over a large portion of California production on the public welfare.

A possible solution suggested has been that a percentage of the oil allocated to Tract 1 could be made available to small refineries pursuant to public bidding in a manner similar to that utilized by the United States Department of Interior.
in the sale of its royalty crude oil. It is understood that this procedure requires that these qualifying companies be those independent refinery companies who can prove their need for crude oil and whose total production does not exceed 30,000 barrels per day and whose total personnel does not exceed five hundred.

Additionally, in order to provide for maximum industry participation, it has also been suggested that the area included in Tract 1 in the Field Contractor Agreement could be divided for bidding purposes into four equal parcels, for example; hence, a greater portion of the petroleum industry could share in the production from Tract 1. One of the successful bidders could become the Field Contractor for Tract Number 1, and the City ordinance requirement for operation of the tract as a single tract would not be violated.

However, in view of the highly complex administrative problems which could be encountered, and in view of lower individual oil allocations, it is doubtful if the cumulative City and State revenues received in paragraphs 2. and 3 (two preceding paragraphs) would be as high as those which would be received pursuant to the presently formulated plan.

Maximum industry participation in a single parcel offer could be afforded -- probably could be expanded -- by consideration of establishing the bid period at not less than six months, to provide adequate opportunity for any arrangement of joint bids by any groups who may wish to avail themselves of this opportunity.

In connection with, or following this review, and based on this review, Mr. Chairman, we have received the following letters, in which the senders have requested they be made part of the record. With your permission, I will read them
for the record:

Long Beach Unified School District to State Lands Commission:

"Gentlemen:

The Long Beach Unified School District owns property within the proposed Long Beach unit area. We foresee an important addition to the economy of our District, as well as all of California, through the expenditure of millions of dollars to drill hundreds of oil wells and provide hundreds of new jobs.

Also we are interested in the income we anticipate from the 33 acres of District lands included within the unit area, and of course in the additional mineral rights tax which will bolster the existing tax base of the District.

We have had a representative at the Management Committee meetings of the Long Beach unit and we are impressed with the sound and economical approach used in the formation of the Unit Agreements and the proposed Field Contractor Agreement in resolving the problem of producing oil without risking subsidence or despoiling the beach.

Very truly yours,

Owen J. Cook
Assistant Superintendent (Business)

SENATOR O'SULLIVAN: Do they understand — do you think the writer of that letter understands they are not going to get any tax revenue?

MR. HORTIG: I would not gather that. Inasmuch as the City Attorney of the City of Long Beach is with us here today, Senator O'Sullivan, and I am sure will be heard from later, an interpretation of that specific question, I think, would be helpful to all of us.

From Property Owners Oil Development Association, Inc. to State Lands Commission:

"Gentlemen:

We request that this letter be read into the record of the hearing of the State Lands Commission scheduled for February 28, 1963, concerning the proposed
"Field Contractor Agreement."

The Property Owners Oil Development Association, Inc. of Long Beach, California, represents the majority of the property owners in the Townlot area of the offshore oil development of the Long Beach Unit of the Wilmington Oil Field.

Being property owners we have followed oil developments in the Long Beach Shoreline Area closely since the early 1950s when the first leasing campaigns by the oil companies occurred. We have seen the damage wrought by subsidence in the Long Beach Harbor, and, above all, we wish to preserve our beautiful shoreline and our superb residential areas.

With these thoughts in mind we supported the ordinance adopted by the people of Long Beach at the election of February 28, 1962, which permitted drilling but with safeguards and controls to protect us from subsidence and preserve our beaches and residential areas.

We then participated in the many meetings from which the Unit and Unit Operating Agreements evolved. We are satisfied with the provisions of these agreements.

We wish to praise the representatives of the City of Long Beach for the astute and determined manner in which they protected the interest of the State and City without impinging upon the rights of the private property owners.

In the course of the meetings we discussed the operational problems of the Unit. It was obvious that the Field Contractor would have to be under the control of the City, as required by the ordinance, as a safeguard against the dangers of subsidence. It was also obvious that the most economical and efficient method of operation would be to have all operations under a single Field Contractor. We believe the proposed Field Contractor Agreement is an excellent solution to the problem, and urge the State Lands Commission to immediately approve it and the Unit and Unit Operating Agreements so the development can commence.

Yours sincerely,

Russell M. Brougher, President
Property Owners Oil Development Association, Inc.

Richfield Oil Corporation to State Lands Commission:

"Gentlemen:

This letter relates to "Unit Agreement, Unit Operating Agreement, Exhibits, and Field Contractor
"Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County," being calendar item 28 on the calendar for the Commission's meeting of February 28, and particularly to subparagraph 1 on page 8 of said calendar item 28.

Richfield Oil Corporation holds oil and gas leases on 1,015 acres, or approximately 53%, of the 'participating Townlot Area' referred to therein.

Richfield participated in the negotiation with the City and other parties holding leases in the Townlot Area of the drafts of unit agreement, unit operating agreement and exhibits above referred to, in the forms thereof respectively submitted to the Commission, and we are willing to commit all oil and gas leases that we hold in the 'participating Townlot Area' to a unit so constituted.

Furthermore, we have given consideration to the form of field contractor agreement submitted to the Commission. We believe that it is sound and workable, and we intend to submit a bid for the field contractor agreement if it is offered for bidding in the reasonably near future."

Texaco Inc. to the State Lands Commission:

"Reference is made to Mr. T. W. Bell's letter dated December 18, 1962, to you under the above subject. We desire that said letter be made a part of the public record at the hearing of the State Lands Commission on February 28, 1963. Enclosed are fifteen copies of said letter for the use of the State Lands Commission and for such other distribution as you desire to make of it."

Letter of December 18, 1962 from Texaco Inc. to State Lands Commission:

"Gentlemen:

Texaco Inc. desires to go on record as objecting to the form of agreement being offered by the City of Long Beach covering its tide and submerged lands, which agreement is entitled "Field Contractor Agreement, Long Beach Unit, Wilmington Oil Field, California." A few of our objections to this contract are as follows:

1) The contract as now drafted does not provide for any specific well spacing, time between wells, location, or rates of production. The operational features are entirely under the control of the City of Long Beach. By this arrangement, the City could control the number of wells drilled and the production in the latter part of the 35-year contract period, thus resulting in little or no net
"profits, and to the extent of making a more favorable contract with someone else upon the termination of the existing contract. All existing facilities would then be turned over to the new contractor who would benefit materially with only a nominal cash outlay.

2) The agreement provides that, after construction of the offshore island, the contractor shall undertake the drilling of a minimum of 40 wells including injection and producing wells, and that at least ten of these wells be drilled into the townlot area. The idea of injecting water into the reservoir concurrently with initial development may not be a sound engineering practice and could possibly result in premature bypassing of oil. This feature could result in a loss of revenue to all concerned.

3) The force majeure clause does not excuse the monthly payments to be made by the contractor pursuant to the provisions of the agreement. We believe the contractor should be excused from making these monthly payments when it is prohibited from performing its obligations for reasons beyond its control, and

4) A strict interpretation of the Indemnity and Insurance Provision of the Field Contractor Agreement indicates that the Field Contractor could be held liable for claims and lawsuits arising out of alleged subsidence. Without a voice in the contract, the contractor should not be required to indemnify the City and other participants against such a liability.

A project of this magnitude and the many facets involved should provide a contract that is clear and explicit in every detail. This is not true of this agreement. The contract calls for many controversial provisions and no two prospective bidders will interpret certain provisions in the same manner. One bidder may base its bid on a literal reading of the contract, while another on what it believes was intended. This is most unfortunate where a contract is being offered for public bidding.

In summary we strongly believe that it will prove equally important to the state, as the part owner of the submerged lands involved, and to the prospective bidder, that the contract proposed by the City of Long Beach provide for a definite, specific plan for development of these large reserves. Such plan should set forth those fundamental features such as the wells, zonal spacing, time between wells, and the rates of production. With regard to the timing of secondary recovery operations, including the drilling of service wells and rates of water injection, the Contractor should be required to formulate and submit such plans in line with prudent operations and sound
engineering practices. The contract as now proposed leaves all of the operational features under the future control of the City of Long Beach. This makes it impossible at this time to determine the rates of production to be obtained and the amount of oil to be recovered from this reservoir. Therefore, a prospective bidder will not be sure of his estimates of the net profits which might be realized from entering this contract. It is in the best interest of the State to obtain the optimum development of these reserves and to receive a bid which will provide the State its maximum share of income from this operation. We, therefore, request that the form of agreement presently submitted by the City not be approved by the State Lands Commission.

Very truly yours,

T. W. Bell

MR. HORTIG: (continuing) Mr. Chairman, certainly not speaking for Texaco, who are represented here today and I am sure will be heard from later, I would like to call attention of the Commission to the fact that as a matter of timing and by the nature of receipt of clearance for reading this letter into the record, which was prepared on December 18, 1962, Texaco did not have the advantage with respect to operating controls and specifications, of standards and conditions so as to modify or include comments in line with the provisions now included in the recommendation before the State Lands Commission for control conditions to be directed and carried on cooperatively between the City of Long Beach and the State Lands Commission; and as to those phases, I would expect that Texaco would expect to present some modifying statement.

As to the business aspects of their letter, I would feel they are in the best position to indicate to the Commission whether any of those require modification in the light of the changed form of contract which is being considered by the Commission here today, as against the time this analysis was originally prepared.
MR. CRANSTON: Does that complete your presentation, Frank?

MR. HORTIG: Yes, sir; unless there are any further questions from the Commission or the Committees.

SENATOR DOLWIG: Mr. Hortig, is there a specific reason that the agreement is proposed to include all the other tracts and not just Tract Number 1 -- for the State to enter into an agreement on Number 1 and not the other tracts?

MR. HORTIG: I believe, Senator Dolwig, the answer is that under the existing ordinance and probably in compliance with the other statutes relating to the development of oil and gas, there could not be development of Tract 1 only, without including Tracts 3 through 91, being the upland portion of the operations.

SENATOR DOLWIG: Why is that?

MR. HORTIG: Because the people owning the oil and gas, if any there be under the upland, at the present time would be precluded from developing oil and gas beneath their property because there is still an anti-drilling ordinance in the City of Long Beach which preclude them from direct drilling in the Town Lot area of Long Beach.

Therefore, if operations were undertaken by the City of Long Beach for oil and gas, which would not result in ability for the owners of the upland area to drill for their own oil and gas, this would present a serious question. I expect the City of Long Beach would be in court explaining why they should be permitted to continue with an operation of that type.

Therefore, it is essential that the total area be developed under a unit plan, so that every equity ownership in the oil and gas has production, in fact.

As to Tract 2, the area at the eastern end of the
City, or the Alamitos Beach State Park parcel, this problem is still to be resolved and to be presented to the State Lands Commission as to whether to commit such tract into the unit development along with Tract 1 in the future; and there is a terminal date of January 1, 1964, up to which the State can or could commit Tract 2 to the unit development, or such later date that may be agreed to by the parties.

The other alternative, of course, that is still available to the Lands Commission, since the court determination that the oil and gas in the Alamitos Bay State Beach Park parcel are under the jurisdiction of the Commission, is to consider whether to offer that parcel for separate development under a separate oil and gas lease.

SENATOR DOLWIG: That's a policy decision?

MR. HORTIG: That is a policy decision.

SENATOR DOLWIG: I have one further question. Will you tell us very briefly your understanding of how the State's share of the revenue would be determined under these proposed agreements, without going into the details?

MR. HORTIG: Yes, sir. From the known geology and as modified by additional data which will develop from drilling the producing wells in Tract 1, if the State Park parcel were to be allocated as part of the unit, then the production potential of the State Park parcel would be calculated and oil would be allocated to the State's credit in the same proportion that it was calculated the State Park parcel was contributing to the production capacity of the entire unit area; and one hundred per cent of the revenue from that allocation of oil, which would be sold by the City as the unit operator, if this were authorized, or by the State's lessee who had committed the tract to the unit operations -- one hundred per cent of the
value of the oil so sold would accrue to the credit of the State.

If the State Park parcel is developed under a separate oil and gas lease, then one hundred per cent of the royalties and bonus that might be collected for such award would be similarly accrued to the State.

As to Tract 1, under existing State law whatever oil is allocated in the unit operation—which is now estimated will amount to eighty-five per cent of the total production, roughly, allocated to Tract 1 -- when sold and after the cost of operations have been paid and there is a remaining net profit, fifty per cent of that net profit from the oil and one hundred per cent of the net profit from any gas produced would be remitted to the State, and the remaining fifty per cent net profit from the oil would be retained by the City of Long Beach for trust purposes.

SENATOR DOLWIG: What about this one per cent you have mentioned in your exhibits?

MR. HORTIG: That one per cent is an overhead charge for administration.

SENATOR DOLWIG: Does that come from the top or out of the State's share?

MR. HORTIG: It is taken from the top, but there are certain other specific limitations which were put in to keep it from being applied to claims where it should not apply. Jay, would you comment on that?

MR. SHAVELSON: Yes. We were concerned with that one per cent in two respects. We didn't feel that the City, insofar as it was operating the tract, should make any profit on that operation. If, on the other hand, its overhead cost would exceed one percent, that would be a proper charge against the oil revenues. So, against the agreement of one per cent to
other parties, as between the City and the State we prepared a bilateral agreement, under which that one per cent will be accounted to the State as oil revenue, that is fifty-fifty, and then the City will be entitled to deduct its actual costs of overhead for production -- which, under Chapter 29, it is allowed to do.

So I believe the way it is set up now, there is no chance of the City making a profit or suffering a loss from this one per cent.

MR. HORTIG: Insofar as it is attributable to Tract 1.

SENATOR DOLWIG: So it is still in the contract?

MR. SHAVELSON: It is in the Unit Operating Agreement and as against the other parties it will go to the City; and then the City will account for it to the State, and then will take a deduction of the actual costs for the matters for which that one per cent was obtainable.

SENATOR DOLWIG: Thank you. Does the State Lands Commission have a record of all payments made to the State since 1955?

MR. CRANSTON: Yes, we do.

SENATOR DOLWIG: Could we have a copy of all the breakdown of all revenues accrued to the State and how they were determined, and how much went to Long Beach?

MR. CRANSTON: Frank, is that available?

MR. HORTIG: Yes.

MR. CHAMPION: Frank, may I ask a question? Admitting there are some imponderables here, but looking at the State procedure and the Contractor's Agreement proposal, if the necessary legal adjustments were made, does it not now appear that it would be much more profitable to the State in terms of its ultimate revenue on Tract 2 to participate in the Unit Agreement?
MR. HORTIG: Emphasizing your opening premise, Mr. Champion, that there are some imponderables, and neglecting those for the moment, the answer to your question is yes.

MR. CHAMPION: In other words, that is the kind of expectation to which we might very well look. We have got a lot of things to see before we do it.

MR. HORTIG: That is correct. Of course, the situation really resolves itself to this -- as to there being no choice as to a selection of procedures that could be applied to this area in terms of one procedure being more desirable than another. The service contract operation is the only way this procedure can be carried forward by the City of Long Beach as a trustee, and even though it could be shown, for example, that an oil and gas lease under a procedure with cash bonus might theoretically yield "X" additional dollars, this procedure is not available for application in this area because of the reversionary provisions in the tidelands grants.

So the actual benefits to accrue to both the City and the State are not going to be determined by selection of procedure so much as they are from affording the maximum opportunity for the best competitive bidding on the one type of procedure which can be applied to this area -- which is the service contract approach.

MR. CHAMPION: But these do happen to coincide as to the greatest profit?

MR. HORTIG: Yes, and with the greatest probability for the greatest profit.

SENIOR O'SULLIVAN: Mr. Hortig, why are you limited to this method of bidding -- this type of agreement in the Long Beach Parcel 1?

MR. HORTIG: This goes back to my earlier statement,
Senator O'Sullivan, that the tideland grant acts by the Legislature to the City of Long Beach all prohibit transfer, conveyance, alienation, or any infringement on any portion of the title as to the granted tide and submerged lands; and the only other method generally available for oil and gas development -- as you know, sir, of course -- would be the normal form of oil and gas lease, which it has been felt would convey title and would raise a question. ... I think the Attorney General's representative, Mr. Shavelson, would like to amplify on that.

MR. SHAVELSON: Yes. At the time this was our belief -- at the time of the original L.B.O.D. contract back in 1938 or '39. However, today I don't think the issuance of an oil and gas lease by a grantee of Legislative-granted tide and submerged lands would be an alienation of those lands or a violation. As a matter of fact, we know, for example, that the City of Los Angeles is using the lease procedure and I don't think that they are violating their grant in doing so.

So I believe, just as a theoretical matter, the leasing alternative would be available if they choose to use it. I believe they feel that this method is a better one from their standpoint. They were forced into it in the first instance; now they think it is better.

SENATOR O'SULLIVAN: You are speaking here for the Attorney General?

MR. SHAVELSON: Yes.

SENATOR O'SULLIVAN: And he is the chief legal adviser of the State of California?

MR. SHAVELSON: Yes.

SENATOR O'SULLIVAN: And you feel the leasing method would be legal?

MR. SHAVELSON: Yes.
SENATOR O'SULLIVAN: And your testimony is directly contrary to what has been previously said by Mr. Hortig?

MR. SHAVELSON: I think what Mr. Hortig was saying -- he was talking about the L.B.O.D. and Richfield contracts, and at that time there may have been some question.

In the case of City of Long Beach versus Marshall in the California Supreme Court, it was indicated that the lease would not be an alienation of the title on tideland grants.

SENATOR O'SULLIVAN: I meant no reflection on Mr. Hortig in any way. I merely assume he is speaking from an older decision of the courts.

MR. SHAVELSON: Not an older decision, but, rather, the terms of the tideland grants themselves say that the City cannot alienate these lands; and at one time I think there was a substantial doubt as to what would constitute an alienation. In my opinion - - I don't want this to be a final, binding opinion of the Attorney General's Office -- but in my personal opinion right now, issuance of a lease would not be an alienation.

MR. CRANSTON: Without seeking to determine the legal point, I would like to ask Mr. Hortig to comment on the relative merits of revenues in the two methods.

MR. HORTIG: Yes, Mr. Chairman. We previously reported to the Commission on the relative merits and, in summary, the finding was that for offering a given area of known quality or even tentatively known quality, as has always been the case on tide and submerged lands offered by the City of Long Beach, that when proper accounting credit is given for all of the economic factors that differentiate the percentage of the net profits or percentage of the gross type contract of all State oil and gas leases, that in whatever form oil and gas...
withdrawal was authorized by a government agency pursuant to public bidding, essentially the same ultimate net profit will result to the lessor or the contractor -- whether it be by percentage of the net profits route or an oil and gas lease.

Patently, the high bidder is offering to pay and compensate the landowner in a maximum amount which he can afford to pay, and whether he is going to pay this as a result of a percentage of net profit or as a royalty percentage and/or bonus, is going to be translated into either of those terms by his electronic computer, and in accordance with his ability to predict these imponderables in the future. So he offers to pay the same gross amount of money ultimately, irrespective of the form of contract offered to him.

Now, there are certain features that result in what appear to be at first blush really high bids. For example, one that is oft quoted -- this ninety-five per cent bid offered to Long Beach for operation of one of the existing parcels. This is not a net percentage when you realize that in that contract the City has to advance all the capital and continues to advance the capital for replacement of equipment that is becoming obsolete and depreciated, and must be replaced, with the result that a reasonable prediction can be made that by the time that contract has developed the oil to exhaustion in this particular area, the net to the City from that contract will be much closer to fifty per cent than to any other value; and a fifty per cent royalty from a State lease has been achieved and, indeed, fifty per cent royalty rates on which an additional cash bonus has been paid.

So the circumstances that require the selection of a method, I think, are actually the determining criteria and not which system is going to produce the most revenue.
Again, we have to make the distinction which Senator O'Sullivan has already discovered. There is also a difference in the matter of applicable taxes, depending upon the type of contract which is entered into.

MR. CRANSTON: I think by coincidence we are at the hour of twelve and we might recess now and reconvene at one fifteen, when the first order of business will be the Long Beach presentation.

ADJOURNED 12:00 NOON

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MR. CRANSTON: The meeting will please come to order.

Before proceeding with the presentation by Long Beach, Frank Hortig will read two additional communications received from interested parties into the record.

MR. HORTIG: Yes, Mr. Chairman. Actually, it is a total of three. First, Standard Oil Company of California, Western Operations, Inc., addressed Honorable Alan Cranston, Chairman:

"Dear Sir:

This company holds oil and gas leases and other oil and gas rights on about 147 acres, or approximately eight per cent, of the acreage in the Town Lot Area within the proposed Long Beach Unit Area.

At the invitation of the City along with other upland owners, we have participated in the formulation of the proposed Unit Agreement and Unit Operating Agreement which have been submitted for your approval by the City of Long Beach.

In our judgment, these documents represent a sound and practical program for development of the proposed Unit Area and for coping with the possibility of 'subsidence' therein. We are prepared to sign these documents if they are approved by your Commission.

We have carefully analyzed the proposed Field Contractor Agreement which has also been submitted by the City for your approval. We believe it would satisfactorily implement the provisions of the Unit Agreement and Unit Operating Agreement, and we find nothing in it that would prevent this company from bidding if it is offered for bid in the form submitted to you.

Very truly yours,

H. G. Vesper

Signal Oil and Gas Company, addressed to Honorable Alan Cranston, Chairman:

"Dear Sir:

We have carefully considered subject documents. (Subject documents being proposed Unit Agreement, proposed Unit Operating Agreement, and proposed
"Field Contractor's Agreement, Long Beach Unit, Wilmington Oil Field, California). In our judgment, the Unit Agreement and Unit Operating Agreement represent a sound and practical plan for the development and operation of the proposed Unit Area. We are also of the opinion that the Field Contractor Agreement appropriately implements the Unit and Unit Operating Agreements. We urge that these documents be approved.

Very truly yours,

Signal Oil and Gas Company

By ....

(Mr. Hortig continuing) I believe it is probably R. W. Heath, Executive Vice President.

Telegram to Alan Cranston, State Lands Commissioner, Capitol Building, Sacramento, California:

"Continental Eastern Corp. owner of approximately 115 acres approves the Long Beach operating unit. Feel contract and present supplemental agreements are fair and equitable for all concerned. We believe it most economical plan to be devised. We feel that area should be developed in one large unit rather than split up into a number of smaller units both for good oil field practice and economic reasons. We intend to sign all present agreements after their approval by State Lands Commission. We believe it in best interests of State of California, City of Long Beach and on shore landowners and lease owners to begin operation soon as possible.

Continental Eastern Corp. by E. C. Simmons, President"

MR. CRANSTON: Is the representative from Long Beach ready to come forward? Jerry Desmond, City Attorney, and H. G. Lingle, Assistant City Attorney.

MR. DESMOND: Mr. Chairman, members of the Commission, members of the Legislature, I want to note first the presence here of a number of people that have worked very hard on the contracts and the documents that are before the Commission for approval. I'd like to mention, first of all, that we also have here, representing the City Council, the former Mayor, Raymond
C. Kealer, who is the Chairman of the Council's Oil Committee, a petroleum engineer himself, and has been on the Council for approximately sixteen years.

In addition, Bert Bond, who is the Mayor Pro Tem for the City of Long Beach, is also here; in addition, our City Manager, John Mansell -- who, of course, has been living with this matter for a good many months.

Beside me is Deputy City Attorney Harold A. Lingle -- who, together with Leonard Brock, who is also present, the Petroleum Administrator of the City of Long Beach, is really the author of these documents.

In addition, we have had advice and assistance from the Harbor Department and their very fine Petroleum Division. The Chief Petroleum Engineer of the Long Beach Harbor Department, Doctor Manuel Mayuga, is also present.

Mr. Harry Fulton, the Special Assistant to the City Manager, is also present.

I speak of the Long Beach people and I certainly want to express appreciation at this time for that which they have done certainly to the people themselves; and for the tremendous cooperation and wonderful working relationship with Frank Hortig and his entire staff, and certainly with Attorney General Mosk's Office and, in particular, Deputy Attorney General Jay Shavelson, we are very appreciative.

We want to say, first of all, that the report which is before you, I think, does in a very excellent manner sum up some most complex and complicated written agreements, arrangements, exhibits, and all of the rest. I think it sets it forth clearly, accurately, and in an excellent manner.

The City of Long Beach hopes this year to undertake development of the largest oil reserve in the State of
California, the huge east Wilmington Oil Field, which underlies the shoreline area of Long Beach, as has been pointed out in this exhibit, and extends over an area of approximately 6,500 acres. It includes 4,400 acres of tide and submerged lands held in trust by the City of Long Beach; in addition, 1,800 acres of privately owned upland property; and 300 acres of tidelands in the former Alamitos State Beach Park, in which, although the property is in Long Beach, the minerals are owned exclusively by the State -- which is known as Tract Number 2.

As Mr. Hortig pointed out to you previously, gentlemen, the Alamitos Beach State Park is the area which was conveyed to the City of Long Beach in 1961 by the State of California. However, there was a reservation of the minerals and those do belong entirely to the State of California, as they have, incidentally, since about 1932, although at that time it was known that there was oil in the area.

Core hole drilling operations conducted by the City during the past year confirmed earlier predictions of a large field; the existence of six production zones was proven. Petroleum engineers estimate that the East Wilmington Field, the center of which is in the Long Beach Harbor District, will yield about one and a half billion barrels of oil.

Orderly development of the field poses numerous problems and challenges. First, it is located in a subsidence district and every effort must be expended to protect hundreds of millions of dollars worth of private and public property from land sinkage. In addition, the land underlies one of the most scenic water areas along the California coastline. It is important that the natural beauty and utility of the area be preserved.

Proceeding in accordance with the State's subsidence control law and in compliance with City ordinance requirements
for controlled drilling, the City of Long Beach has prepared a
development program for the East Wilmington Field.

May I at this point say that these documents have
been prepared by the City, but at all times I have already
mentioned the assistance and cooperation of both Mr. Hortig's
staff and the Attorney General's staff; and the representatives
of the State have been present during many, many meetings that
were held, particularly before the Unit Agreement, Unit Operating Agreement, came into final form.

The objective of the program is to produce the maximum amount of recoverable oil and gas, while at the same time
protecting the City from subsidence damage. Long Beach proposes
to achieve this objective by means of a unitized oil development
program under which waterflooding operations would be conducted
in the oil zones to maintain underground pressures, thereby
increasing oil recovery and preventing subsidence.

Similar unitized water injection programs currently
are being conducted in the Harbor portion of the Long Beach oil
fields with successful results. They have been highly successful both in arresting subsidence and increasing oil recovery.

On February 27, 1962, a year ago yesterday, the voters
of the City of Long Beach by a three-to-one majority lifted a
ban against drilling in the City's offshore area and approved
drilling in the East Wilmington Field on a carefully controlled basis.

As the Chairman has previously mentioned, it has been
known for quite a period of time there has been oil offshore.
The subsidence problem had to be corrected first. Certainly,
the citizens would not have removed the ban on drilling unless
first the problem had been corrected and, secondly, the controls were placed in the new proceeding.
The City, right after the election in February of last year, commenced preparation of the agreements providing for development of the field as a single unit. The Unit Agreement, Unit Operating Agreement, and related exhibits were drafted, under which all owners of the oil and gas reserves would pool their interests, contribute to the cost of the proposed water injection program, and share proportionately in the oil recovered. Involved in the negotiations to form the new Long Beach Unit, in addition to the City, were seven oil companies: Richfield, Superior, Standard, Signal, Union, Continental Eastern and Jade -- which have Town Lot leases on nearly all of the ten thousand parcels of Town Lot property located in the upland portion of the field. Also represented at management negotia-
tion meetings were an Independent Property Owners Oil Develop-
ment Association, from which you heard this morning; the Long Beach Unified School District; and representatives of the State Lands Commission and the Attorney General.

May I mention at this time there was a question regarding the School District letter and perhaps what appeared to be a misunderstanding. The School District was represented at all of these meetings. They do know, I am sure, their rights. When Mr. Hortig was referring to there being no tax, he was at that time speaking of Tract Number 1. The thirty-three acres of land which the School District informed you gentlemen about in their letter, of course, are all located on the upland areas and those are subject to the tax and that is the source of revenue for the School District. The Long Beach Unified School District covers not only schools in the City of Long Beach, but the City of Lakewood, Signal Hill, Avalon, and some other county towns.

The agreements and exhibits were completed in September 1962, approved by the City Council and by the oil companies
involved, and they have been filed with you for final approval.

In compliance with the City's offshore drilling ordinance, the documents confine oil drilling operations to not more than four attractively landscaped drilling islands and require that all related activity be conducted through the industrial harbor district and not across the City's beach.

Mr. Lingle will now show a sketch, copies of which will be made available to the Commissioners, of the type of island that is proposed, has been designed by petroleum experts in the field. From four islands located in the offshore area, the entire field -- both the eighty-five per cent in Tract No. 1 as well as the balance, the fifteen per cent remaining in the upland area as well as Tract Number 2, the former State Park area -- could all be reached and fully and economically developed. This is, as I have stated, one of the requirements of the City ordinance, which otherwise prohibited drilling in any other manner.

The documents give the City control with respect to matters related to subsidence prevention.

Provisions of both State law and the City Charter of Long Beach require that competitive bids be sought on the proposed development. Consequently, a Field Contractor Agreement also has been prepared and filed with you for approval, before being put out for bids.

To encourage efficiency and economy in operations and to produce the maximum economic quantities of oil, the contract provides for only one biddable factor -- a percentage of net profits. In fact, the bid form has been prepared and attached to the bid form will be the contract itself, and there will be one place where there will be an opportunity for the bidder to act, and that is to put in the percentage of net profits.
This contract also requires the successful bidder to advance payments against future production to the State and the City's tidelands trust. These payments amount to fifty-one million dollars within the first thirty-six months of operation.

Another basic part of the Field Contractor Agreement, as proposed by the City, calls for contracting for development of City-controlled tide and submerged lands as a single tract rather than splitting the area up into parcels. The Unit Agreements provide for development of the private Town Lot area also by the City's contractor, and Long Beach believes that the inclusion of the State Park area in the unit under similar arrangement would be the most efficient procedure -- and, of course, that is a matter you gentlemen will be concerned with at a later time.

Long Beach favors the development of the field as a single tract for various reasons -- in fact, insists it would have to be. This approach would, first of all, provide for the highest and best bid; it provides the most effective means of preventing subsidence; it best serves the principles of unitization, whereby a single unified operation is needed to obtain the maximum efficiency and economic return from waterflooding. It is apparent that substantial operating economies could be realized through single parcel development.

Long Beach does not believe that the offering of the area as a single offering would detract from bidding. It is unlikely that any one company anticipates bidding, would be bidding for itself alone. The City anticipates the bidding would be by various companies, and the contract provides for this. It is felt that any individual or company qualified to bid on even a reasonable portion of the contract can either join a group interested in bidding, or organize one itself.

I think perhaps some of the historical review would be
of interest, because we have talked about the tidelands grant.

In the year 1911, following and observing the State policy to encourage communities to build harbors, grants were made to a number of cities. As a matter of fact, in that same year, the City of Oakland, the City of Los Angeles, the City of San Diego, and the City of Long Beach were all granted their tidelands for development of the harbor.

This was an entire grant of the fee title; there is no reservation of minerals for the State. The Long Beach grant embraced 13,000 acres, or more than twenty square miles.

Subsequent statutes, particularly the grant in 1925, which repeated the language of 1911, provided that the revenues from the lands might also be used for parks, parkways, highways, and playgrounds. These, however, must be on the tidelands, and under later statutes the expenditures must be for matters of statewide, rather than local, interest.

Even before the grant of 1911, Long Beach had commenced to improve the tideland area. It had started the development of the Long Beach Harbor; the City bonded and taxed itself to finance work on the development of the inner harbor; but it was the discovery of oil on adjacent property in 1936 which touched off a fabulous era of expansion for the Port of Long Beach.

All of the area, looking at the aerial photograph, which is, generally speaking, to the south -- Long Beach, as you know, faces south on San Pedro Bay -- all of it along the former coastline, the harbor and the naval station, is entirely reclaimed land outside the high tide line, and it has been developed since 1938.

The City has had a number of test cases -- one, I believe in 1938 (I believe Mr. Shavelson mentioned it earlier
today) considered the matter and decided the City had the authority to develop oil therein; the City could use the money for purposes of the grants from that oil production.

Piers built for harbor purposes also served as drilling platforms and revenue derived from production was used to build transit sheds and other harbor facilities.

Although they have brought great benefits to Long Beach, the tideland grants and matters related thereto have caused problems. First, came the fight against Federal ownership of all California tidelands. Next came a loss of revenue to the State of California. And third, and most important, came a virtual life and death struggle against subsidence -- land sinkage which accompanied the oil development.

First, now relating to the matter of the Federal claim in 1947, United States versus California, the United States Supreme Court ruled that the Federal Government had paramount rights over the tide and submerged lands. Long Beach was quick to assume a position of leadership in the fight of coastal states to avoid Federal seizure.

Oil was the principal issue in the tidelands battle with the United States and, because of its great stake as a trustee for the State, the City fought for retention of its tide and submerged lands. Long Beach supported the program of the National Association of Attorneys General to restore the tidelands to the states, maintained representation in Washington, D.C. to assist in the effort, and operated a national public relations program designed to bring the truth of the State's cause to the public.

The California Senate Interim Committee on Tidelands reported in 1953, and I quote:

"Credit is due the City of Long Beach for refusing to
"accept proposals by Federal officials which would settle the City's problems at the expense of the State's cause...."

and there were many opportunities to do that. Long Beach was assured they would have full protection and all sorts of Federal grants and we would have full and entire control.

To go on with the quotation:

"Long Beach has consistently refused to make a separate agreement covering just its own situation and has stayed in the fight to preserve the constitutional principles being jeopardized."

Unquote, from the Senate Interim Committee.

The controversy over ownership of the tidelands was, of course, resolved with the signing of the Submerged Lands Act of 1953, which recognized that title rested in the coastal states and in their grantees.

Second: During the years of debate over ownership of the tidelands, Long Beach voluntarily impounded more than one hundred fifty million dollars from tideland oil production. This was more than the City then required to meet its trust obligation, so Long Beach in 1951 sought and received permission of the State Legislature to spend half of its tideland income for public improvements.

Actually, the legislation in 1951, which passed the Legislature without a negative vote, declared surplus one-half of all of the oil income and also declared surplus one hundred per cent of the dry gas income; and before the bill was signed by the then Governor, Earl Warren, he first requested and was given assurances that it would be spent by the City only for public improvements of long range and of permanent nature, rather than for the general housekeeping activities of the
City, but still on municipal matters.

The taxpayers' suit challenged the act and ultimately in 1955, in the case of Mallon versus the City of Long Beach, the Supreme Court held that such proposed use of funds would be unconstitutional and ruled that half of the money should go to the State. It ruled that the intent of the Legislature must have been not to do an unconstitutional act in granting the tidelands grant funds and making an unconstitutional gift; that perhaps the Legislature meant to declare this surplus and that it would be returned to the grantor.

The following year (that was in 1955 -- the Supreme Court decision), in 1956, faced with prospects of further litigation of more than ten years, the then Attorney General, Pat Brown, advised the legislative committees at the time in urging approval of a compromise that his estimate was such litigation might continue for more than ten years' time; so the City of Long Beach and the State effectuated an agreement, A.B. 77, which became Chapter 29 in '56. Under that, the City immediately paid over to the State $120 million to date itself back, then, to the declaration of surplus coming in 1951, and it is now obligated to pay half of all future tidelands oil revenue and all of the proceeds from dry gas to the State. The remaining half is used by the City of Long Beach only for tidelands trust purposes -- with a few exceptions only upon the approval of the State Lands Commission with the advice of the Attorney General, and only for projects which are first determined to be of statewide rather than of local interest. I will mention a few of those in a few moments.

The largest of all the problems encountered by Long Beach in the production of tidelands oil was the creeping disaster known as subsidence. Sinking in the harbor district of
Long Beach was first noticed in 1940. The ground surface at the center of the Wilmington Oil Field began sinking at a rapid rate and, slanting out from this center, the subsidence eventually covered a twenty-square-mile bowl-shaped area.

Before a solution to the problem was found, the center of sinking had dropped to a depth of more than twenty-six feet, damages totaled ninety million dollars, and properties valued at five hundred million dollars were threatened with destruction.

The welcome answer to subsidence was water flooding to increase underground pressures in the oil field. With the help of the Attorney General's Office and the oil industry, Long Beach succeeded in obtaining and using the subsidence law to ward off disaster. This law enabled the City, the State, and private oil operators to cooperate in the formation of units and flooding cooperatives to repressurize the oil field.

At the present time, three fault block areas in the harbor area have been unitized, both upland and tideland areas -- just as is proposed in this Long Beach unit, both private and public property involved. The Supreme Court of the State approved the unit agreement in early 1961. To date, 637 million barrels of water have been injected under pressure into the Wilmington Oil Field. At the present, the rate of injection is 535 thousand barrels of water per day.

Results have been phenomenal. Sinking has been completely stopped in all areas including the Long Beach Naval Shipyards, downtown Long Beach, and the entire harbor waterfront. Sinking at the center of the bowl now is less than three inches per year, as compared to a peak at one time of two and a half feet per year.

Also, the repressuring operations are greatly increasing oil recovery. Since large-scale repressuring was started in
1958, secondary recovery, which would never have been recovered by natural or primary means, already has paid for the program and paid an extra ten million dollars to the Long Beach tideland trust.

Since the start of tideland oil development in the Wilmington Oil Field in 1939, Long Beach tideland leases have produced a net revenue of more than $360 million. The two City contracts now in effect, both obtained through competitive bidding are generally regarded as the best in the United States.

Quoting again from the Senate Interim Committee on Tidelands:

"Revenues to the City are probably the highest of any such contracts in the history of the oil industry. Under one contract with Long Beach Oil Development Company the City receives 85.85 per cent of the gross revenues of the oil produced and under the other contract with Richfield Oil Corporation, it receives 94.1 per cent of the gross oil revenues."

I think those figures are not quite accurate, but in that respect only. Further quoting:

"The City has netted over fifty-four per cent of the gross revenues...."

This is "netted" according to the Senate Committee report - - "Netted over fifty-four per cent of the gross revenue on the L.B.O.D. parcel and over sixty-seven per cent on the Richfield Oil Corporation parcel."

"Netted" sixty-seven per cent on the Richfield Oil Corporation parcel. Further quoting:

"The committee commends the City of Long Beach for the outstanding example it has set in this tideland oil and gas development and improvement of its
"Waterfront. The extremely high financial returns the City is obtaining establishes a goal for the State of California in its future development of oil and gas resources in submerged lands." End quote.

Waterflooding operations now being conducted are expected to greatly increase profits from these two leases in the years to come. Water injection is expected to quadruple the production of oil during the remaining life of this tideland field.

The proposed new contract for the East Wilmington Field incorporates various improvements over the two existing contracts. Most important is the requirement to institute a water injection program from the start of development, to guard against subsidence and increase ultimate recovery. It is estimated that waterflooding operations will produce six hundred million barrels of oil over and above the nine hundred million that could be recovered by normal, primary oil development techniques.

Second in importance is the feature of having the bid based on a percentage of net profits. As Mr. Hortig very correctly stated, this is different and we feel it is very definitely an improvement, because it will encourage efficiency and economy on the part of the operator. We feel that putting it on a net basis rather than gross, there is that incentive to develop in the most economical manner.

Long Beach firmly believes that it has used its share of the tideland oil money in the best interests of the State of California. Not one cent of the revenue produced has been used for non-trust purposes.

By far the biggest project undertaken by the City has been development of Long Beach Harbor. Marshland and salt flats just fifty years ago, today the Port of Long Beach is recognized as the most modern harbor in the United States, serving not only
California, but seven western states. The port currently handles approximately twelve million tons of cargo annually and leads all other west coast ports in handling dry cargo -- that is, cargo not carried in tankers. In keeping with the growth of California and the West, the Port of Long Beach will double in size and increase tremendously in importance during the next twenty years.

Transformation of the scenic Long Beach shoreline into one of the world's finest water recreation areas is another objective of the City. Several individual projects already have been completed, and others are in the advance planning stage. Improvements already completed include the Long Beach Marina, a haven for two thousand small craft. It is self-supporting, all of the revenue going back to the tideland trust fund. Eighty-one per cent of the boats moored in the Long Beach Marina are owned by persons who reside outside of the City of Long Beach. As I said earlier, projects must be of statewide interest, and I think this is a very good example of just that -- eighty-one per cent of the owners are not Long Beach residents.

A new Navy landing serving the Pacific Fleet and an Armed Services Y.M.C.A. for sailors, soldiers and airmen of the area are other examples of how tideland funds have been and will be used for trust purposes.

Long Beach has transferred approximately $200 million dollars to the State of California from tideland oil and gas incomes since 1956. The letting of the new offshore contract will mean more than a billion dollars in revenue to the State during the next thirty-five years.

Several other coastal California areas still have prohibitions against development of oil reserves in their offshore areas. We are confident that Long Beach can demonstrate
to the rest of the state that oil development operations can be conducted without detracting from the natural beauty and recreational use of the California shoreline.

This statement is signed by Edwin W. Wade, the Mayor of the City; John R. Mansell, City Manager; Leonard W. Brock, Petroleum Properties Administrator, and by myself. We believe that action on the contracts that are before you will serve the best interests of the State of California, and that it offers maximum financial benefits to the State and the tidelands trust, as well as complete protection to the City of Long Beach.

I'd like to make some informal remarks, jumping around a bit. I had heard a question raised in Long Beach, and one hearing it and not being informed might otherwise get the impression that there was an oversight because there is no bonus provided for.

As Mr. Hortig explained this morning, the objective of the competitive bidding is to get the highest total return. If we were proceeding under State law -- if we were talking about, let's say, a wildcat area, unknown, and a substantial bonus of fifty or a hundred thousand dollars was offered and then a return to the State of California of sixteen and two-thirds percent -- that would be understandable.

In this instance, in order to achieve the maximum recovery, as someone has said the bidder would have to have control of Fort Knox. The bonus required would be certainly something well over one billion dollars.

The contract has been drawn so that it will be most attractive to the greatest number of bidders. We have contacted more than eighty companies. In December, we asked for suggestions, a letter going out to forty-three different companies we thought might have some interest. Work has been done on the
contract for many, many months.

If this were drawn just for the benefit of small companies, without regard to the subsidence problem, without regard to what is the best return, perhaps this might otherwise be split up into parcels; but that is an expensive way of proceeding. The coordination would be lost; in the purchasing of equipment duplication would be, I think, very important. This type of operation was discussed at the time this was being worked out, but experienced oil people, oil companies and others agreed that, and urged, it be done on a single parcel basis.

I want to say, too, that also expensive would be this matter of the suggestion of dividing the oil production. The fact is, there is other oil available -- the City upland area, the State Park area -- former State Park oil, the Harbor area oil -- all available. The State at the present time actually does not sell its royalty oil separately.

We want to comment on the matter of control of a sizable portion of production. I know that that has been mentioned in Mr. Hortig's report. Actually, the State requirement is more than one million barrels of oil a day. That's the requirement of the State. The production in the State is now perhaps at around 800 thousand barrels a day; and, therefore, there are imports. The production from this area would be, perhaps, one hundred to one hundred fifty thousand barrels a day.

The City of Long Beach has a new tanker dock leased to Richfield, where tankers holding a hundred thousand barrels come in and unload in a day. So the amount of money, although sizable, does not create any monopoly situation. Monopoly would mean a control of the supply where there is no sufficient demand. This is set up so that there will be joint bidding; there will be combinations of companies, so actually the oil
production is going to be divided.

One of the most pressing problems before the City is the fact that it has in the area that has been referred to a number of times today a twenty-five year contract with the Long Beach Oil Development, which expires one year from next month, and March starts tomorrow. It expires in March of 1964 and that is not something about which the City can just turn a switch and say, "Let's put that aside." There are wells producing; there are adjoining areas being produced which would continue to and which would drain the State oil; there are water wells injecting water, the subsidence remedial program.

Obviously, for these reasons, this isn't something we can just ignore; and unless action comes in the very near future, the City will have to turn its attention entirely to the matter of the Harbor area parcels, in which the State has a very great interest. We cannot wait longer. The citizens have removed the oil production ban in this controlled way, but that's the situation at the present time.

We feel that the companies are interested in bidding at the present time. They have moneys that they can't hold tied up just indefinitely. I think if we just think of the interest on the money that is represented in those barrels of oil not taken out, I think this is going to be, would be, a very important figure.

I do not mean to be disrespectful in any way, but I do not feel that the discussion about how to spend this "if" money should be indulged in at this time, at the expense of proceeding on the contract. We realize that there are questions raised, and proper questions. We do not feel that this matter can be held off and in abeyance while there is discussion if we develop it, will there be too much money for the City to
administer under the controls that are set up under Chapter 29.

I think of the cartoon that I saw once with a bone in the bottom of a pool, and the dog fighting with his reflection in that pool over whether which would go after the bone.

This is perfectly proper to discuss these things, yes; but it should not be at the expense of proceeding on the contract.

Finally, I want to urge the Commission to consider the fact that we have already said and we say very seriously. We believe this is the best way to proceed. This is the way it should be done. If we are proven wrong, it would be at the time the bids are opened. If the bids are not good, they may be rejected. The contract itself, the award of the contract, must also be acted upon by the Lands Commission.

We definitely feel that a development of this nature in this form will not only bring a great return to the State of California, but it will also, as I mentioned earlier, be an example for a number of other communities along the coast who are fearful now about the spoiling of their beaches; and those controls will be lifted and vitally needed resources will be made available to the State.

Mr. Kealer, Councilman, is present and I believe was going to speak to the Committee briefly, to advise that what we have been discussing here is the thinking of the policy-making body, the City Council of the City of Long Beach.

MR. CRANSTON: You might first see if there are any questions that anyone wishes to ask.

GOV. ANDERSON: I have one. Jerry, I realize you are fairly adamant on the idea of one operator, one unit handling this; but before you came to this decision, did you go into the alternative of breaking it into more than one lease, with
the thought of still being able to control it as one operating
unit, so that it would answer this charge we often hear that if
it is just one operator it is a monopoly?

MR. DESMOND: That was discussed. Mr. Lingle called
that to my attention just during the past week, about this be-
ing explored.

GOV. ANDERSON: How deeply did you explore it? Did
you find that it couldn't be done?

MR. LINGLE: It could be done. However, in the inter-
est of the maximum return to the State, when we considered the
tie-in of the unit, it was considered that one method you might
do is that you might have one operator operate one parcel and
another operator operate just for the City; and knowing our
past experience, and everybody else's experience, the over-all
loss of coordination and the over-all benefits of unitization,
we determined it was far more feasible and more economic to
control subsidence -- the amount of pressures, the amount of
water you put in, the amount of oil you take out must be co-
ordinated -- to have one operator for the whole unit.

GOV. ANDERSON: You are going to have this series of
islands. Won't you be able to determine to some extent the
amount that is taken out of each of these island operations?

MR. LINGLE: Let me get over to the engineer's role --
I have been around quite a bit. It's like putting straws into
a great big bowl of soup. It isn't like drawing a line on a
map and saying, "You operate this square and you operate
another square." Each one of these islands has to be operated
in conjunction with the other and all islands have to be co-
ordinated -- particularly in view of our subsidence problems;
to maintain the pressure, to obviate subsidence, they must be
coordinated.
GOV. ANDERSON: Couldn't that be coordinated as far as the subsidence is concerned and still have two or three lease operators?

MR. LINGLE: As I said, it could be; but at the expense of somebody to do this coordination -- and I fear it is going to come out of your pocket, Governor, and my pocket, in coordinating it and we will not reap the benefits that we can if we have the benefit of one operation.

GOV. ANDERSON: You don't think we have a chance of better operation -- in breaking it up we will have more successful bidders?

MR. LINGLE: That part, I don't know; but I am sure the loss of coordination and the loss of economy in purchasing would be a loss this way.

MR. CHAMPION: I have heard another reason advanced for doing this and I'd like to have your comment on it -- that there is a chance that you would have a larger bid regardless of these expenses by virtue of having one ownership control take a large pool. Do you believe that to be true, or is that an economic factor?

MR. LINGLE: I suppose that is a possible economic factor. However, the way this contract is written -- what we do foresee it is going to cost, it isn't just advancing the fifty million. It is going to cost an awful lot of money for three or four years. Nobody is going to have any cash coming in. That's why we designed the fifty million, which covers from this year until we have some net profits. It takes a large amount of money to take care of four islands, construct four islands, and drill until the oil comes forth.

By enabling companies to go together, as the contract permits, to form their own organizations in whatever manner they
want to, they then could pool their resources to take care of this large expenditure of capital. Whether or not there is some benefit to them by controlling all oil production, we
don't know. It might end up in benefits.

MR. DESMOND: May I add to that answer: We definitely agree with Mr. Hortig's statement, that in view of the lower individual oil allocations, as well as the complex administrative problems, it is doubtful that the cumulative bids or the aggregate City and State revenues would be as great as in this plan.

SENATOR ARNOLD: How have you effected repressurization at the present time and what would be the difference under your new series of contracts as compared with what you have experienced so far?

MR. DESMOND: I think in a general way this could be answered: The sinking that did occur was first really observed (although going in the records it was noted just in passing even earlier) in 1940; but actually the repressuring -- which also has the wonderful asset, Senator Arnold, of having this great additional return which would not otherwise come -- the repressuring really got under way in a large scale manner in the late 1950s, so that we were there acting on a bowl that had already sunk a great deal before this started.

This, of course, is something the citizens of Long Beach do not want ever to happen again. Therefore, because of the great benefits that have come with the repressuring, we are ordered, really, by the City ordinance to provide that the plan will have this at the inception -- and this doesn't mean going out and drilling water wells first or anything of the kind. It has to be done in an orderly manner, and this, I think, is set forth in the appendix in Attachment A -- "Done in an orderly manner," and it will be done right at the outset; so that the
benefits of the secondary recovery will occur, as well as, we believe, eliminate any chance for sinking in the area.

SENATOR ARNOLD: The problem then is secondary recovery rather than repressuring?

MR. DESMOND: It is to avoid subsidence and also for additional oil recovery.

SENATOR ARNOLD: But you are correcting subsidence at the present time. How many leases do you have?

MR. DESMOND: There are two areas producing in the Tidelands area of the Harbor District. The Long Beach Oil Development has the contract which I mentioned expires a year from next month; and the Richfield Oil Corporation, although its wells are in the Harbor District -- it produces from just outside the Harbor District and over to the Pine Avenue area of the downtown area of Long Beach. In those areas, the water flooding is under way at the present time and, as I say, it has stopped subsidence as well as bringing these tremendous additional quantities of oil; and we are not going to allow this area, any new area, to sink and then go in and try to pump it up again. We feel at the present time -- I mean, at the opening, when a new area is developed -- it should have proper waterflood programs instituted at that time.

SENATOR ARNOLD: My question was: What is the difference whether you had one lease, or three or four or five operations in this parcel Number 1 as far as repressuring is concerned?

MR. LINGLE: One problem, Senator, you run into -- which we believe we would run into -- is that if, as I tried to point out, it would all be forced to be coordinated, you could not ....

SENATOR ARNOLD: Let me ask you: Is it being coordinated at the present time?
MR. LINGLE: The existing is, yes; the presently exist-
ing part of the field is being coordinated, when we had a series
of different contracts and consolidated those contracts so we
could coordinate them. One other thing -- we know the geology
of the present part of the field. We do not know the geology of
the unproved, undeveloped part of the field.

If I could go a little bit farther -- You can't just
divide this thing up and say, "Company A, you take this part," "Company B, you take that part," because Company A may have a
refinery that it's got for oil and it may have a desire to pro-
duce one part of the field at one rate; somebody else's economy
might want to develop another part of the field at another rate;
another company's economy might need something else. We would
then have to dictate to each one of the parcels at what rate
he would take this oil out.

GOV. ANDERSON: Won't you be doing that now, in a
sense?

MR. LINGLE: We won't have to act as a referee. If
we have one contractor, it for its own best interests will
develop the whole thing as it sees fit.

GOV. ANDERSON: Supposing its determination won't be
up to the best interests of the State and the City, won't your
man step in and tell them to step it up?

MR. LINGLE: Yes, he will; but he steps into one com-
pany and won't have to step into different motives of numbers
of them.

GOV. ANDERSON: Couldn't it be more difficult to push
one great big operator than two or three?

MR. LINGLE: I can't argue with that, but we don't
believe it would be more difficult. We believe their best
interests are going to be the same as our best interests, and
whatever the injection rates are for the whole field, we feel it would be simpler for us to deal with one group.

MR. CRANSTON: Doesn't the contract give you the power to control that?

MR. LINGLE: The contract does, and the City ordinance requires that.

SENATOR DOLWIG: Mr. Desmond, have you obtained permits and the necessary Federal authority for erection of those islands?

MR. DESMOND: Not as yet. There has been contact made with the Navy, also with the Corps of Engineers, to discuss with them whether or not this would present any problems. We have been assured -- the City has been officially informed that they see no problems at all.

SENATOR DOLWIG: As far as getting permits?

MR. DESMOND: That is right.

SENATOR DOLWIG: I have one further question. I asked this question this morning and I think you are perhaps in a better position to answer it; and that is, I see by your unit agreement you have working interests with Richfield and Jade Oil. Who is Jade Oil?

MR. DESMOND: I do not know. I have been told that they are on the board. I know ...

MR. LINGLE: Jade's president is a man by the name of Mitchell. They have offices in Los Angeles and Houston. They are listed on the Pacific Coast in the Los Angeles and San Francisco exchanges.

SENATOR DOLWIG: Insofar as the working interests are concerned, as I understand it the working interests have interest on your Town Lots?

MR. DESMOND: That is correct.
SENATOR DOLWIG: How are they going to participate in this Unit Agreement? Are they going to produce oil on your Town Lot on the map here and there?

MR. LINGLE: If I can describe this thing -- the unit operator ends up in being the City, so under the Unit Agreement all of the oil is produced by the unit operator. All we do under the Field Contractor Agreement is to hire ourselves a set of hands to do the work.

SENATOR DOLWIG: Pardon me. I want to understand it as we go along. As far as your people that are mentioned here that have working interests, what are these -- leases with Long Beach?

MR. LINGLE: No, they are leases with the property owners. That's the working interests.

SENATOR DOLWIG: Are they going to be involved in the thing as far as this Unit Agreement is concerned?

MR. LINGLE: No, sir, not under the Unit Agreement. Under the Unit Agreement, there is no bidding. The only thing we are bidding is to get somebody to do the work for the City. Those working interests are going to get an allocated share of the over-all oil. There is a formula whereby you determine under a certain acreage what ratio should be attributed to that acreage as against all of it, and whoever has the lease will be delivered that amount of oil.

SENATOR DOLWIG: Is this going to come within Long Beach's share or the State's share?

MR. LINGLE: It's not coming out of either the City's Share nor the State's share. This is oil attributable to the private property on the uplands.

SENATOR DOLWIG: Let me get it straight. On the basis of the testimony this morning, there is a Long Beach ordinance
against drilling on the uplands, the so-called Towr Lot area.

MR. DESMOND: That's correct.

SENATOR DOLWIG: In other words, as far as the upland area, so we understand each other, we are talking now about the Town Lot?

MR. DESMOND: Correct.

SENATOR DOLWIG: There can't be any oil drilling on it?

MR. DESMOND: There can be no surface locations there. The oil there will be piped from these drilling islands extending beneath the uplands.

SENATOR DOLWIG: Is that what you call slant drilling?

MR. DESMOND: Yes.

SENATOR DOLWIG: How far are the islands?

MR. DESMOND: The closest island cannot be any closer to Ocean Avenue than two thousand feet, so all of the uplands can be reached by the islands by slant drilling.

SENATOR DOLWIG: Is this the reason you have them in your Unit Agreement?

MR. DESMOND: Yes, so the uplands under the lease and the citizens who are going to get a royalty, this way the citizens participate from the amount of oil from the uplands.

SENATOR DOLWIG: Are these provisions in the agreement?

MR. DESMOND: In the Unit Operating Agreement.

SENATOR DOLWIG: How are these citizens and working interests going to determine what their revenues are going to be under your slant drilling operation?

MR. DESMOND: As in any other unit -- we have other units of the same type -- this is by a formula, how much oil is attributable to a certain tract; and there is a formula attached to the Unit Operating Agreement; then whatever amount is assignable to the tract is then split up between the company
who had the lease and whoever the owner of the property is, in accordance with the terms of the leases, many of which differ.

SENATOR DOLWIG: So we can understand this, we have delineated how this is going to work as far as the State's share. I am talking primarily from the standpoint of how you are going to do your drilling.

MR. DESMOND: The surface locations will be on Tract Number 1.

SENATOR DOLWIG: In other words, that's where they are drilling and you are going to do slant drilling and go into the upland area and take out oil from there.

MR. DESMOND: By directional drilling.

SENATOR DOLWIG: And you have your working agreement ..

MR. DESMOND: Correct.

SENATOR DOLWIG: And the people who have the working agreement are going to get a certain percentage of the oil that is going to be taken out under Tract Number 1?

MR. DESMOND: Correct.

SENATOR DOLWIG: Wait a minute. The gentleman over there is shaking his head. I'd like to explore it.

MR. DESMOND: Similarly, the people in Tract Number One ....

SENATOR DOLWIG: Pardon me. So we understand, so we communicate, I am talking about the working interest as distinguished from the people who own the land that have the lease agreements with the working interests. Let's keep that straight. Let's not talk about them. Let's talk about these two different entities.

MR. LINGLE: The City and State get a portion of the oil inevitably from under the uplands, and the people who have the working interests on the uplands will get a portion of the
SENATOR DOLWIG: How much, under this agreement?

MR. LINGLE: In accordance with the ratio. At this point we estimate if you take the whole pool and put it together, the amount attributable to the City and State is eighty-five per cent; the amount attributable to the uplands is approximately seven and one-half; the amount attributable to the State Par. area is seven and one-half -- regardless of where the oil originally is in place.

SENATOR DOLWIG: On the seven and one-half per cent is this firm in this agreement?

MR. LINGLE: In accordance with all of it, the ratio of what you are going to get is from our information that we gather as we drill. We aren't being arbitrary.

SENATOR DOLWIG: Maybe Mr. Desmond can answer this question.

MR. DESMOND: I was going to say this is later adjusted. There has to be something firm to get under way. Senator, this is really no different from the units which are presently in operation. This is the same type of an agreement whereby the Harbor area sections which are both upland and tideland, which are both private and public ownership, operate; also, there, has there been an allocation under an equity formula, which is later adjusted as the development proceeds.

SENATOR DOLWIG: Let's assume this allocation. Let's take it a step further. Say seven and a half per cent goes to the uplands. Of this, how much does the working interest get and how much does the owner of the land get?

MR. DESMOND: We do not know what their leases are. That is entirely up to them.

SENATOR DOLWIG: Depends on their lease?
MR. DESMOND: There has been quite a range. We have been advised this leasing has been going on for some time.

SENATOR DOLWIG: Now, would you relate this to the net profit matter? Where does this seven and one-half per cent relate to it? In other words, what I am interested in is: Where does the State come out in this?

MR. DESMOND: The State and the City will receive, we assume at the present time, the oil attributable to that portion of the pool which is represented by tide and submerged lands, will be eighty-five per cent and so of the ....

SENATOR DOLWIG: Pardon me, we have gone over this.

MR. DESMOND: The net return will be divided.

SENATOR DOLWIG: What I am interested in is where does the seven and one-half per cent come in insofar as the determination of the net profit is concerned?

MR. DESMOND: It does not.

SENATOR DOLWIG: It does not come in? Is that paid off from the top?

MR. LINGLE: If their share of the oil were seven and a half per cent, they also pay seven and a half per cent of the expense and it does not enter into the field contract or the agreement. If we could set the field contract and agreement aside for a minute, everyone will pay expenses in the same ratio as they have oil.

SENATOR DOLWIG: This is what I want to know. The upland owners will have to pay their share of the expenses and this is figured into the net profit. I think that straightens that out. Now, you are familiar with the Marshall decision, I am sure?

MR. LINGLE: Yes.

SENATOR DOLWIG: What effect does the Marshall decision
have, or does it have, insofar as these agreements are concerned, if any?

MR. DESMOND: I would say that the basis for sharing with the City -- that there is no violation of the trust in any way in so using the tidelands for development of oil; that that answer came from the Marshall case, and it is one of the foundations upon which we base these contracts.

SENATOR DOLWIG: And you feel under the Marshall decision there would be no problem so far as using funds for trust purposes under these agreements?

MR. DESMOND: That's right.

SENATOR DOLWIG: Are you familiar with the statement the State Analyst made?

MR. DESMOND: You mean just recently in the budget report?

SENATOR DOLWIG: Yes.

MR. DESMOND: Yes.

SENATOR DOLWIG: Are you in agreement or disagreement with the Analyst?

MR. DESMOND: Well, now, he made several statements.

SENATOR DOLWIG: About the second one.

MR. DESMOND: I definitely disagree and I think perhaps he must have been misinformed -- I know he must have been misinformed as to some of the items he mentions as being questionable on expenditure of funds. As to that, I know he is wrong entirely. He also said in that message that he believes that a further look at the allocation of the funds between City and State should be made. This is his recommendation to the Legislature. We are not looking forward to that, but I imagine that that is going to take place, that study, and we are ready to cooperate with the Senate.
SENATOR DOLWIG: Mr. Desmond, would it be possible to get an itemization of account of the moneys that Long Beach has spent for trust purposes from 1955 until 1962?

MR. DESMOND: Certainly.

SENATOR DOLWIG: And also the projected expenditures for trust purposes if this agreement is approved and consummated?

MR. DESMOND: We would be very happy to. As to the first question, as to those expenditures already made, under State law we do report annually to the State Lands Commission.

SENATOR DOLWIG: Mr. Desmond, I want you to know that I asked this information from the Legislative Analyst and he has indicated he has had a real problem, and I hope you will assist me and we won't have any problem.

MR. CHAMPION: Aren't those available? They are fully available in our proceedings.

MR. HORTIG: Our only problem is no one asked us.

SENATOR DOLWIG: I think I should clarify my statement, then. I have not been able to get the information from the Legislative Analyst. He consulted with the State Lands Commission staff and they do not have the information, and this is the reason I am asking Long Beach to give it to me.

MR. CRANSTON: Senator, I believe it is appropriate that the Lands Commission give it to you. We have these in our possession and we will be happy to give them to you.

GOV. ANDERSON: Have you been asked for them, Mr. Hortig?

MR. HORTIG: No, sir -- not for what Senator Dolwig is now asking. The legislators have reviewed our records; the Analyst has reviewed our records. All of them have been available, but we have never been asked specifically for what Senator Dolwig has requested.
GOV. ANDERSON: Would we have cooperated with them?

MR. HORTIG: Of course.

MR. CRANSTON: Why don't we divide the burden? We will give them the figures on what has occurred up to date, and Long Beach will furnish figures on projected expenditures.

SENATOR O'SULLIVAN: Mr. Desmond, how much, in your opinion, will that Parcel 1 yield over its lifetime?

MR. DESMOND: As Mr. Lingle said earlier, we are moving over to the engineering, particularly petroleum engineering; but we do not disagree in any respect with the statements made in Mr. Hortig's report, which indicated perhaps one and a half billion barrels of oil -- one and a half billion dollars; one and a half billion barrels of oil is expected to underly the Town Lot areas and Parcel 1, Parcel 1, Parcel 2 and the Town Lot areas are expected to yield a billion and a half barrels.

SENATOR O'SULLIVAN: How much will Parcel 2 yield?

MR. DESMOND: That is estimated to be seven and a half per cent of that amount.

SENATOR O'SULLIVAN: And Parcel 1?

MR. DESMOND: About eighty-five per cent.

SENATOR O'SULLIVAN: And the Town Lot area is the balance?

MR. DESMOND: That's right -- about seven and a half per cent.

SENATOR O'SULLIVAN: Now, who did the geophysical work on it?

MR. DESMOND: Our petroleum properties administrator, Mr. Brock.

SENATOR O'SULLIVAN: Is he here?

MR. DESMOND: Yes.
SENATOR O'SULLIVAN: Was this done under contract with a private organization?

MR. DESMOND: The only - - There was a contract only for the core exploration.

SENATOR O'SULLIVAN: All of the rest was done by employees of the City of Long Beach?

MR. DESMOND: I would say that this area has been under study for many years and I wouldn't, I couldn't say off-hand. Doctor Mayuga, the chief petroleum engineer of the Harbor, made a considerable study and I think there were probably consulting firms in the past years who have given information on it.

SENATOR O'SULLIVAN: Mr. Brock is your petroleum engineer?

MR. DESMOND: The petroleum properties administrator for the City.

SENATOR O'SULLIVAN: And he is here?

MR. DESMOND: He is here, yes.

SENATOR O'SULLIVAN: As the Attorney for the City, have you been relying on his opinion for these factual matters?

MR. DESMOND: Yes, sir.

SENATOR O'SULLIVAN: Will he be available throughout the day.

MR. DESMOND: Yes.

SENATOR O'SULLIVAN: And at other times to furnish information?

MR. DESMOND: Yes, sir.

SENATOR O'SULLIVAN: Now, the Unit Agreement doesn't become effective until you have got the commitment from the landowners on shore, is that right?

MR. DESMOND: From at least sixty per cent.
SENATOR O'SULLIVAN: Sixty per cent. Do you have that commitment?

MR. DESMOND: They are not actually committed, but we have assurances which we know are reliable that actually perhaps ninety-five per cent, or maybe ninety-eight per cent, of the area will be committed at the appropriate time.

SENATOR O'SULLIVAN: Well, you're a lawyer?

MR. DESMOND: Yes.

SENATOR O'SULLIVAN: They haven't signed anything yet, have they?

MR. DESMOND: They have signed letters, in which they have advised you gentlemen -- or, pardon me, I should say the Commissioners, that they intend to sign as soon as they are given that opportunity; and there was one letter read this morning from one of the companies that controls fifty-three per cent of the area, fifty-three per cent of that necessary sixty per cent, and it has suggested to the Commission as soon as this is approved they are ready.

SENATOR O'SULLIVAN: Is there any danger of some of them holding out?

MR. DESMOND: We are assured there is not. One of those companies has been in this area and been paying the standby rental for many, many years. They are very eager, and certainly their lessors are even -- well, they are equally interested in that company proceeding.

SENATOR O'SULLIVAN: Thank you. Did you want to add to that?

MR. DESMOND: This is Mr. Lingle, the Deputy City Attorney.

MR. LINGLE: This is a little different than an ordinary unit, where somebody could drill from anyplace. The
only place they can drill is from these islands, and in order to reap any benefit from the large amounts of delay rentals they are paying, to get anything out of the oil, would be to get into the unit. They haven't got any other drill sites where, on the Town Lot, they can drill and frustrate us and drain the unit.

SENATOR O'SULLIVAN: Is this your opinion, Mr. Hortig?

MR. HORTIG: Yes, sir.

SENATOR O'SULLIVAN: There isn't any danger of anyone holding out or bludgeoning ... 

MR. HORTIG: Not in the majority.

SENATOR O'SULLIVAN: How about the minority?

MR. HORTIG: There could be a minority, could be a small minority; but the small minority can't affect the applicability and the development of the area, even though they do not choose to join the unit.

MR. DESMOND: Out of this many parcels, if any unit more than an acre would be considered, we have very definite and satisfactory assurance from all except one or two, and we just haven't heard; and those are very minor and could in no way block the operation -- though we haven't heard one way or the other.

SENATOR O'SULLIVAN: Did you draft the operating agreement?

MR. DESMOND: That was done, as I said earlier, Senator, by Mr. Lingle. (Mr. Lingle shook his head) I admire his work - I am prejudiced. The agreement was drafted -- I think Mr. Hortig's report also mentions it and I had also -- there were a great number of meetings held with the management committee; there was a legal committee established; and I would say it was very definitely a combination. I think that this unit, although very complicated, in general is not very much different from the unit agreements in the Fault Blocks II, III, and IV in the
Harbor District areas.

SENATOR O'SULLIVAN: Were the unit agreements drafted in conference with oil companies?

MR. DESMOND: Yes, sir.

SENATOR O'SULLIVAN: Which oil companies?

MR. DESMOND: There were seven. I had mentioned this earlier -- I think you were not in the room just at that time.

There were seven oil companies: Richfield, Superior, Standard, Signal, Union, Continental, and Jade. In addition, represented at the meetings were members of the staff; representatives of the staff of the State Lands Commission and of the Attorney General; also a very large group of property owners who have formed themselves into the Independent Property Owners Oil Development Association; and also, the Long Beach Unified School District was present.

SENATOR O'SULLIVAN: Now, I am familiar with five of those companies. What about -- I think we discussed Jade. How about Continental Eastern?

MR. DESMOND: They did participate and because they have leases in the area.

MR. CRANSTON: I think he wants to know who they are. Do you know who they are?

MR. DESMOND: No.

SENATOR O'SULLIVAN: Mr. Lingle?

MR. LINGLE: I don't know that. Continental Eastern is a corporation. It has had operations in the Long Beach area for some time.

SENATOR O'SULLIVAN: Do you know anything about their assets?

MR. LINGLE: No, sir; I don't.

MR. CHAMPION: These particular companies participated
because they all had working interests in the upland area?

MR. LINGLE: Yes, sir.

SENATOR O'SULLIVAN: So no other companies in the
upland area participated in the drafting of these agreements?

MR. DESMOND: That is true. The Unit Agreement and
the Unit Operating Agreement were worked out through a series of
meetings, with the working interest owners present and partici-
pating. That, of course, is separate entirely from the Field
Operator's contract.

SENATOR O'SULLIVAN: Now, that Field Operator contract,
how did that come about? Who did that?

MR. DESMOND: Mr. Lingle, I know, spent a great deal
of time on this, I would say. Mr. Shavelson, I know, is very
familiar with every line in that contract. It has been gone
over not only by him individually, but also there have been
great exchanges of correspondence. They have been of great
assistance to us. As I mentioned earlier, this draft has been
under development from about September of last year. We had
asked for suggestions, comments. We have been in contact with
as many as eighty different interested parties that had sugges-
tions.

Mr. Lingle has with him a letter which he sent out in
December, asking for any final suggestions of forty-three com-
panies at that time; so we have had, I'd say, a lot of people
looking at this and making suggestions -- but it is Mr. Lingle's
contract.

SENATOR O'SULLIVAN: This contract -- Field Contract,
Unit Agreement, Wilmington Oil Field, was discussed with forty-
three operators?

MR. LINGLE: That is not a fair statement. I sent out
a letter early in January saying that we were near the final
stages of this contract and the letter solicited any comments, and it went to forty-three companies. Some responded and some did not. We sought ideas, and we were willing to listen to anybody who wanted to talk; but it is the City's contract.

SENATOR O'SULLIVAN: The first general notice of this contract went out in January of this year?

MR. LINGLE: No sir, that is not right. It went out as early as September last year. Along in January, we informed people that we thought we were along toward a final contract and if they had any additional suggestions, we were available for consultation.

SENATOR O'SULLIVAN: Mr. Desmond, maybe you can answer this question.

MR. DESMOND: Pardon me, Senator. Mr. Lingle does have that letter, if it is of any assistance. I must have been in error when I said the month of December. December 26, 1962, a memo from Mr. Lingle to me, that he was mailing the following letter to all companies who requested any information concerning the Field Contractor Agreement, and it said:

"We anticipate that our proposed Field Contractor Agreement for the operation and development of the Long Beach Unit will be placed for bid early next year. We are now in the process of final review of the Field Contractor Agreement. If your company has any final suggestions, we would welcome them as soon as possible."

SENATOR O'SULLIVAN: Preceding that time -- preceding the time when you drew your first draft of the Field Contractor Agreement, had you conferred with any oil companies?

MR. LINGLE: We had not conferred with them as to the form of the contract, no sir. In the course of the negotiations
as this Unit Agreement was developed, the principles behind the Field Contractor Agreement had been discussed with many people -- how we were going to implement the Unit Agreement.

SENATOR O'SULLIVAN: So that prior to September of last year you didn't contact or discuss the boilerplate that went into this contract with any oil company?

MR. LINGLE: I don't believe so.

SENATOR O'SULLIVAN: And subsequent to September of last year until the December letter, you did not call it to their attention?

MR. LINGLE: No, sir. That isn't correct. Along in September -- from September on, we put out several drafts. Each time, I think we printed up a hundred of them and sent them to anybody and everybody between the time we were drafting to people who wanted them. We distributed our ideas at that time to anybody who wanted them.

SENATOR O'SULLIVAN: Did you discuss this - - What were the names of the companies who contacted you between September and December?

MR. LINGLE: Well, among many - - let's see: Shell, Union, Mobil, Standard, Richfield, Signal. In addition, besides lawyers, we talked to Continental, Phillips, Humble if I haven't mentioned them ....

SENATOR O'SULLIVAN: Did any of these companies show an interest in this type of contract?

MR. LINGLE: Yes sir, they did.

SENATOR O'SULLIVAN: Did all of them?

MR. LINGLE: No sir, not all of them.

SENATOR O'SULLIVAN: Do you recall how many and which ones?

MR. DESMOND: Senator, just at the opening of the
afternoon session, Mr. Hortig read into the record, I think, two or three additional letters from companies that have expressed interest in this and specifically say that they have read the contract and they are satisfied, and there is no reason why they should not bid on it.

SENATOR O'SULLIVAN: Well, how many companies to your knowledge are interested in bidding on this? Can you tell me their names? At this point, we are almost to a contract and I think it would be of interest to the members of the Committee to know.

MR. DESMOND: It's a little difficult. We, of course, hope that there are a number of bidders. We realize, of course, there's going to be combinations of companies. I have heard of three different combinations -- the accuracy of which I couldn't vouch for at all. We have been of the opinion that there would be at least three different bids, by three different combinations. Whether those combinations will actually effectuate themselves or not, I couldn't say with assurance.

SENATOR O'SULLIVAN: You can't list the names of the companies that are interested?

MR. DESMOND: I think we have -- The companies who have already written to the Commission are certainly among those that we have heard: Standard, Richfield, Signal.

MR. HORTIG: Excuse me, Mr. Desmond. There are two letters received today which were read into the record, in which there is an affirmative statement that the company would be interested in bidding; and, for example, quoting from the Standard Oil Company letter:

"We find nothing in it (that is, in the agreements) that would prevent this company from bidding if it is offered for bid in the form submitted to you."
The same sentence is contained in the letter from Signal Oil and Gas. A telegram was received from Continental Eastern Corporation. These simply urge approval of the documents before the Commission, but do not make any specific statement with respect to submitting a bid.

MR. DESMOND: We would hope that among the bidders -- it's not for us to set up the agreements, of course -- we would hope that among the bidders would be Humble and Mobil and Standard and Signal, Richfield, Shell, and Union.

MR. CRANSTON: Senator, just as a point of information, we have advised the industry of this hearing and asked, if they wished, to have representatives here from the various companies to tell us what they think of the contract in its present form, and their views as far as the contract is concerned at the present time.

SENATOR O'SULLIVAN: This matter will be covered in the hearing?

MR. CRANSTON: Yes.

SENATOR O'SULLIVAN: How much, in your opinion, will be required to finance this first five years under this particular agreement? Do you have any idea?

MR. DESMOND: I think that is something Mr. Brock or Mr. Hortig would come in on. I do not have any thought on that.

MR. CRANSTON: I would like to ask one question relating to this: Have there been any objections up to this moment from companies who were not consulted in the drafting of the Unit Agreement, who were not presently involved in the Unit Agreement now?

MR. DESMOND: No, there have not. Your reference was to the Unit Agreement?

MR. CRANSTON: Yes.
MR. DESMOND: Yes, sir.

SENATOR DOLWIG: Is Tract Number 2 covered by your Unit Agreement?

MR. DESMOND: It is not. However, it makes it possible to add it, too, if the State desires to.

SENATOR DOLWIG: Wouldn't it be possible from the State's standpoint, if it were not included -- You indicated there would be slant drilling. If Tract Number 2 is not in it at this time, it could be a derogation to the State's interests?

MR. DESMOND: We feel the State will want to go in this fine development. This does allow for that. This is getting over to the Attorney General's field, but I understand it is the opinion of the Attorney General that permissive legislation should be enacted at this session, which would allow such joining of the State area to the Unit.

SENATOR DOLWIG: Just one other question: This calls for public bidding?

MR. DESMOND: Yes, sir.

SENATOR DOLWIG: Was it the L.B.O.D. that was negotiated?

MR. DESMOND: That was a competitive sealed bid.

SENATOR DOLWIG: As I remember it, but I may be wrong -- as I remember it, you did put it to public bid but wasn't the bidding thrown out and then negotiated?

MR. DESMOND: No sir. It was put out for bid a second time.

SENATOR DOLWIG: And the highest bidder negotiated the contract?

MR. DESMOND: Yes. That was in 1939, Senator, and I don't remember the details. I have only read about them, but it is my understanding -- I know the second contract, the contract,
was strictly on a competitive basis. That is what our charter
requires, and the State law.

MR. CHAMPION: Just to complete this question Senator
Dolwig raised, permissive legislation has been raised to permit
the State Tract 2 to join this Unit.

MR. HORTIG: To clarify that point, it is Senate Bill
298.

MR. CRANSTON: Jerry, would you like to clarify why the
City feels this method is preferable to the bonus-royalty method
used elsewhere?

MR. DESMOND: Yes. Under present State law, the pro-
ceeding is on the sliding scale basis, with as low as sixteen
and two-thirds per cent. I think this method, compared to the
neighboring area which is developed under State leases -- what
we still call the Monterey Island -- I think the return to the
State and to the City will be far greater than any of the perhaps
seventy leases developed, far greater; and, as I said before,
if it were put on that sort of basis with the bonus, in order to
make it come out anywhere near the same amount of return, some-
body would have to advance perhaps a million -- a billion to two
billion dollars at the most; and that has not been, of course,
suggested in Mr. Hortig's report nor by us.

MR. CRANSTON: Of course, the State approach is a
fixed bonus with a sliding biddable royalty, which would not re-
quire such a vast amount in the beginning. Would you comment on
that?

MR. DESMOND: Yes. I think the figure that I read,
just taking one of the two leases in the Long Beach area, under
the lease operating contract with Richfield there has been a net
of sixty-seven per cent. There is no State lease, I am sure,
that has ever come close to that royalty.
MR. CRANSTON: Any other questions? Glenn?

GOV. ANDERSON: Yes. I believe there was a letter this morning that commented there should be a sort of minimum schedule of production, sort of implying that the City management towards the end of this proposed lease could control the production downward, making it more beneficial to the new bidder at the end of the period to bid higher than the present holder. Would you take that up?

MR. DESMOND. Yes, and to take up Mr. Hortig's comment on that, when that was written, that was December 18th. Various points raised there have been, we believe, covered since that time in the contract itself, and in the agreement that has been entered into between the City and the State.

GOV. ANDERSON: So that the City management couldn't really control the thing downward toward the latter few years of the operation?

MR. DESMOND: This, again, is going to be on a net basis, and I think that the interest of the City and the State is going to be identical with that of the operator.

MR. CHAMPION: While Mr. Desmond is still before us, I'd like to ask Mr. Hortig a question. The City becomes the operator here and has the responsibility. However, the State has at least a half interest. What, in the operation agreement, controls, or what checks does the State have upon this operation by the City? In what way can the State interest be brought into the operation once it is approved?

MR. HORTIG: Well, Mr. Champion, one, by application of the administrative requirements which are imposed on the State Lands Commission by Chapter 29 of the Statutes of 1956 to, in broad general terms, supervise and coordinate with the City with respect to any operations in granted tide and submerged
lands in Long Beach, including auditing review of financial
disbursements on the operation; to give advance approval to any
operating contract changes which the City desires to make, which
must be considered and approved in advance by the State Lands
Commission; to review annually the expenditures by the City of
Long Beach of its share of the trust funds for trust purposes;
and then, in more specific detail rather than general, there is
attached to your agenda item today as Exhibit A a series of con-
tract conditions which would be agreed to between the City and
State as a condition of approval by the State Lands Commission,
which would build into the operation some additional review and
approval responsibility in the Lands Commission for all opera-
tions and future approvals within the framework of the operating
contracts considered here today and, particularly, the specifica-
tion of some operating standards to assure that all operations
will be conducted in accordance with the best engineering prac-
tice to accomplish the most effective development in the field
and the best long-range interest for the City and State, as a
matter of contract requirement between the City and State but
not as a contract requirement between the City and the operator
contract to be approved.

MR. CHAMPION: In your view in this particular aspect,
that is, the State's ability to review and to some extent have a
voice in the operation -- is this contract superior to, or the
same as, or inferior to the provisions under our present opera-
tions in the Long Beach area?

MR. HORTIG: It would be superior to our present opera-
tions in the Long Beach area.

MR. CHAMPION: For what reason?

MR. HORTIG: For the reason that this is the first time
that an operating contract has had to be brought to the Lands
Commission for advance approval and, therefore, for the first time the staff has been in a position to suggest to the Commission these ancillary agreements for operating conditions with respect to Long Beach and for control and supervision.

All the prior operating contracts on which we do have a supervisory responsibility under Chapter 29 relate to only contracts that the City entered into prior to Chapter 29; and, therefore, we can only supervise and recommend up to the point that was provided in the contracts at that time. But this contract, particularly with Exhibit A which is under discussion here for additional agreements, we believe -- and I think the Attorney General will concur in this, and this was the purpose of these additional agreements -- was to assure the Lands Commission a maximum control, which the Commission is entitled to under the statutory authority of Chapter 29. This, of course, could not have been written into contracts which were entered into before the Long Beach situation was a responsibility of the Commission.

MR. CHAMPION: Speaking only to this aspect of the contract, are you satisfied with the provisions so far as the Lands Commission's relationship to the operating party and the City?

MR. HORTIG: We are satisfied that the proposals before the Commission for approval constitute the maximum that can be recommended in the State interest under the existing scope of statutory law.

MR. DESMOND: May I just add, of course we realize the work conducted by the State Lands Division and the staff has more things proposed than they can now cover. We have already advised Mr. Hortig -- and we mean this very sincerely -- that we hope that the State in this kind of operation, as important as it is to them, will have people who will be there side by side working. Now, we are the trustee; we are the manager; we are the
general partner; and we do have to make the decisions, but they
will be made in the open and we hope with full advice from the
State at all times. We will welcome it. We will feel better if
they are there rather than to attempt to cover things just by re-
ports and by correspondence.

MR. CRANSTON: Are there any further questions? If
not, thank you very much. Councilman Kealer, do you wish to
speak?

MR. KEALER: Very briefly, Mr. Chairman. First, I'd
like to express my appreciation for being given the privilege of
speaking here. Commissioner Cranston, Governor Anderson, and
Commissioner Champion, merely the Council has delegated me to
indicate to you the policy of the City, which you have been lis-
tening to for some time, and that is, the City wanted, first, the
very best type of contracts for the benefit of the City and the
State; and, secondly, that it could be done as expeditiously as
possible with all the proper safeguards in them.

I am Chairman of the Harbor Oil Industries for the
City and have seen a number of these drafts, and from time to
time suggestions were made. A few times I met with the staff of
the Lands Commission and the Attorney General's Office and the
Council, so we are very familiar with what this is all about.
After the final drafts were submitted to the Council, they did
adopt as their policy that these are the best things for the
City and the State, as well as for the Town Lot owners -- and
this was after endless conferences. We believe this is best.

We want the Commission to know we will do the very best
possible to get this on the road and get it going effectively,
and it is the objective of the Council that as long as we have
agreement we can go ahead for the best interest of all of us.

MR. CRANSTON: Perhaps as an engineer you can answer
the question that was asked by Senator O'Sullivan as to the expense involved.

MR. KEALER: If I did, it would be a guess. Let me answer in another way to a question Senator Dolwig asked and that is on the working interest of the Town Lot owners. To put it in a practical oil field way -- the land, the oil people have leased from the landowners, for which they pay a certain percentage of the production. Let's assume the upland Town Lot owners have a ten per cent production based on sand count. Therefore, the leasing companies will have to pay those royalty owners whatever their interest may be right off the top and whatever is left is their working interest.

I believe when Mr. Brock testifies before you, Mr. Chairman, he will be able to give you much more accurate information about cost estimates, et cetera.

MR. CRANSTON: If there are no further questions, may we ask Mr. Brock to come forward?

MR. CHAMPION: While Mr. Brock is coming forward, Mr. Hortig, do you have any estimate of the development costs?

MR. HORTIG: No, sir. We have reviewed Mr. Brock's estimates and I think under the circumstances he should report on them first hand. Inasmuch as the City under this proposed agreement is intended to be the operator, if so approved, we did not put in any staff time other than in a review capacity and did not prepare an independent estimate on this matter.

MR. BROCK: I believe the question now is capital investment?

MR. CRANSTON: Yes. I think you wanted to know the cost, Virgil, of the first three years -- the first five years.

MR. BROCK: I don't have those figures directly at hand but as I recall it's someplace between sixty and seventy million
dollars that the contractor will be in the hole some time during the first three years. In other words, as soon as there is oil production, he is going to start recouping his funds and, naturally, this depends on the rate of development -- how fast he drills his wells, and whether all islands are to be built at once or whether there is to be a delay between islands.

As I recall, including the advance payments, the deepest he would be in the hole would be right at seventy million dollars.

SENATOR O'SULLIVAN: That's for the entire contract on Tract 1?

MR. BROCK: That's for Tract 1 only. Everybody else would be paying their own expenses during that time.

SENATOR O'SULLIVAN: Is there a rate at which the extraction should be made? Who controls that?

MR. BROCK: The city manager.

SENATOR O'SULLIVAN: Will control how fast the oil will be extracted?

MR. BROCK: That's right.

SENATOR O'SULLIVAN: Is there a criteria set up in the agreements for that?

MR. BROCK: Good oil field practice, good engineering practice. At present, that's about all we can do. That's all we can do because we don't know how much oil is there, nor the productivity of these zones.

SENATOR O'SULLIVAN: How much do you figure there is?

MR. BROCK: The figures which were quoted were by the engineering committee, which was the engineering committee for the unit. They were based on assumptions that the zones in this area will be productive to the same rates and extent that the same zones in Wilmington will be. We only have eight holes
scattered through sixty-seven hundred acres and this isn't very much -- eight core holes; and this isn't very conducive to an accurate estimate. We do believe that this figures of close to one and a half billion barrels is a representative figure.

SENATOR O'SULLIVAN: Did the City finance putting the core holes in?

MR. BROCK: Well, it came out of the tideland revenue fund.

SENATOR O'SULLIVAN: How much did that cost?

MR. BROCK: Right at six hundred thousand dollars.

SENATOR O'SULLIVAN: Do you think it would be worthwhile to do any further investigation before you let the lease?

MR. BROCK: No, I don't think that anything is to be gained at this time. Possibly after the contract is let, there may be some additional work done solely to locate the islands. I believe the figures that we have obtained from the core holes are adequate for a bid.

SENATOR O'SULLIVAN: You have been the engineer on the other Long Beach properties?

MR. BROCK: I have worked on them.

SENATOR O'SULLIVAN: How long have you been in Long Beach?

MR. BROCK: I have been with the City since '53; I was with L.B.O.D. three years prior to that, and I was foreign one year.

SENATOR O'SULLIVAN: You don't think anything would be gained by spending some more money to investigate that oil down there, to find out how much is there?

MR. BROCK: No. I think when you get to a certain range in magnitude of barrels, I don't think the bid is going to be influenced very much whether there is another half of it or
another couple million less.

SENATOR O'SULLIVAN: Isn't it a fact that companies spend a lot of money on exploration?

MR. BROCK: In what way?

SENATOR O'SULLIVAN: Companies spend a lot of money on oil exploration, to find fields. They don't go out and drill dry holes.

MR. BROCK: That's right. We know the field is here.

SENATOR O'SULLIVAN: Wouldn't the fact that you knew there was another million dollars of oil mean you would have better bids, or the bids would be higher?

MR. BROCK: I don't think it would be much higher -- the point being the contract is on the net profits. He makes profits on the operators on a percentage basis, and the percentage profit on a billion and a half operation isn't going to be any higher than it would be on a billion barrel operation.

SENATOR O'SULLIVAN: That's all.

MR. HORTIG: Mr. Chairman, may I suggest in behalf of our secretary a short breather, if at all possible?

MR. CRANSTON: Let's take a five-minute break and we can continue with other parties from Long Beach, or oil companies and other parties.

(Recess 3:20-3:35 p.m.)

MR. CRANSTON: Will the meeting please come to order: I think it might be advisable to have a show of hands now, as to those who will desire to give testimony. (Three) We are ready to take whoever wants to start and we will go on from there.

Mr. Scott, would you state your identification for the record?

This is a statement of L. E. Scott, Assistant to the President of Pauley Petroleum Inc., objecting to the adoption by this Commission of the City of Long Beach tidelands development
program as submitted this date.

Pauley Petroleum Inc., Los Angeles, California, is presently engaged in offshore tideland operations in the State of California, Louisiana, and Mexico. This company along with its partners, has in the past few years paid to the State of California an excess of 24.7 million dollars for tidelands leases. We are presently engaged in the development and production of these leases; therefore, we appear here today as an experienced operator and one fully cognizant of the problems involved.

We recommend that the State Lands Commission reject the proposal that is being submitted by the City of Long Beach for the following reasons:

1. The State Lands Commission has not been submitted adequate and sufficient information to permit it to make a final decision involving an oil and gas reservoir containing in excess of one and one-half billion barrels of oil, and worth somewhere between four and one-half and five billion dollars. This is one of the world's largest known oil reserves and will, in a very short time, represent in excess of fifty per cent of all of California's known oil producing reservoirs.

At the present time there are approximately 3.6 billion barrels of oil known to be producible in the State of California. The daily production in California is approximately 815,000 barrels a day, which is about 300,000,000 barrels a year. At this rate, in a little more than three years California will have depleted its oil reserves by more than a billion barrels. All of the oil producers in California, particularly the majors, are frantically drilling their fee lands, inside locations which ordinarily would not be drilled, in order to keep California's production up. This is being done for many reasons which we will go into later in this statement.
2. We object to this proposal on the grounds that, as written, it is monopolistic in its inception, and monopolistic and discriminatory as planned in the final results. This Commission should seek out, at a full public hearing, all of the factors surrounding the preparation of these documents, and what they really mean. We feel that the proposal, as written, is not in the public interest of the State of California and must, therefore, be rejected.

A review of the documents submitted by the City of Long Beach indicates that it is the desire of the City of Long Beach, as well as some favored operators, to call for bids on Tract Number 1 as a single parcel. Why is this monopolistic? This will require the successful bidder, or consortium or combine that acquires the bid on Tract Number 1, to obligate itself to spend approximately 51 million dollars in recoverable bonus money plus build up to four ten-acre islands, plus drill at least forty wells in the first year after completion of the first island. Reliable engineers have stated it will cost a company between ninety and one hundred million dollars in initial investment to carry out the development of Tract Number 1 as proposed by the City of Long Beach.

It is our feeling that this tremendous investment requirement is fully intended to eliminate competition and to chill the bidding for the average offshore operator. I ask this Commission how many companies in the United States can commit themselves to spend one hundred million dollars on any one project? Your attention is directed to paragraph 23, page 21, of the Field Contractors' Agreement, wherein the Field Contractor is not permitted to pledge or hypothecate this contract without first securing the consent of the City Manager of Long Beach. Here, again, is an obvious effort to eliminate reasonable size offshore
operators from bidding. In other words, the bidder cannot go to its bank or financial institution and secure adequate capital to carry on this development program without first receiving the consent of the City Manager.

Reference is also made to paragraph 32, page 32, entitled FORCE MAJEURE. Pursuant to said paragraph, an operator must continue to pay the 51 million dollars over the three-year period, even though he is shut down by court order or by injunction. Requiring an operator to make such substantial payments when ordered to cease production or operations is unfair. This is another effort to make it difficult for a reasonable size company to bid. How many companies can continue to pay out 50 million dollars while they are not permitted to drill, operate, or produce because of the provisions of the FORCE MAJEURE clause?

To make this requirement and not excuse payment while in litigation is unthinkable. This is just another method used to eliminate competition and to allow certain companies to gain control of a fabulous oil reserve at a non-competitive price.

3. Mr. Chairman, there is another major factor involved in putting out the Long Beach property in one parcel. It is obvious that certain oil companies desire to control all of Tract Number 1 in order to monopolize and control the oil production, oil prices and oil imports on the west coast for years to come.

Let's look at the daily production for October 1962 of many of the California operators. These figures are taken from the Conservation Committee of California Oil Producers - Company Records of California Oil and Gas Production - October 1962:

**SUMMARY FOR OCTOBER 1962: Major Companies Actual Production B/D**

<table>
<thead>
<tr>
<th>Company</th>
<th>Production (B/D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Richfield Oil Corp.</td>
<td>69,551</td>
</tr>
<tr>
<td>Shell Oil Company</td>
<td>61,513</td>
</tr>
<tr>
<td>Socony Mobil Oil Company</td>
<td>46,680</td>
</tr>
<tr>
<td>Standard Oil Company</td>
<td>143,016</td>
</tr>
<tr>
<td>Texaco, Inc.</td>
<td>48,818</td>
</tr>
<tr>
<td>Tidewater Oil Company</td>
<td>53,617</td>
</tr>
<tr>
<td>Union Oil Company</td>
<td>68,308</td>
</tr>
<tr>
<td>Signal Oil and Gas Co.</td>
<td>40,310</td>
</tr>
</tbody>
</table>
It will be argued that the award of Tract Number 1 to any one operator or group of operators will not create a monopoly of the crude oil market in the State of California. We wish to point out that at the present time Richfield Oil Company produces approximately 69,000 barrels of oil a day; Union, 68,000; Signal, 40,000; Standard Oil of California, 143,000; Texaco, 48,000; Tidewater, 53,000. If any one of these companies is awarded Tract Number 1 under the bidding procedure recommended by the City of Long Beach, it would more than double their present daily production in California. With the exception of Standard of California, it would be necessary to add together the daily production of several of these companies to obtain the amount of oil equal to the anticipated daily production from the Long Beach Harbor Tract Number 1, which is estimated to be 150,000 barrels a day.

It is my opinion that any time the daily production of a major refiner is doubled, tripled, or quadrupled by virtue of one bid, a very bad situation is being created which will lead to the monopoly of the crude oil market on the west coast of California and of the United States as a whole. At the same time, it will permit the operators to process their own crude and exclude the purchase of crude from other onshore and tidelands operators in California not having refining capacity. We think this is in violation of the public interest and welfare of the State of California, of the oil industry, and of the nation as a whole.

Last week a statement appeared in the trade journals that oil and gas exploration in the United States is at a nineteen year low. If one company, or group of major refiners, control this oil, a great detriment is being done to the State of California and to the oil producers who operate in this state.
Do you think for one minute that any one of these companies is going forward with an aggressive exploration and development program onshore in northern or southern California and look for oil when they have, by one stroke of the pen and by one preconceived contract, more than doubled, tripled, or quadrupled their daily production in the State of California? Why should any company continue to search for oil where risks are high when they can buy it from Long Beach and, at the same time, gain control of production, prices and imports in this state?

We must insist, Mr. Chairman, that this proposal be rejected in its entirety and that the staff of the State Lands Commission, the Attorney General of the State of California, and representatives of the City of Long Beach be instructed to sit down and attempt to work out some reasonable basis on which this tremendous tidelands oil field can be put up on some equitable, fair, impartial basis, where all operators can have a fair and equal opportunity to bid on these lands.

4. We object to the price being paid for the crude oil under the Long Beach proposal. In our opinion, it will permit the sale of the Long Beach oil at a price lower than is presently being required by the State of California for their offshore tidelands oil. Under the Long Beach agreement, the contractor will have the exclusive right to take any and all oil allocated to Tract Number 1 by the Unit Operator or, at the option of the Field Contractor, he may obtain a financially responsible purchaser to purchase any or all allocated oil to Tract Number 1 by the Unit Operator and to take delivery of such oil in accordance with the Unit Operating Agreement. Any contract for such purpose must be approved in advance by the City Manager. You will note that the State Lands Commission has no control over the ultimate prices paid for the crude oil under this proposal, nor has the
Commission any way to force the oil to be sold to anyone other than the Field Contractor or his designated purchaser. This is the key to the whole monopolistic plan.

The Long Beach Contract provides that the value of the oil shall be on the basis of the price equal to the average of the price to be posted and paid by continuing purchasers of substantial quantities of crude oil in the field for oil of like gravity on the day such oil is run into Field Contractor's tanks and/or pipelines (Page 9, line 17, of the Field Contractor's Agreement):

"Except as otherwise herein provided, oil allocated to Tract No. 1 shall be valued on the basis of a price equal to the average of the prices posted and paid by continuing purchasers of substantial quantities of crude oil in the Field for oil of like gravity on the day such oil is run into Field Contractor's or purchaser's tanks and/or pipelines. 'Continuing purchasers of substantial quantities of crude oil,' as used in this section, shall mean purchasers who have, during the preceding twelve (12) calendar months, purchased an average of at least three thousand (3,000) barrels of crude oil per day. If no such purchaser posts and pays a price in the Field on said day for oil of like gravity, or if the only purchaser or purchasers who so post and pay a price are the Field Contractor or one or more of the persons comprising the Field Contractor, then the price hereunder shall be the arithmetic average of such prices as may be posted on said day for oil of like gravity by Standard Oil Company of California, Union Oil Company of California and Socony-Mobil Oil Company, Inc., or their respective successors, in the following fields: Wilmington, Huntington Beach, Signal Hill, and Inglewood. The above price shall be computed to the closest tenth of each degree of gravity and the closest tenth of a cent per barrel for the pricing of each delivery of crude oil by applying the price for each full degree of gravity to the even gravity and interpolating upward for each tenth degree of gravity."

If Field Contractor, or one of the persons comprising the Field Contractor, purchases oil from others in the Field, the price of the oil taken by such person shall not be less than the price paid by such person to others for oil of like gravity in the Field."

What does this pricing formula mean insofar as Long Beach and the State of California is concerned and how does it affect other operators in the State of California?

This company has recently acquired an oil and gas lease
known as Parcel 9A, and referred to as State Lease 2933.1, in the Santa Barbara area. (And I would like to say that it cost us $6,105,500.) The State Lands Commission in its lease form provides as follows: (Paragraph 3, line 7, page 3)

"The Lessee agrees to account for and pay to the State in money as royalty on oil a percentage, determined in accordance with the schedule attached hereto marked Exhibit B, and by reference made a part hereof, of the current market price at the well of, and of any premium or bonus paid on, all oil production removed or sold from the leased lands. The current market price at the well shall be determined by the State and shall not be less than the highest price in the nearest field in the State of California at which oil of like gravity and quality is being sold in substantial quantities, subject to an appropriate allowance for the cost of delivery of such oil to onshore storage and transportation facilities. Said money royalty on oil shall be due and payable not later than the twenty-fifth day of the calendar month following the calendar month in which the oil is produced."

Under the Long Beach contract the Operator is going to bid net profits on Tract Number 1 and will receive the average posted price paid by certain companies. The companies that acquire other oil and gas leases offshore throughout the State of California (such as we did under Parcel 9A in the Santa Barbara Channel area) must pay the State of California the highest price paid for oil. This creates an unfair competitive situation since the operators who own other tideland oil and gas leases are required to sell oil on parcels of tidelands lying outside of the Long Beach area at the highest price. It means that the companies who control the oil in the Long Beach area are going to buy their oil cheaper than operators of other State-owned leases. How can an independent producer compete with this sort of discriminatory pricing? It seems to me that we must have one pricing formula for all of the California tidelands. If we do not, we will have a situation where oil from Tracts Number 1 and Number 2 are being sold cheaper and making less profit for the State of California and the City of Long Beach than the State is making from other tideland parcels under their present pricing formula.
We are all aware of the situation which existed in California a short time ago when one company posted a price for oil of forty cents a barrel less than one of the other big producers. If there is a forty cent differential in the price of crude oil, then the average price received by Long Beach would be twenty cents a barrel less than the highest price paid for the crude by one of the major purchasers. What does this really mean, gentlemen? Let's take a look at it. It means that any company posting prices in any one of the fields set forth in the Long Beach contract can either lower or raise the price, like a window shade in a house, in those areas; or raise or lower the posted price for crude under Tract Number 1, and thereby manipulate the price and the profit the State of California and the City of Long Beach and the Field Contractor (if it happens to be an independent producer) are receiving from Tract Number 1.

What does a company have to lose that happens to be the Field Contractor and also the purchaser and the refiner? The City of Long Beach and the State of California will have a lower price for their crude and will be receiving less money than they ordinarily would. The City of Long Beach and the State of California will receive less net profits from Tract Number 1, but, at the same time, if the Field Contractor happens to be the purchaser AND the refiner, it will pick up that additional profit in his manufacturing profits and would actually be given a windfall by manipulation of the posted price.

This agreement, as now submitted by Long Beach to this Commission, gives the exclusive control of this 1.6 billion barrels of oil to the Field Contractor or his designated purchaser. It does not give the City of Long Beach, nor the State of California, any protection whatsoever in order to dispose of this crude outside the contract. The contract is silent on whether or
not the Field Contractor must buy the oil even though he cannot
sell it. The draft as submitted to the State Lands Commission
staff in September 1962 had a firm obligation on the part of the
contractor to buy the oil or to dispose of it. That language ha-
now been changed insofar as oil is concerned. It is requested
that the companies who wrote this contract explain whether or not
it was the intention of the drafters of same to force the contrac-
tors to buy. There must be some provision in this contract for
the disposal of crude in the event the Field Contractor cannot
find a market. The Field Contractor is required to buy all
natural gasoline extracted from wet gas. We think this provision
is unfair because it places an impossible burden on the contrac-
tor when he doesn't have a market. This is just another device
to eliminate competition by placing an onerous market provision
upon operators who cannot market large quantities of natural
gasoline.

No one company can agree to buy all of this oil unless
there is a market. How many companies can actually absorb 75,000
to 150,000 barrels of oil a day in their refinery? To my know-
ledge, none of them. The only way this could be done is to cut
off purchases and stop buying oil from the balance of the produc-
ers in the State of California. We submit to this Commission this
is exactly the plan of action to be taken by certain companies in
the event they can monopolize the Long Beach Oil Field.

It is submitted to this Commission this is exactly what
will happen in the event you permit this complete parcel of land
to be put into the hands of one group of companies having control
of the pricing and the refining processes in this State. They
plan to reduce their purchases from independent producers through
out the State of California which, in turn, will result in the
reduction of the posted price in all fields because the
independent contractor will be forced to sell his oil at lower prices.

Once you have created a soft market for crude oil in California, then the posted price will be lowered through manipulation by the refiners and thereby the State of California, the City of Long Beach, and the independent producers throughout the State will receive less money for their oil, not only on the Long Beach parcel, but on other California tidelands and on other oil fields owned by the cities of this State. This is a monopolistic plan in the crudest form.

Since the preparation of my presentation, the staff has suggested that small refiners be permitted to purchase a portion of the crude under competitive bidding every six months. What this means is that 'hard-put' small refiners would have to pay the highest price for his crude under sealed bids while the majors, who tie up the balance of the Long Beach crude, would pay the "average posted price" which they fix themselves. This merely accentuates the unfairness of this whole contract.

It also means that, unlike the major refiners, the small refiner cannot have a long range supply of crude in order to plan capital investments and arrange for imports.

If the small refiners are required to bid for crude, then we recommend that all of the crude under Tract Number 1 be put out for bid on an annual basis. In this manner all companies large and small, would be treated alike. Some may argue that the State and City should not take the risk and gamble on the oil market. The City and State are actually assuming all of the risks under a "net profits" arrangement so a little more risk should not matter. The only people who can lose would be the citizens of California.

5. Mr. Chairman, the State Lands Commission has, since
1955, taken the position and adopted a policy of putting up alternate, or every third, parcel in even the most risky wildcat areas. Also, this Commission has limited the size of parcels depending upon their potential productivity. This Commission has always endeavored to cut up parcels in such a manner so as to keep a complete geologic structure of any major size from being acquired by any one company or group. We think this is a prudent policy and strongly recommend that you continue to follow this policy at Long Beach. Your attention is directed to the State Public Resources Code, Section 6871.4, which limits the size of the tideland parcels to 5,760 acres. It reads as follows:

"SIZE OF PARCELS TO BE LEASED:

The Commission may divide the lands within the area proposed to be leased into parcels of convenient size and shape and shall prepare a form of lease or leases therefor embracing not to exceed 5,760 acres in any one lease. (Added by Stats. 1955 ch 1724, 18; amended by Stats 1957 ch 2166, 5.)

The Federal regulations for Federally-owned tidelands are similar.

Why did the Legislature of the State of California and the Federal authorities deem it advisable to limit the size of even wildcat parcels? It is very easy to understand in that they desired to prevent the monopoly of oil fields by any one company or group. It is submitted that the Long Beach tract of land must be divided into several parcels and put out to bid, one at a time, in order to gain the full benefit of free competitive bids.

6. We would also like to call the attention of this Commission to the provisions in the Field Contract Agreement wherein the City of Long Beach and the State of California would pay the Operator 3.75 per cent interest on any advance bonus payments. This is the first time in my experience that a landowner has been required to pay the oil operator interest on the money which the Operator paid the landowner. Here, again, is another
example of how some companies are trying to monopolize this tract by raising the bid price so high it cuts out the competition. The State of California, and certainly the City of Long Beach, ca.
borrow money at much less than 3.75 per cent interest. We think this is against the best interests of the State of California and its citizens. We think this provision should be stricken.

7. It is also our feeling that the money payments set forth in the Field Contract Agreement are bonus payments and should be made payable twenty-five per cent at the time the Operator bids and twenty-five per cent on the anniversary date for the next three succeeding years. We do not think the City Manager of Long Beach should be given the discretion to call or not to call for these moneys. If the City of Long Beach and the State of California are entitled to the money, then they should receive it at a specified time. This will create no hardship on industry members in that it will permit them to arrange their financial payments pursuant to contract.

A question has been raised as to what kind of payments these are. Are they advance royalty payments or are they, in fact, recoverable bonus payments which must be capitalized. If they are advance royalty payments, then they can be written off in the year payment is made. I understand that some competent tax authorities state that these are bonus payments and must be capitalized. If this is the case, it could be disastrous. This is one of the most important and vital points that must be resolved and results made known to all bidders prior to the call for bid. The question of whether or not these payments are expense items or capital items will materially affect the amount of the bid of any company -- regardless of whether or not it be net profit, bonus, royalty, or otherwise.

It is strongly recommended that this Commission instruct
the staff of the State Lands Commission and the Attorney General to secure a ruling from the Internal Revenue Service on final drafts of this proposed contract as to how these and other expenditures are to be treated taxwise. It may be that one or more of the companies involved in the preparation of these contracts may be already secured a ruling from the Internal Revenue Service. If this is the case, I suggest that they come forward and advise the Commission in open hearing as to the results of their findings and furnish the staff with a copy of the ruling. This would save considerable time. If no one has received such a ruling, then one must be received prior to the bidding date.

8. It should be pointed out to the Commission that if Tract Number 1 is permitted to be controlled as one parcel by major domestic refiners, it will vest control in these domestic refiners of the import of foreign oil into the State of California and to the west coast. Why is this the case? It is easily understood since the foreign import quotas are determined by the amount of domestic oil put through domestic refineries. For example: If a company has a refinery with an input of 150,000 barrels of oil a day, it will be permitted to bring in foreign import of 10.5 per cent of the domestic refined input. Therefore if a company, or group of companies, should control this estimated 150,000 barrels a day production from Long Beach, regardless of whether or not they can make a nickel out of it, it will allow these companies to bring in an excess of 15,000 barrels of crude a day to the west coast. This will bring in more cheap oil and ultimately reduce the posted price. It is recommended that the State Lands Commission invite major oil importers to come forward, in public hearing, and explain the import quota and how much they make by virtue of being able to increase their imports...
by gaining control of this Long Beach oil.

9. We understand it is anticipated that the Operators will have to bid on this Long Beach proposal within a very short time after the Commission approves same.

I have not gone into the many questions we have regarding this contract as submitted today. It would take hours to set forth the various and sundry problems that must be resolved before any company can bid on these parcels.

Regardless of what this Commission does today, or sometime in the future, it is strongly recommended that you allow at least two hundred seventy days between the call for bids and the date bids are filed.

It is also recommended that you instruct the staff to hold public hearings on the form of the proposed contract, as you will recall, Mr. Chairman, was done in 1955 on the State lease form . . . .

MR. CRANSTON: That's what we are doing now.

MR. SCOTT: I don't just mean on general principles. I mean what the contract means.

MR. CRANSTON: That's what we are having this hearing for.

MR. SCOTT: I don't think anybody can tell you what the contract means, the way it is written. I would like to have each paragraph and every paragraph explained by the people who wrote it, the City of Long Beach, so everyone knows exactly what the obligations are.

I think the Texas Company letter went to that point very vividly this morning, when it was read into the record, that they don't know what it means. I don't know what it means. It's just a bunch of phrases thrown together.
MR. SCOTT: (Continuing with statement) It is also recommended that you instruct the staff to hold public hearings on the form of the proposed contract in order that all members of the oil industry may make a critique and learn what the contract really says and means.

The present contract is difficult to understand and interpret. A representative of one of the companies involved in the preparation of this contract summed up the contract proposal as follows:

"It is a hodge-podge of ideas to be submitted to the State Lands Commission for approval."

I think no one could possibly describe this contract any better.

Mr. Chairman, in conclusion, we would like to state that we do not wish to oppose a program unless we are able to offer a constructive way of doing it better.

We believe we have several alternatives in mind which could permit the State Lands Commission to put Tract Number 1 and Tract Number 2 out on an equitable, fair and competitive basis, which will permit all companies to participate.

At the same time, it will eliminate any possibility of monopoly or cartel arrangement which would put the control of the oil business into the hands of a few operators and refiners in this State.

These recommendations follow:
(a) It is our recommendation that the State Lands Commission put Tract Number 2 up for bid immediately, using the old
form of lease and either calling for a cash bonus bid with a
fixed royalty formula; or, if the Commission prefers, put up
Tract Number 2 for bid on the basis of a fixed cash bonus payment
and let the operators bid on a royalty basis.

On February 25, 1963, this company formally requested
that Tract Number 2 be leased pursuant to present existing laws;
a copy of our request is hereby introduced as evidence as part
of this presentation. (Letter is as follows, addressed to State
Lands Commission, attention Mr. F. J. Hortig, Executive Officer,
Reference: Request for Call for Bid on California Tidelands
Parcel):

"It is requested that the State Lands Commission call
for bids pursuant to Section 6871.3 of the Public Re-
sources Code of the State of California and other
applicable statutes, laws, and regulations on the fol-
lowing described parcel which is also delineated in
red on the attached map and made a part hereof by
reference:

That certain parcel of land bounded on the northwest
by the southwesterly prolongation of the northwesterly
line of Block 50 of Alamitos Bay Tract, as per map
recorded in Book 5, Page 137, of Maps in the Office
of the County Recorder of said County; on the northeast
by the southwesterly line of said Alamitos Bay Tract
and the southwesterly line of Tract No. 5325, as per
map recorded in Book 58, page 54, of said Map Records;
on the southeast by the southeast boundary line of the
City of Long Beach; and on the southwest by the south-
west boundary line of the City of Long Beach.

Your attention is directed to the language of
Section 6871.3 which reads, in part, as follows:

'... or whenever a person who possesses the qualifica-
tions provided in this chapter makes written request
thereof, the Commission may, subject to the provisions
of Section 6871.4, offer the same for bidding at such
times and in such parcels as the Commission shall
determine to be in the best interests of the State.'

It is further requested that this application be
called to the attention of the State Lands Commission
at its regular meeting in Sacramento on February 28,
and that appropriate action be taken at that time to
authorize a call for bids on such parcel under the only
statutory procedure presently authorized."
Under the present statutes, the State Lands Commission cannot put up Tract Number 2 under the Long Beach formula because it is not permitted by the statutes. However, we think ample language can be written into the lease contract which would require the successful operator to enter into a reasonable and equitable unit agreement with the Long Beach people pursuant to presently existing statutory authority.

We have just reviewed the recently introduced Senate Bill Number 298 which permits the State of California, as Oil Operator, to unitize Tract Number 2 with the tidelands in Long Beach. We are strongly opposed to this bill since it not only permits the unitization of Tract Number 2 with the tidelands in Long Beach, but it socializes the oil business insofar as the California tidelands are concerned and puts it under State ownership and State control. This is against our free enterprise system of government in this nation, and we oppose it completely and absolutely. This bill has also been referred to by some as a "two-page Proposition Four."

(b) It is recommended that the State Lands Commission and the City of Long Beach cut Tract Number 1 into several parcels and put them out for bid, one at a time. This could be done even though the bids are received only two or three hours apart. It would permit reasonable size oil companies to participate in these offshore bids, and at the same time, give the State of California and the City of Long Beach the best possible bids.

It is also recommended that the City of Long Beach and the State of California seriously consider fixing the royalty and/or net profits which they want to secure and let the companies bid on a cash payment, payable over a three-year period with twenty-five per cent of the cash payment accompanying the bid. Cash bidding has been used by the State Lands Commission
for the past seven years and has been eminently successful. One condition of the bid could be that one of the parcels carved out of Tract Number 1 would be designated as Operator-Field Contractor parcel, and the other parcels could be designated as Non-Operating Field Contractor, or the Operator could be chosen by lot upon award of contract on all parcels. We do not envision any delay if you went this way in splitting these parcels, Mr. Chairman. You put them out in one day, but you split them apart so you know how much money you have invested.

I am fully aware of the provision intentionally placed in the City ordinance which was passed by the voters of Long Beach last year requiring the operation to be in a single tract. We believe this problem can be taken care of very easily by a properly drawn document. If it cannot, then the State Lands Commission should, if its sovereignty is subordinate to the City of Long Beach, reject this proposal until it is resubmitted to the voters which would permit more than one company, or more than one group of companies, to participate in Tract Number 1.

It is very interesting to note that this unit area has about ninety parcels on shore that are owned by separate companies and individuals. You also have Tract Number 2 owned by the State of California. This agreement very easily takes care of the unitization of ninety-one parcels. If ninety-one divided interest parcels can be unitized, then we see no reason why you cannot make it one hundred parcels, or one hundred and one, or one hundred and two.

It is imperative that the State permit participation by all operators in the State of California and, at the same time, assure the greatest return to the City and to the State.

(c) In the event the Commission does not want to split these parcels up into separate divided tracts, then it is
suggested that they be split into undivided interests and put out to bid, one interest at a time, two hours apart. We suggest that one interest be for thirty per cent; one interest for twenty per cent; three interests of ten per cent each; and four interests at five per cent each. The contract could designate the company winning the thirty per cent bid as the Operating Field Contractor. All other undivided participants in Tract Number 1 would be designated as Non-Operating Field Contractors. This would permit the smallest to the largest company to participate on an undivided basis, assume their proportionate share of the risk, cost, and expense, and receive their proportionate share of the profits. At the same time, it would permit the City and State to secure the best possible bids. This was anticipated by the City of Long Beach at the time they drew the Field Contractor Agreement since this agreement provides that there may be more than one Field Contractor and only one of them can be the Operator.

It is suggested that the State set the net profits and/or royalties and receive bids on a cash bonus payment, payable over the three-year period with twenty-five per cent down at the time of bid. The bonus payment should be free and clear of any interest charges but would be recoverable, by the successful bidder, out of their proportionate share of their oil in the same way they would recover their proportionate share of the cost in the event it were a net profits bid. Here, again, I see no reason why undivided interest owners should not bid on a net profits formula if the State so desires. The State and City could fix the amount of cash bonus they want and let each bidder bid on a net profit or royalty basis.

(d) It is strongly recommended also that the Commission consider receiving bids where a landowner's free royalty is
fixed, plus a per cent of the net profits, and call for bids on a cash payment basis, as set forth in paragraph (c) above. The State is in dire need of immediate cash and receiving cash bids can generate hundreds of millions of dollars if the parcel is cut up into reasonable sizes.

The State and City might also consider a type of contract that fixes a free landowner's royalty and percentage of net profits and have the companies bid on the cash bonus basis. The bonus would be recovered the same as set forth above; or, if the State and City prefers, they could set the amount of bonus desired and the amount of net profits desired, and let each operator bid on the free royalty, or any combination, under this formula.

Now, I believe Mr. Desmond said just a few minutes ago they might generate a billion dollars here. I never thought it would get that high. I thought you might generate from three hundred fifty to four hundred fifty million dollars. It would probably depend upon the royalty rates. Somebody will tell you this is too much money to hit the industry for in one day. Your attention is directed to the Louisiana sale in the Federal lands last year. I believe forty-eight million dollars were paid in a two-day period. I also believe there was five hundred million dollars in cash returns to the losers. So I don't think you are going to hurt these people if you bring these out on the bonus bid basis. We would certainly like our opportunity to participate, where we can get a portion of this.

In conclusion, Mr. Chairman, we recommend that the State of California reject the proposal as submitted and remand it to the staff of the State Lands Commission and to the City of Long Beach to work out a formula and contract which will permit Tract Number 1 to be divided into numerous parcels where each
operator can have a fair and equitable opportunity to win a bid under a free, competitive situation.

In the event the State of California and the City of Long Beach cannot reach an equitable agreement permitting free, competitive bidding by more than one company or group of companies, then it is recommended that the State Lands Commission refuse to approve any bidding arrangements which would vest title to Tract Number 1 in one operator, or one group of operators, and refer this matter to the State Legislature in order that proper legislation may be passed to accomplish this purpose.

There are many other problems which time does not permit us to discuss completely here and we hope the Commission will go into the following points at a later date:

1. Ad valorem and other taxes;

2. Question of why City of Long Beach should reimburse pre-unit expenses of onshore operators. (We do not know how much this obligation is, but it should be looked into).

3. Advisability of Unit Operator's authority to settle claims up to $250,000 without prior consent;

4. Does the Onshore Operator have a veto of bids on Tract Number 1 by refusing to commit onshore parcels to the Unit; (Now, that point was discussed a little earlier and we have the letters here, I understand, that the operators will commit; but if they haven't signed that Operating Agreement and Unit Agreement at the time they open these bids, how do you know they are going to be signed? I think the time for that signing is before bidding on Tract 1, so that is at least committed.)

5. Legality and advisability of including the Long Beach Oil and Development Company lands in the Unit by consent of Operators rather than through competitive sealed bids when that contract expires next March.
That completes my presentation for the present time,
Mr. Chairman, unless there are any questions.

MR. CRANSTON: Thank you very much. Are there any
questions?

MR. CHAMPION: I have one. Without disputing the
argument, in two or three places you do indicate that there
would be great advantages to a single operator, both in import
position and so on. Do you think that would reflect itself in
the amount of money that came to the State or are the other fac-
tors involved going to reduce that amount?

MR. SCOTT: My objection is based primarily on the
City of Long Beach having one operator.

MR. CHAMPION: But what I am asking: You indicate that
due to price factors, and so on, having one operator would reduce
the amount of money the State would receive -- having just one
operator, or one group of operators.

MR. SCOTT: It has nothing to do with the operation --
it has to do with the price they pay for the crude.

MR. CHAMPION: That is right. Now, you say elsewhere
that there would be great advantages that would come to this
single company or this group of companies because of their import
advantages or other things. Do you think they would pay us a
substantial advantage to have those?

MR. SCOTT: Yes, they might, if they don't have com-
petition; but when you get six million barrels of oil, you would
have eliminated any competition on a reasonable basis and you
would actually get less money, in my opinion. If you cut this
up in smaller portions -- it's like if you've got a ten-thousand-
acre piece, you get so much for it and if you cut it up into ten
lots, you get much more.

MR. CHAMPION: I have one more question. You say we
would discourage exploration and that undoubtedly is true in terms of the winning bidder. Wouldn't that lead other companies to redouble their efforts in order to hold their place in the California market?

MR. SCOTT: Not necessarily. You get one company to come in and other companies come in -- the one company acts as a catalyst; but you wouldn't have the incentive to drill unless you have a solid market.

MR. CHAMPION: One thing I'd like you or Mr. Hortig to comment on and that is the change which took place between the September and December draft, on how to determine the price of oil. What was the reason for that?

MR. SCOTT: It wasn't the price of the oil....

MR. HORTIG: It was to furnish a market.

MR. CHAMPION: Didn't you also make some reference to the change, the difference between buying at the highest price and the average price?

MR. HORTIG: That was not changed.

MR. CHAMPION: That was not changed?

MR. SCOTT: The price is the average posted price.

MR. CHAMPION: That was not changed?

MR. SCOTT: That is not.

MR. CHAMPION: But between our policy and the one offered here there is a difference, and I'd like to know the basis for that difference, too.

MR. SCOTT: Mr. Lingle is probably in the best position to answer both the question of the market price and furnishing the market, and, what is actually the second question, the bases which went into consideration for establishing the method of fixing the price for the oil on the market.

MR. DESMOND: I think he is, too, because of the
statement I made earlier. This was not prepared, despite several comments by Mr. Scott, this was not prepared by a company. There are inconsistencies -- he talks about going to the City and the City is going to do this; at other times he talks about it in a different fashion, as being prepared by the companies. This has been prepared by Mr. Lingle and has not been dictated by any oil company at all.

We have explained fully, including to the company that Mr. Scott represents here today. They have been solicited for advice. We have heard none of these comments previously from Mr. Scott or anyone in that company, except some general talk about a monopoly. If they can't get into it, it is a monopoly -- they don't win.

MR. LINGLE: The question about selling the oil: Mr. Shavelson and I discussed this several times. Rather than have other contracts which have to be approved, in this field contract we have the price schedule in here, and the Field Contractor has to pay us for that oil at that price. Rather than worrying about selling the oil as such and going around and getting the money, the Field Contractor there is obligated to pay us for the oil at the price fixed in the contract.

GOV. ANDERSON: Is that a fixed price or does it vary?

MR. LINGLE: It could vary. One thing I would like to point out -- that this contract also provides that the City and the State are paid on the tenths of gravity; they are not paid on the even gravity method. The differential between the 22 gravity and the 23 gravity, the State and City will receive compensation for.

MR. CHAMPION: The other question is as to the difference in the way in which the price was arrived at.

MR. HORTIG: Your reason for the average price.
MR. LINGLE: Our price is based upon the average posted price and in the event that average posted price is controlled, we would have other averages in the area to look to.

MR. CHAMPION: Why did you not use the other?

MR. LINGLE: Why did we not go to the higher price?

MR. CHAMPION: Yes.

MR. LINGLE: We thought we would limit competition that way. In talking to various companies -- we have other City oil fields which the State is not involved in. These are City uplands. We recently put one of these out and got a very fortunate bid of sixty eight per cent of the net; and in the process of this it was pointed out that certain companies would be reluctant to bid on a contract whereby they had to pay the highest posted price. They wished to pay on the basis of the average posted price, not the higher price.

GOV. ANDERSON: Mr. Lingle, I am somewhat concerned about this monopoly of the market problem, and I was just looking at the discussion Mr. Scott made, I think (c) on page 13, where if we feel that we could not split up the parcels into separate tracts because of the ease of handling the unit that way -- did you consider the possibility of separating it into interests of thirty per cent, twenty per cent, ten per cent, and so on -- which I understand then would mean that it would be operated by the Operating Field Contractor but that the production would be distributed in proportion to shares of the individual share owners? Did you discuss that?

MR. LINGLE: Yes. Mr. Brock and I and other City people have discussed this and considered this. Again, the complexities of coordinating all these things -- frankly, what we were worrying about was the pockets of the City and State and how we could draw the best contract. We did not worry about any particular
oil companies, what would benefit them best. What we wanted was how we could get the most money, administered efficiently by the smallest staff possible.

GOV. ANDERSON: Couldn't you have it administered efficiently by the smallest staff with the ownership separated as suggested there?

MR. LINGLE: I would have to look into this. We considered this, Governor; and frankly, we thought with separate companies, whereby we would have to provide different shipping facilities, and so on, it would cost us more than when it was handled all alike.

GOV. ANDERSON: I think we want to get the most money for the City of Long Beach and the State of California, and efficient handling -- but I think, too, we have to be concerned about the market.

SENATOR O'SULLIVAN: This question is addressed to the Deputy Attorney General. Under this set of agreements, will any ad valorem taxes come to the local districts in Long Beach or anywhere else by reason of the sharing of the profits by the companies that bid on this?

MR. SHAVELSON: Yes. The City of Long Beach has recently enacted an Oil Production License Act. That is one of the things you are referring to. Under that, the portion of the tax equal to the percentage of net profit that will be retained by the bidder will go to the City of Long Beach for general municipal purposes, as presently contemplated. For example, if the bid should be seventy-five per cent, then twenty-five per cent of that tax would end up in the hands of the City. So I think, to answer your question, at least as far as that tax is concerned....

SENATOR O'SULLIVAN: Now, is that tax from the entire
receipts? Is that one of the costs that the State will retain too?

MR. SHAVELSON: No, Senator, that will come completely out of the share of the successful Field Contractor. It will not reduce the money going to the State.

SENATOR O'SULLIVAN: Where do you say that?

MR. SHAVELSON: It is a mathematical matter.

SENATOR O'SULLIVAN: It does say it in there?

MR. SHAVELSON: That is the result. It does say it, yes; but not in so many words.

SENATOR O'SULLIVAN: Will the State of California be paying ad valorem taxes?

MR. SHAVELSON: Only to the extent that the State is sharing, as in any situation where its lessee or contractor has to pay taxes. In other words, this will be a factor which will enter into their consideration in the amount of the bid they are going to make. This is going to be one of their expenses, but there will be no direct revenue that the State will not be sharing otherwise because of those taxes.

MR. CHAMPION: The taxes will then be directed against their net profit.

MR. SHAVELSON: Did I make myself clear on that?

SENATOR O'SULLIVAN: Yes -- well, not too clear, if I can have a written explanation of that?

MR. SHAVELSON: All right.

MR. CRANSTON: Senator Arnold?

SENATOR O'SULLIVAN: I have several more. As I understand it, there will be no ad valorem taxes levied as such, is that correct? Under this set of agreements there will be no ad valorem taxes as such levied.

MR. SHAVELSON: I don't quite understand.
SENATOR O'SULLIVAN: You know what an ad valorem tax is, of course. You have just spoken of the license tax.

MR. SHAVELSON: Yes.

SENATOR O'SULLIVAN: A regular ad valorem tax. The reason that the City had to enact this statute for the license is that they couldn't enact an ad valorem tax.

MR. SHAVELSON: No, this is not on the State's immunity from taxation. This is not a tax on the State at all; it is on the contractor.

SENATOR O'SULLIVAN: The reason Long Beach did this was because under this type of agreement there could be no ad valorem tax collected on the share of oil which a company would get because the company isn't getting a share of oil; isn't that right?

MR. SHAVELSON: That is correct. The company has no interest.

SENATOR O'SULLIVAN: So you answered my question. There are no ad valorem taxes levied under this agreement.

MR. SHAVELSON: As far as the State's interest is concerned.

SENATOR O'SULLIVAN: As far as anybody's interest is concerned, because you have another type of tax substituted by ordinance. Isn't that it?

MR. SHAVELSON: Essentially.

SENATOR O'SULLIVAN: Now, in regard to the contract on land called the Long Beach Oil Development land, can that Long Beach Oil Development land be included in the Unit here without any further consent by any party to the agreement after it is executed?

MR. SHAVELSON: If it should be decided to extend the Unit to include the lands in the area of the Long Beach Harbor
division, there is a provision that requires the consent of
fifty-one per cent of the particular owners to that inclusion;
but in the event there is considered to be a subsidence problem,
then that provision can be waived.

SENATOR O'SULLIVAN: This is a field that has already
been pumped?

MR. SHAVELSON: Yes.

SENATOR O'SULLIVAN: It has been tapped -- they have
taken oil out of it?

MR. SHAVELSON: Yes.

SENATOR O'SULLIVAN: Now, after this Commission ap-
proves this set of agreements and subsequently, assuming they
were executed, at some future date that land which has already
been drained somewhat could be included in the Unit; is that
right?

MR. SHAVELSON: That's correct.

SENATOR O'SULLIVAN: Without any further action by the
State of California?

MR. SHAVELSON: Yes -- well, of course, it is in the
existing -- Did the Senator mean whether it will be included
in this Unit without further action by the State Lands Commis-
sion? The way the agreement is presently written, that would
be true.

SENATOR O'SULLIVAN: Now, that block of oil land has
already been tapped, hasn't it?

MR. SHAVELSON: Yes.

SENATOR O'SULLIVAN: On what basis will it share; or,
if it goes into this Unit, will it be on the same basis as the
other lands that exist there?

MR. SHAVELSON: There is a provision for negotiating
the amount of the tract assignment that will be attributable to
new parcels, whether they be to the east or to the west.

SENATOR O'SULLIVAN: But the State of California, this Commission, will not be a party to those negotiations, will it? Or to this set of agreements?

MR. SHAVELSON: Except to the extent that it will participate in general under Chapter 29, that would be correct.

SENATOR O'SULLIVAN: What would be the control under Chapter 29?

MR. SHAVELSON: Well, to keep track of what the City is doing. This could be changed by a further supplemental agreement to assure that the City did not negotiate the entry of new lands into the unit without the consent of the State Lands Commission; and I think that might be a desirable further agreement.

SENATOR O'SULLIVAN: So under the present agreement, it is a fact that those lands could be included?

MR. SHAVELSON: That is correct.

SENATOR O'SULLIVAN: And if Unit 1, which has never been tapped, or this passionate purple piece here . . . . .

MR. HORTIG: That is Unit 2.

SENATOR O'SULLIVAN ... was included in the Unit, and then this subsequent land that has been partially drained was included on the same basis, the State could lose some interest in the oil, couldn't it?

MR. SHAVELSON: If this area were unitized, no -- If Tract Number 2 came into the Unit later or never came into it?

SENATOR O'SULLIVAN: If it was included in the Unit and then later on you take in this unit that had been already drained, if they didn't have anything to say about the agreement, there is a possibility the State could lose some oil?

MR. SHAVELSON: Yes, that's correct.

SENATOR O'SULLIVAN: And that is under the draft of
agreement that we have here?

MR. SHAVELSON: Yes. There is one thing, Senator --

One of the side agreements that we have proposed is that the City

cannot enter into a further agreement authorized by the Unit

Agreement without consent of the State Lands Commission. Now, I

think that could very likely apply to this situation, but I think

before I make a definite answer in that respect it may be neces-

sary to make it a little more specific in that regard.

SENATOR O'SULLIVAN: Is this an agreement that is not

included here, though?

MR. SHAVELSON: It is in Exhibit A to the item.

SENATOR O'SULLIVAN: This is proposed changes to this

set of agreements?

MR. SHAVELSON: Yes, sir. This is a bilateral under-

standing between the City and the State, to makesure that the

City does not exercise its interests to the detriment of the

State.

SENATOR O'SULLIVAN: May I ask you -- Did you discuss

the advisability of the Unit Operator's authority to settle

claims up to $250,000?

MR. SHAVELSON: Well, that was considered to be a

policy matter.

SENATOR O'SULLIVAN: That is included in the agreement?

MR. SHAVELSON: Yes, it is.

SENATOR O'SULLIVAN: And there is no limitation on who

the claims are against or who the claims are from?

MR. SHAVELSON: That is correct.

SENATOR O'SULLIVAN: Now, earlier I asked some ques-

tions about the onshore operators. I note here a question is

raised, Number 4 at the end of Mr. Scott's statement: "Does the

onshore operator have a veto of bids on Tract 1 by refusing to
commit onshore parcels to the unit." Does he?

MR. SHAVELSON: The agreement would never go into effect, of course, unless sixty per cent of the Town Lot owners consented to it; and if an owner of more than forty per cent, or combination of owners of more than forty per cent, in the Town Lot area should do this, the Unit Agreement and the Field Contractor's Agreement would never go into effect.

SENATOR O'SULLIVAN: Have you been asked by anyone for an opinion as to whether this was true or not?

MR. SHAVELSON: Well, we considered this question very carefully. Of course, if the agreement never went into effect, the owners of the Town Lot would never get any production from their area; and yet, legally, it is required to have Town Lot participation in the Unit -- so this is a difficult problem to avoid.

SENATOR O'SULLIVAN: May I ask this -- I don't want to monopolize all the time here, but I take it that this entire transaction has been taken up and examined by the Trust Section of the Attorney General's Office?

MR. SHAVELSON: Yes, we have consulted with them, and in our opinion to the State Lands Commission that aspect has been gone into in some detail.

SENATOR O'SULLIVAN: Let me ask you: Do you have an opinion as to whether or not the statement here that the letting of this bid under the facts and circumstances of the oil industry may be a monopoly?

MR. SHAVELSON: We have asked the State Lands Division staff to prepare, and they did prepare, a statement as to the percentage of total production from California and from District Five, the producing marketing area in which California is located, and we also inquired as to the factors that went into
those estimates; and, actually, we concluded that it is unknown and unknowable at this point to what extent the successful bidder would have monopolistic control. There are so many imponderables entering into that determination. Whether or not he would acquire monopolistic control is a question -- and even if that control were gained, there would not necessarily be illegality unless it was either improperly acquired or there was an intention to exercise it.

We don't think acquiring it by open competitive bidding would be an improper way to acquire it, and we further believe the fact that the City Manager is going to have such a high degree of control over these operations would certainly militate against any finding that there was any intention to exercise any monopoly.

MR. LINGLE: Could I inject one thing?

MR. CRANSTON: Yes.

MR. LINGLE: If I could have your permission, Senator -- With reference to this expansion east and west, we could not expand east. There is an existing contract with Richfield Oil Company adjacent here and before that contract could be modified, before you could come into the Unit, we would have to come in to the State Lands Commission. Similarly, on the L.B.O.D. parcels to the west of it, the ones that we spoke of that will run out a year from tomorrow, before those contracts could be amended in any way, before we could put them in -- maybe there were some terms to expand this way if you were willing, but the question is the existing contract on this area; and this existing contract would also have to be amended and we are required to come back to the State Lands Commission and get consent before we can do that. I think you agree with me?

MR. SHAVELSON: Yes, I do. I was thinking in terms
of whether or not in an expansion, the State Lands' consent would be required for the expansion of this particular Unit. I think you are correct as far as the inclusion of those.

SENATOR O'SULLIVAN: Yes, but the permission of the Commission having been granted for the first question, the matter being brought before the Commission would be limited to the second question which you bring up, isn't that correct?

MR. SHAVELSON: In a practical sense, since this would involve an amendment of the other fault block agreements, and since they would require the consent of the State Lands Commission, the State Lands Commission could withhold that consent for any policy reason it desired. It wouldn't be limited as to what policy matters were taken into consideration.

MR. CHAMPION: Could it be limited in the restrictions it could place on that with respect to this unitization?

MR. SHAVELSON: You mean the conditions?

MR. CHAMPION: Yes, the conditions.

MR. SHAVELSON: Well, it could just continue to withhold its consent until those conditions were inserted. I think it could require conditions to be put in.

SENATOR ARNOLD: I have a question of Mr. Scott. I believe you heard the discussion on repressuring -- as to whether you could put this in one parcel or more. Do you wish to comment on that?

MR. SCOTT: No, I believe it can be repressured without any trouble. I have never known sixty-five hundred acres or sixty-three hundred to be repressured off one island or one injection well, but I believe it can be -- it would require further hearings and you would have to have competent experts to answer that.

MR. CHAMPION: Mr. Scott, at one point, page 7, your
testimony says: "It is requested that the companies who wrote
this contract explain ...." and Long Beach has taken the position
that companies did not write the contract. What is the basis of
the statement?

MR. SCOTT: Well, to my knowledge several companies
participated in that and if they said they didn't, I would accept
their statement; but to my knowledge many people participated in
the preparation of the Field Contractor's Agreement. They can
answer that better than I.

MR. CHAMPION: Do you accept Mr. Lingle's statement
that he wrote the contract?

MR. SCOTT: From what I heard today, I won't accept it
completely but I just won't belabor the point.

MR. CHAMPION: You won't, however, assert flatly to
the contrary?

MR. SCOTT: No. If we can get involved to where we can
get under oath and under subpenas, maybe we can appear from that
point out.

MR. CHAMPION: I have another question based on Mr.
Scott's testimony and it goes to the City of Long Beach, and
that's this question of the payment of interest. On what deter-
mination was that based -- this 3.75 percentage, as against no
interest at all?

MR. LINGLE: Under Internal Revenue statutes, there are
some ways -- When they pay a bonus such as the State requires,
this usually is required to be capitalized. Another method, which
nobody knows, but if you can get close to the Internal Revenue
Code or the Federal statutes -- which I am not an expert on --
if you can have some of the elements of production payments in
one of those, a production payment is an advance payment and pro-
duction payments will be treated differently, and it will be
treated as though there was a loss. Therefore, we did put the
interest on it.

Now, one thing I want to be clear with Mr. Scott on:
Any time Mr. Scott wants to question me under oath, I am per-
fectly willing. As I said, we have consulted and I have asked
all those that I possibly could for suggestions; and there was a
suggestion that this was a way under which the production pay-
ments could be handled -- whereby there could be benefit to the
State and to the City, so that if these production payments, the
advance payments, could be framed under a certain framework, the
potential bidder could bid a higher figure and thus the State and
the City would be able to reap the benefit of a better tax basis;
and to get the benefits of that tax basis when we are paid we
would have to pay interest on it; and that's why the interest
rate is in it.

MR. CHAMPION: Why was the interest rate set at 3.75?
Presumably, any interest at all could have made this available.

MR. MANSELL: Mr. Champion, I can answer that question.

MR. CRANSTON: John Mansell, the City Manager.

MR. MANSELL: That was the average interest rate we
had been paying on bonds and the average we had on securities on
deposit, so we thought if we had this money to invest over a
period of time it would be a washout. I might say that we need
a million and a half for a new bus company. If Mr. Scott wants
to lend that to us, we will be happy to take it.

SENATOR O'SULLIVAN: Is this 3.75 chargeable to the
interest of the State of California?

MR. SHAVELSON: Yes, it is.

SENATOR O'SULLIVAN: Does anyone know what our inter-

est rate is now that we are paying?

MR. CHAMPION: On bonds?
SENATOR O'SULLIVAN: Any kind of money.

MR. CHAMPION: Well, the last time we sold, our bond cost has been between 3 and 3.2; large amounts of bonds, around 3.2. I think the last hundred million sale was in that area, general obligation bonds.

SENATOR O'SULLIVAN: And we would be paying 3.75 compounded every month under this agreement?

MR. CHAMPION: I think there is a serious question about this.

SENATOR O'SULLIVAN: I don't know what 3.75 compounded monthly would amount to, but it would be substantial to what we are paid.

MR. CRANSTON: If there are no further questions, thank you very much. I assure you all of your remarks will be given the utmost care and attention.

MR. SHAVELSON: Just one more thing before we leave Mr. Scott's statement. I think there is possibly a misunderstanding that has risen that I should mention; and that is the remark on page 11 here that "The State Lands Commission cannot put up Tract Number 2 under the Long Beach formula because it is not permitted by the statutes."

Actually, the purpose of the pending legislation is merely to give the State Lands Commission the alternative, should it choose to exercise it, of putting Tract Number 2 into the Unit as the owner of a working interest without executing a lease.

I believe under present law and as specifically provided in Section 6832 of the Public Resources Code, the State's lessee of Tract Number 2, should it be put out for lease, there is no necessity for further legislation to authorize going into Tract Number 2.
One thing, Senator, if I may get back to my other
correction. That took me sort of unawares -- on the joinder of
these lands. Since on these areas to the extent that they are
tide and submerged lands, already the State is getting fifty
per cent of the revenues, the detriment insofar as the State's
interest in Tract Number 1 wouldn't be significant at all; and
so I presume that you were talking about the detriment to the
State in Tract Number 2.

SENATOR O'SULLIVAN: Yes, 2 =- not Tract 1.

MR. SHAVELSON: I just wanted to get that clear.

MR. CRANSTON: Do you wish to appear now?

MR. CLARK: Please. Gentlemen, it is late and I will
try to be brief. I am Durland Clark, Shell Oil Company, Los
Angeles. Our views on the proposed contracts, briefly stated,
fall into three general headings: Operations, State of Cali-
ifornia interest, and the industry at large.

Now, for the operations: These contracts adequately
cover the operating requirement for producing a known oil reserve
by well-known production techniques understood by any competent
operator. The size of the undertaking should not be equated to
any inherent difficulty of accomplishment. The contract lan-
guage relating to operations is well known to us and the scriven-
ers demonstrate considerable familiarity with oil and gas opera-
tions. The observed omissions are generally most favorable to
the industry.

Now, as to the State: These comments are directed to
the interest of the State of California in adopting the proposed
contracts. You appreciate that under a net profits format the
items covered under this heading are of only indirect concern to
an operator who merely charges them off against the value of
produced oil. They can, however, be of substantial monetary
Now, as to Federal tax -- The Proposed field contract provides that the so-called production payments constitute instalments which must be paid by the contractor in all events and cannot be avoided. This will require the contractor to advance approximately $51,000,000 to the City over the first three years.

The Internal Revenue Service has informally advised us and others that as now drawn these payments constitute a bonus. However, a comparison of projected profitabilities based on Federal income tax consequences to the Field Contract, that is, advance payments treated (1) as a bonus or (2) as a bona fide production payment, clearly demonstrates that a substantial monetary difference exists in favor of a true production payment approach. This difference arises from the Federal income tax treatment of the income received by the Field Contractor and is in the magnitude of two digit millions of dollars over the thirty-five-year life of the contract. A higher percentage bid to the City would result if the contract was recast to reflect both intent and actual creation of a production payment.

2. Ad valorem or property taxes: In considering the influence of property taxes it had been indicated to us by the Los Angeles County Assessor's Office that an assessment might be made against undeveloped oil reserves. The Los Angeles County Assessor held a conference with representatives of the oil industry on February 20, presumably to discuss this possibility. Actually, the specific question was never answered, as an issue of much greater significance developed.

The Assessor indicated that he is now giving consideration under the De Luz Homes case to assessing the entire one hundred per cent interest in the tidelands property rather than
only the net profits interest of the contractor. The De Luz case -- now that is in the California Supreme Court 1955, confirmed in 1959 by the Supreme Court in Texas Company versus County of Los Angeles -- the De Luz case held that in determining full cash value of a lease for property tax purposes by the capitalization of income method, the rent specified in the lease could not be deducted from gross income from the property. It is the Assessor's view that there is no difference between rental and the retained interest of the City; therefore, no deduction should be made from gross income with respect to the governmental interest.

If assessments are to be made against undeveloped oil reserves and would be applicable to the full cash value of future net operating income, then the impact of property taxes would substantially increase the cash expenditures of the contractor and the time of his payout. Consequently, the return to the City and State would be appreciably reduced, since under the field contract taxes are a chargeable expense.

We estimate that on a recovery of only 800 million barrels of oil in a 35-year period at a per barrel rate of 20 cents, which appears to be the current minimum rate of tax in the Wilmington Field, the property taxes would total $160,000,000. This is a substantial diversion of income from the State and the tidelands trust fund to local governmental jurisdictions. Anyone urging a contrary view should, of course, be prepared to indemnify the City and State against this contingency in writing.

Now, Industry at Large: Without attempting to categorize the following comments, we list a number of observations resulting from the contract format.

1. The successful bidder must advance $51,000,000 over the first three years as an absolute obligation even in the face
of litigation striking at the very validity of the field contract. This is an open invitation to specious law suits by taxpayers -- essentially blackmail in nature. One needs but a cursory glance at the considerable history of Long Beach tidelands litigation to conclude that our concern is hardly illusory. This inflexible demand for advances suggests motives for employment of such funds foreign to the subject at hand and is a cynical disregard of common business practice, where the seller is presumed to produce the thing bargained for as consideration for payment. Clearly these payments should be impounded in the event litigation arises. Failure to so provide will reduce bid offers by some measurable degree dependent upon the risk assessment of the individual bidder.

2. The contract contains three elements providing for its own nullification.

First, we refer to the requirement of the commitment of sixty per cent or more of the Town Lot tracts to the Unit for it to become effective. We must have the advance written assurance from those companies holding Town Lot leases that they will commit their lands to the Unit irrespective of whether any one or more of them qualifies as a successful bidder. Otherwise, they hold an absolute veto power on legitimate bidders, a matter we must assume escaped the attention of the drafters of this provision.

Secondly, we have serious reservations as to the provisions in Article 16 of the Unit Agreement relating to relief from unit obligations. As applied to the City, we question whether these provisions may not involve a violation of the prohibition against alienation contained in the trust under which its tide and submerged lands are held.

Lastly, what of the rule against perpetuities, which in effect directs that twenty-one years shall be the maximum permissible period for the vesting of future property rights? The
option rights contained in the Unit Agreement (whereby continuing participants may elect to acquire the working interest of a withdrawing participant) must become suspect under the perpetuities rule, since there is no express limitation on the period within which such options become exercisable.

3. We are opposed to such provisions of Article 6.3 of the Unit Agreement as provide for the addition of public lands to the Unit by resolution of the City Council of the City of Long Beach. Such a procedure is in reality an amendment of the term of existing contracts covering lands that would otherwise be subject to future competitive bidding and substitutes the "closed negotiation process for the independent bidding evaluation of the entire industry. If clause, if left unchanged, could deprive the City and State of substantial future income and favors certain operators over others. Again, the drafters of these papers must be presumed to have overlooked this potential windfall.

4. The crude oil pricing provisions are most interesting. Unlike competitive State of California oil and gas leases, the price of crude oil is tied to the average of posted prices rather than the highest posted price. This usually results in the State receiving less for its oil and has an unusual side effect. Consider the case of the three companies presently posting prices in the Wilmington Field. Could all or any two safely become joint bidders without incurring the accusation of price collusion irrespective of whether the prices posted by them are identical or dissimilar? Further, does not a similar risk attach to any Field Contractor who attempts to post prices in the Wilmington Field?

5. Time permits just the briefest mention of certain collateral effects growing out of the contracts. The situation
at hand is far removed from the casual offering of a relatively small piece of land under competitive conditions. You are being asked to place under development the largest uncommitted oil reserve in the world. The development of this reserve will trigger a series of complex events which will have regional, national and international force. This stems from the economic power that will result from the acquisition of a one and one-half billion barrel reserve in a single parcel by a single operator or even a combination thereof.

The problem that concerns us is the anti-trust implications of this offering in a single contract. We agree that the proposal before us differs markedly from the usual private transactions which are so subject to attack by the Department of Justice in that here the City and State by their own actions are making an offer to the industry. The aspect of this that is so bothersome is whether or not the City and State make this decision independently.

If this cannot be demonstrated, we have no assurance that the offered contract will not be the subject of immediate anti-trust investigation by the Department of Justice or even the State itself. We should note that demands for such an investigation could emanate from this or any of forty-nine other jurisdictions far beyond the control of forces within this State. It seems to us almost elementary that this Commission, after full investigation, must make a finding to the effect that the ultimate format will encourage maximum participation in a free and open bidding competition, thereby minimizing any suggestion that it is designed to effect a concentration of economic power.

To avoid any aspect of the above problem, to offer wider participation to the industry in the offered oil reserve and to afford the City and State the opportunity for greater
return, we strongly recommend that the offshore tract be subdivided into several parcels. Such an approach was recommended by the Harbor Department of the City of Long Beach and appears to have been endorsed by your own staff. This in no way would interfere with the unit plan of operation, as such offerings could be made fully subject thereto.

We further recommend that prior to any offering, the so-called pre-unit expense agreement, which Article 9.1 of the Unit Operating Agreement describes as an agreement between the City and certain unidentified working interest owners, be made public. This is one of the most unusual provisions we have ever encountered for it clearly implies that prior private investments offering economic advantage in this bidding situation are to be charged against the efforts of the successful bidder with consequent reimbursement out of public funds. Even if this almost ludicrous provision is allowed to remain, the State and all potential bidders should be fully informed as to the extent to which their own efforts and public funds are being committed to reimbursement of private risk. This provision suggests a pork barrel of potentially significant proportions and distorts the equality of opportunity that is inherent in a truly competitive offering.

In summary, we can state our opinion as to the contracts very briefly: First, we find them acceptable as to operating features. Secondly, we find them unpalatable as to a number of features related to equality of bidding opportunity and exposure to excessive legal risks. And, finally, while actually not of direct concern to us, we would suggest that this Commission must necessarily consider whether the present posture of the proposed offering is such as to reasonably assure the maximum economic return to the State.
We will make no decision as to whether we will even offer a bid until we have had a chance to evaluate further action by the State Lands Commission. We can say without any equivocation that the contract in its present form prevents our offering the maximum bid that we might otherwise make.

We urge the Commission to hold further hearings on the contracts with a view toward offering these lands on a more advantageous basis to all concerned. Once this is accomplished, we would expect to be a highly competitive bidder for the operating contract.

MR. CRANSTON: Thank you very much.

MR. CHAMPION: Are copies of this statement going to be available?

MR. CLARK: They will be. I don't have any now.

GOV. ANDERSON: I take it from your opening remark that if any contracts are entered into, the upland areas, or sixty per cent, should be signed up, so they couldn't hold it up?

MR. CLARK: Yes.

GOV. ANDERSON: I think it was reported earlier that one operator had fifty-three per cent, so that one operator could hold everything up.

MR. CLARK: That's right. There is an absolute veto.

MR. SHAVELSON: I might point out that the obligation of the successful bidder would not arise until the Unit Agreement became effective, because the Contractor Agreement does not become effective until the Unit Agreement becomes effective -- in case anybody has the idea that the successful bidder would be compelled to make production payments even while someone was holding up the agreement.

MR. CLARK: That's our least concern. We are exposed to all sorts of things. I think this is absolutely terrible --
to launch a contract which could only work at the choice of
certain people that are also competitive bidders.

MR. CHAMPION: May I ask, Mr. Shavelson, at what
point do you interpret this agreement -- or was there any point
that these agreements would be in writing, or was it your under-
standing there would not be any agreement until bids had been
made?

MR. SHAVELSON: It is my understanding that until the
Unit Agreements had been approved by the Lands Commission, there
would be no attempt to execute them.

MR. CHAMPION: Would you offer for bid before that
point? At what point would you insist on the commitment and
what relation would that have to this problem?

MR. SHAVELSON: The way the agreement is drawn up,
there is no necessity of the Unit Agreements being effective
before the date of offering. Now, as to exactly what has been
contemplated by the parties, I do not know.

MR. CHAMPION: Would there be any bar to any
commitments?

MR. SHAVELSON: No.

MR. CRANSTON: Any other questions at this time? (No
response) We would all like a copy of your comments. We would
deeply appreciate it. I assure you we will give your statement
most careful consideration.

I believe there is one more person here who wished to
testify. (No response)

I think that we will at this time take this matter
under advisement. I remind you that there are other matters
pending on our calendar.

MR. HORTIG: Mr. Chairman, may I note for the record
another telegram addressed to Alan Cranston, State Lands
"Jade Oil and Gas Co. is prepared to execute the unit operating agreement and all other agreements immediately after approval by the State Lands Commission.

Delays in approval of this unit will automatically cause a loss of income to my company, my royalty owners, the City of Long Beach, and the State of California. The unit is presently being drained by off-set operators and we feel it is imperative that action be taken to approve this unit as soon as possible.

Jade Oil Co., a small independent, chartered in California in 1908, attended all unit agreement meetings and I can assure the State Land Commission that the final conclusions to these agreements were accepted as the best possible measures to operate efficiently in this Wilmington pool.

Jade Oil Co. owns more than 800 leases in the onshore unit comprising of approximately 150 acres. We feel that the present plans to unitize the offshore and onshore units into one unit is the only logical method to properly develop this reservoir. I feel sure that the other owners of the onshore leases will agree that this unit should be one large, properly-developed unit.

I understand that there are other disinterested companies who, through their lack of ability were unable to secure onshore leases when the opportunity to secure them was available. It is my understanding that these companies want to divide the offshore into several parcels. It is my firm conviction that to be included in the unit of an incompetent operator if the offshore is divided and if so, not only is Jade Oil Co. affected, but so are my royalty owners.

We sincerely hope that the State Land Commission uses its best judgment and requires that the Wilmington unit remain as one big major unit, properly drilled, properly engineered and one which will earn the State of California and other interested parties maximum recovery at a minimum of cost, which is vitally essential to all of us.

Johnny Mitchell, President
Jade Oil and Gas Co.

MR. CRANSTON: (To Senators and Assemblymen present)
We will be in touch with each of you and thank you very much.

(End of Long Beach Wilmington Oil Field item)