TRANSCRIPT OF MEETING of STATE LANDS COMMISSION SACRAMENTO, CALIFORNIA March 28, 1963

PARTICIPANTS:

THE COMMISSION:
Honorable Alan Cranston, Controller, Chairman
*Honorable Glenn M. Anderson, Lieutenant Governor
Honorable Hale Champion, Director of Finance

(Present at morning session only)
Mr. F. J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL:
Mr. Jay L. Shavelson, Deputy Attorney General

(This typewritten portion of the proceedings covers matters other than Item 19 -- 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. Item 19 has been reproduced on stencils and is in mimeographed form)
<table>
<thead>
<tr>
<th>ITEM CLASSIFICATION</th>
<th>ITEM ON PAGE OF</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Call to order</td>
<td></td>
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</tr>
<tr>
<td>2. Confirmation of minutes meeting of Jan. 24, 1963</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 PERMITS, EASEMENTS, RIGHTS-OF-WAY, NO FEE</td>
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</tr>
<tr>
<td>(a) Div. of San Francisco Bay Toll Crossings</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>4 PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE</td>
<td></td>
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</tr>
<tr>
<td>(a) William &amp; Edith Daley</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>(b) George W. Ladd</td>
<td>4</td>
<td>3</td>
</tr>
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<td>(c) Rancho Palos Verdes Corp. and Capital Company</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>(d) Trigood Oil Company</td>
<td>12</td>
<td>5</td>
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<tr>
<td>(e) Pacific Gas &amp; Elec. Co.</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>(f) Standard Oil and Shell Oil</td>
<td>7</td>
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<td>(g) Standard Oil of Calif. Western Operations Inc.</td>
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<tr>
<td>(h) Texaco Inc.</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>(i) Richfield Oil Corp.</td>
<td>11</td>
<td>13</td>
</tr>
<tr>
<td>(j) Richfield Oil Corp.</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>MOTION ON CLASSIFICATION 4 except (i)</td>
<td>-------</td>
<td>4</td>
</tr>
<tr>
<td>5 CITY OF LONG BEACH</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Add'n No. 9 Pier A</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>6 Authorization for issuance of supplemental patent Michael Kimerer, 20 ac. school lands El Dorado County</td>
<td>16</td>
<td>18</td>
</tr>
</tbody>
</table>

continued
<table>
<thead>
<tr>
<th>ITEM CLASSIFICATION</th>
<th>ITEM ON CALENDAR</th>
<th>PAGE OF CALENDAR</th>
<th>PAGE OF TRANSCRIPT</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Approval revised description Parcel 13, Santa Barb. Co.</td>
<td>15</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>8 Authorization to offer proposed oil &amp; gas lease Orange County Parcel 14</td>
<td>14</td>
<td>21</td>
<td>5</td>
</tr>
<tr>
<td>9 Confirmation transactions of Executive Officer: Calif., Dept. Fish &amp; Game Shell Oil Co. Standard Oil Co., of Calif. Texaco Inc.</td>
<td>3</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>10 Informative only: (a) Major Litigation Motion on Number 7 under litigation</td>
<td>17</td>
<td>26</td>
<td>6</td>
</tr>
<tr>
<td>(b) Report on legislation</td>
<td>18</td>
<td>29</td>
<td>7</td>
</tr>
<tr>
<td>11 Further review contracts Long Beach Unit, Wilmington Oil Field</td>
<td>19</td>
<td>34</td>
<td>Pages 1 thru 122, mimeographed form</td>
</tr>
<tr>
<td>12 Next meeting</td>
<td></td>
<td></td>
<td>8</td>
</tr>
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<td>ITEM ON CALENDAR</td>
<td>PAGE OF CALENDAR</td>
<td>PAGE OF TRANSCRIPT</td>
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<td>7</td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>34</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

**INDEX**
(In accordance with calendar items)

*Pages 1-122 incl. in mimeographed form*

Next meeting

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MR. CRANSTON: The meeting will please come to order. First item is confirmation of the minutes of meeting of January 24, 1963.

GOV. ANDERSON: Move.

MR. CHAMPION: Second.

MR. CRANSTON: Approval moved, seconded, so ordered. Is there anyone here on any item other than the Long Beach Wilmington Oil matter, which they would like heard briefly before we take that up? We will take that up first, so the many people attending in connection with that matter do not have to sit through the rest of the calendar. (No response) If there is no other matter before us, we will not proceed in the normal manner, but will proceed to take up the oil matter.

(Item 19 -- Unit Agreement, Unit Operating Agreement, Exhibits, and Field Contractor Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County -- L.B.W.0.10,155 -- was then taken up by the Commission and the proceedings in connection therewith have been reproduced in mimeographed form)

*****

MR. CRANSTON: If that completes this item on the agenda (referring to Item 19, above) we will now revert to the regular agenda.

Item 3 -- Permits, easements, and rights-of-way
to be granted to public and other agencies at no fee, 
pursuant to statute:

Applicant (a) -- Division of San Francisco Bay 
Toll Crossings -- Right-of-way over submerged lands of San 
Francisco By, San Mateo and Alameda counties, for widening of 
bridge, in accordance with map entitled "San Mateo-Hayward 
Bridge" numbered M-5001-1; replacing Easement P.R.C.1829.9.

MR. CHAMPION: Is this the agreement that was 
reached on this esthetic problem?

MR. HORTIG: No. The esthetic problem related to 
a power transmission line that paralleled this. This is an 
easement for a new crossing to be built by the Division of 
San Francisco Bay Toll Crossings, paralleling the existing.

MR. CRANSTON: Approval is moved, seconded, and 
without objection, so ordered.

Item Classification 4 -- Permits, easements, leases, 
and rights-of-way pursuant to statutes and established rental 
policies of the Commission:

Applicant (a) William Daley and Edith Daley -- 
10-year lease, Lot 17, Fish Canyon Cabin Site, Los Angeles 
County, annual rental $65;

Applicant (b) George W. Ladd -- one-year renewal 
of Lease P.R.C. 400.1, 2.34 acres submerged lands of San 
Joaquin River, San Joaquin County, for floating boat sheds 
and marine ways, total rental $280.80;

(c) Rancho Palos Verdes Corporation and Capital
Company, tenants in common -- Assignment to Palos Verdes Properties, a partnership composed of Rancho Palos Verdes Corporation, and Capital Company, of Lease P.R.C. 322.1, covering tide and submerged lands of Portuguese Bend, Los Angeles County;

Item (d) Trigood Oil Company -- Assignment to American Metal Climax, Inc. of interest in Oil and Gas Lease P.R.C. 145.1, Rincon Oil Field, Ventura County, covering oil and gas zones below a depth of 5500 feet underlying lands described in Exhibit A;

Item (e) Pacific Gas and Electric Company -- Permit to dredge approximately 2,360 cubic yards fill material from submerged lands of San Joaquin River, adjacent to P.G.& E.'s Antioch Power Plant, Contra Costa County, for purpose of creating a water-intake channel, at royalty of three cents per cubic yard;

Item (f) Standard Oil Company of California and Shell Oil Company -- Deferment through October 13, 1963, of drilling requirements, Oil and Gas Lease P.R.C. 2198.1, 3840 acres tide and submerged lands offshore Santa Barbara County -- to permit further review and evaluation of geological and geophysical data;

Item (g) Standard Oil Company of California, Western Operations, Inc. -- Deferment through Oct. 4, 1963 of drilling requirements, Oil and Gas Lease F.R.C. 2199.1, 3840 acres tide and submerged lands offshore Santa Barbara County;
(h) Texaco Inc. -- Deferment through October 2, 1963 of drilling requirements, Oil and Gas Lease P.R.C. 2206.1, 3840 acres tide and submerged lands offshore Santa Barbara County;

(i) Richfield Oil ....

MR. HORTIG: Mr. Chairman, as to item (i), the applicant has requested that consideration of this item be deferred and the staff so recommends.

MR. CRANSTON: Item (i) will go over.

Item (j) Richfield Oil Corporation -- Amendment of legal description of Easement P.R.C. 2932.1, 11.685 acres tide and submerged lands, Santa Barbara Channel, Santa Barbara County, to conform with position of pipeline as installed.

MR. CHAMPION: Moved.

MR. CRANSTON: Approval is moved on all items except (i), seconded, and so ordered.

Item 5 -- City of Long Beach -- Approvals required pursuant to Chapter 29/56, lst: E.S. Project (a) Addition No. 9, Pier A, Berths 6 and 7, Remedial Work (1st phase) -- Estimated subproject expenditure from March 29, 1963 to termination of $70,000, 100% estimated as subsidence costs.

MR. CHAMPION: Move approval.

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

Item 6 -- Authorization for Executive Officer to
proceed with issuance of a supplemental patent, in the name of the original applicant, Michael Kimerer, subject to reservation of all minerals, for purpose of perfecting title to twenty acres school lands, El Dorado County.

MR. CHAMPION: Move approval.

MR. CRANSTON: Approval is moved, seconded, so ordered.

ITEM 7 -- Approval of revised description for Parcel 13 proposed oil and gas lease, Santa Barbara County, increasing parcel from 500 to 505.36 acres.

MR. HORTIG: Mr. Chairman, explanation is in order that by approval of the revised description the Commission will authorize a legal description for lease offer which will conform with the legal description that has already been published.

MR. CHAMPION: Moved.

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

Item 8 -- Authorization for Executive Officer to offer proposed oil and gas lease, Orange County -- Parcel 14.

MR. HORTIG: This, Mr. Chairman, will be the first in the sequence of lease offering series of parcels approved by the Commission for offer in Orange County.

MR. CHAMPION: Move approval.

MR. CRANSTON: Approval is moved and seconded, so ordered.
MR. CRANSTON: Item 9 -- 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.

MR. CRANSTON: Confirmation is moved, seconded, so ordered.

Item 10 -- Informative only, no Commission action required. (a) Report on status of major litigation.

MR. HORTIG: Mr. Chairman, in addition to the written report on the status of major litigation, I must report to the Commission that on March 14, 1963 the United States Solicitor General requested the Supreme Court to determine the location along the California coast of a three-mile limit, which the United States contends divides California and United States jurisdiction over lands offshore of the mainland. The request from the Supreme Court is in the form of a motion for leave to file supplemental complaint on original complaint.

MR. CRANSTON: Section 6210 of the Public Resources Code of the State of California provides: "The Commission shall represent the State in all contests between it and the United States in relation to public lands."

Therefore, in consideration of the action undertaken by the United States Solicitor General, I wish to have it recorded that it is the intent of the State Lands Commission...
to proceed fully with the defense of the interests of the State in accordance with its statutory authority. The Executive Officer is authorized and directed to undertake full implementation of this defense of California's interests.

Would you like a motion to that effect?

MR. SHAVELSON: Yes, Mr. Chairman. That might be a good thought.

MR. CHAMPION: I will move this.

MR. CRANSTON: Mr. Champion moves to the effect of what I have just stated and I second the motion, and it is so ordered.

MR. SHAVELSON: Before final budgetary arrangements are made for this defense, there are possible certain minor expenditures and the Attorney General's Office is fresh out of money, and we are going to solicit cooperation from the State Lands Commission in that regard concerning retaining our services in this case.

MR. CHAMPION: My guess is that the State Lands Commission will immediately say it is fresh out of money and refer it to the Department of Finance. We will be glad to take it under consideration.

MR. CRANSTON: Anything else on litigation or legislation?

MR. HORTIG: No.

MR. CRANSTON: Item 19 -- We have done that already.
Confirmation of date, time and place of next meeting -- It will be Thursday, April 25, 1963, 10:00 a.m. in Sacramento, and possibly run again in the afternoon.

If there is nothing further, we stand recessed.

ADJOINED 2:48 P.M.

**********
CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing eight pages, together with pages one through one hundred-twenty-two covering Item 19 (which have been reproduced separately on stencils and placed in mimeographed form), are 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 March 28, 1963.


[Signature]

LOUISE H. LILLICO
STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA
March 28, 1963

CALENDAR ITEM 19
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

MR. CRANSTON: If there is no other matter before us, we will not proceed in the normal manner, but will proceed to take up the oil matter. Frank, do you have anything to say to start it? I believe you have certain matters that have been given to you to be read into the record.

MR. HORTIG: Yes, Mr. Chairman. If I might suggest that I read the prepared agenda item, which I believe would be the most expeditious presentation of a summary of the status of the matter being heard by this Commission, and then present the data which have been submitted for reading into the record, this would then set the entire scene for the further discussion and amplification which both the City of Long Beach and probably industry desire to present to the Commission for the record.

With approval of that program, I will proceed to read:

At the State Lands Commission meeting of February 28, 1963, the documents relating to the Long Beach Unit of the Wilmington Oil Field were considered. Several requests for related technical and legal information were made by the Chairman of the Special Subcommittee of the Senate Research Committee, and Senator Dolwig, who were present at the meeting.

In answer to these specific requests, the staff has submitted the following information to Senator Virgil O'Sullivan, Chairman of the Special Subcommittee of the Senate Research Committee, on the dates noted:

1. A complete history and royalty analysis of State Oil and Gas Lease P.R.C. 186.1. Forwarded March 18, 1963.

2. A legal memorandum prepared by the Office of the Attorney General dated March 22, 1963, relative to ad valorem tax consequences of the proposed Field Contractor Agreement,
Long Beach Unit. Forwarded March 25, 1963.

The following information was furnished Senator Richard J. Dolwig on the dates noted:


2. A review of the revenues and expenditures related to the City of Long Beach Tidelands Trust operations for the period February 1, 1956 through December 31, 1962, including estimated costs for future projects. Forwarded March 25, 1963.

At the meeting of February 28, 1963, Mr. D. E. Clark, representing Shell Oil Company, apprised the Commission of his company's opposition to, or questioning of, certain provisions of the Unit Agreement as follows:

A. It is their belief that Article 6.3, which provides for additions of public lands to the Unit by resolution of the City Council of the City of Long Beach could deprive the City and the State of substantial future income and would favor certain operators over others.

In reply to the above contention, the Office of the Attorney General has issued a memorandum to the State Lands Commission dated March 22, 1963, wherein they state:

"It is our opinion that under the present proposals, the State Lands Commission would retain the power to approve the terms of any such agreement for the joinder of additional public lands in the Unit, and thus to prevent their inclusion upon terms unfavorable to the State. This would be true regardless of any finding by the City Council as to subsidence danger."

B. The question of the legality of Article 16 of the Unit Agreement relating to relief of Unit obligations and surrender of Working Interests, in two respects:

1. As applied to the City, Mr. Clark questioned whether these provisions might not involve a violation of the prohibition against alienation contained in the legislative grants.

2. Mr. Clark also questioned the validity of the option right contained in Article 16 (whereby continuing participants may elect to acquire the interest of a withdrawing participant) under the rule against perpetuities.

In answer to the above question, the Office of the Attorney General by memorandum dated March 22, 1963, states that (quoting in part):

"It is our opinion that Article 16 may not be construed so as to allow the City to convey any interest in Tract No. 1 in violation of trust conditions."
and also that:

"It is our opinion that the 'option provision' in Section 16.1 does not violate the rule against perpetuities, although it may be operable for a period in excess of a life in being plus twenty-one years."

Discussions at the meeting of February 28, 1963, which followed a presentation made by Mr. L. E. Scott, representing Pauley Petroleum, regarding monopolistic control of California production if Tract No. 1 is committed to contract in one parcel, have warranted further review. Accordingly, representatives from the Office of the Attorney General, the City of Long Beach, and the State Lands Commission conferred with the Chief of the Los Angeles office of the Anti-Trust Division, United States Department of Justice, to explain the essential factors relative to the proposed Long Beach Unit contracts. Subsequently, the Executive Officer invited the Chief of the Los Angeles Anti-Trust Division to attend the March 28, 1963 State Lands Commission meeting (this meeting today) to present his comments and suggestions. However, the Assistant Attorney General, Anti-Trust Division, U.S. Department of Justice, Washington, D.C., has by letters submitted comments and procedures which the staff suggests be read into the record, since these are considered to be of mutual interest to those in attendance.

Further staff reviews of the pertinent factors contained in the Unit documentation and reviews with industry of the primary issues are continuing.

MR. HORTIG continuing: I should bring to the attention of the Commission at this point (and copies are attached as the last page of your supplemental Long Beach agenda item) the pendency of Senate Resolution Number 100 by Senators O'Sullivan, Arnold, Murdy, and Teale, in which it is proposed that the Senate resolve:

"That the State Lands Commission be requested to withhold its determinations with respect to all of the documents relating to a bid offering by the City of Long Beach for the extraction of oil, gas and hydrocarbons from the East Wilmington Oilfield; and, further,

That the State Lands Commission be encouraged to continue public hearings and reviews by its staff relating to such existing or proposed documents, recognizing the value of such hearings and review to insure maximum participation by all those who may be concerned and who may aid in a final determination of the most appropriate approach for such extraction which will be to the maximum equitable benefit to the State, the City of Long Beach and the industry; and, further,

That the Senate Rules Committee assign this resolution for study to the General Research Committee of the Senate, directing such committee to make a thorough physical, legal and economic appraisal of the proposed oil, gas and hydrocarbon
"extractions, as expeditiously as possible, and to report its recommendations thereon to the Senate at this session of the Legislature."

MR. HORTIG continuing: Returning to the subject matter of the letter from the Anti-Trust Division, copy of which is attached to the Commissioners' calendars following the last page of "Memorandum on Attorney General's Opinion":

UNITED STATES DEPARTMENT OF JUSTICE
WASHINGTON, D.C.

March 19, 1963

Mr. F. J. Hortig, Executive Officer
State Lands Commission
State Lands Division
State of California
State Building
Los Angeles 12, California

Dear Mr. Hortig:

This is in reply to your letter of March 15, 1963 to Stanley E. Disney, Chief of the Los Angeles Office of the Antitrust Division, which invites comments by the Antitrust Division concerning the proposed lease of certain reserves in the Wilmington oil field by the City of Long Beach and the State of California.

I understand that Messrs. Disney and Somerville have discussed this proposed lease with representatives of your office and that during said conference two matters were raised. First, can the Antitrust Division state whether there is any present or future danger that the operation of the lease in accordance with its terms, by the successful bidders, may involve any violation of the antitrust laws, and second, can any provision be made to insure that some part of the crude oil produced from the reserve is made available for purchase by small companies who are not parties to the lease.

With reference to the first problem, the Antitrust Division has announced publicly a policy of studying proposed plans of operation which are submitted to it, and of announcing whether it considered such plans to be legal or illegal within the framework of the antitrust laws and further of obligating itself, if later developments after the plan has gone into operation make it appear that it is illegal, to challenge this legality solely by civil process. The procedure for seeking such a determination by the Antitrust Division is outlined in a bulletin of the Department of Justice, a copy of which is enclosed. *

The second problem, namely that of providing some part of the crude for smaller companies, is completely independent from the first problem and a solution to the one problem does not automatically solve the other. If a reasonable

*Reproduced on Pages 4-A and 4-B following
DEPARTMENT OF JUSTICE
November 1, 1962

THE ANTITRUST CLEARANCE AND RELEASE PROCEDURE

The Department of Justice is not authorized to give advisory opinions to private parties. However, it has a program which has been in operation for a number of years, that permits the submission of certain matters to the Antitrust Division for "release" or "clearance" letters. It is desirable that this procedure be fully understood in order that both its availability and advantages, and its limitations, may be known by those who are concerned with antitrust problems. This is accordingly a statement of the program for the guidance of those who may wish to take advantage of it and of the staff engaged in its operation.

Antitrust "release" letters permit an advance review of business plans for proposed operations to ascertain whether they involve risk of criminal prosecution if adopted. There is no requirement that such plans or proposed operations be submitted to the Department of Justice and any such submission is a purely voluntary undertaking to secure the advantage of an advance review. The procedure involved is relatively simple and informal. The elements of the procedure are these:

1. A request for a release or clearance letter must be submitted in writing to the Department of Justice.

2. The submission must contain a full disclosure regarding a specific business proposal. If additional facts or data concerning the proposal are sought by the Antitrust Division, the information sought must be supplied upon request.

3. The submission must relate to a plan or program that is purely prospective and not operative. No consideration will be given to a request for an expression as to operations which are being conducted at the time.

4. The facts and plans disclosed must affirmatively show that the plan and the proposed operations will be fully consistent with the antitrust laws.

5. In the event of such a submission and showing, a release letter will be issued waiving the Government's right to institute criminal proceedings against the parties involved based upon their putting into effect the plan or proposal submitted.

6. In the event of a submission which does not affirmatively show that the plan and proposed operations will be fully consistent with the antitrust laws, the Government may refuse to take a position or make any comment upon the proposal; or the Government may advise the parties that the proposal appears to be contrary to the antitrust laws, if that is the case.

7. The Government in any event reserves the right to institute civil proceedings if it appears that the legality of the activities or program in question should be tested.

8. If the plan in actual operation or the activities engaged in go beyond the statements set forth in the submission made to the Department of Justice, the Government reserves the right to proceed either civilly or criminally.
9. The submission of a request for a release or clearance letter does not prejudice the position or any right of the party making the submission. The submission may be withdrawn prior to the issuance of a letter. An unfavorable opinion by the Department of Justice is not binding, and does not legally preclude the proposed action if the party making the submission is prepared to defend the action in court.

10. The submission of a request for a release or clearance letter does not by itself create any immunity from prosecution, and such submission does not preclude the Government from taking any action that may be appropriate upon the basis of facts disclosed. Release and clearance commitments are given only in formal written communications. Such commitments are never given and are not authorized to be made except in writing over the signature of a responsible official of the Department of Justice.

The release letter is sometimes known as a "railroad release". This derives from the case against the Association of American Railroads in 1939 based upon agreements among the railroads to refuse to cooperate and refuse to establish joint and through fares for passengers and rates for freight with motor carriers. The Department of Justice stated that it was proceeding civilly and not criminally because the agreements had been voluntarily disclosed to the Department and had been continued with the knowledge of the Department, and the defendants had cooperated with the Department by providing information regarding the situation.

Although the Government's commitment under the release program is limited to a waiver of its right to proceed in a criminal case, as a practical matter such a letter will seldom, if ever, be issued if the staff of the Antitrust Division believes that either a civil or a criminal proceeding should be instituted on the basis of the proposal submitted.

The merger clearance program is substantially similar to the release program. It differs chiefly in the nature of the commitment, since legal actions against mergers are, except in the most extraordinary cases, civil rather than criminal. Under the merger clearance program the submission and disclosure required is the same as under the release program mentioned above. Where the Antitrust Division finds that a proposed merger does not raise serious questions under the antitrust laws, it may issue a "clearance letter" stating that the Department does not intend to take legal action against the merger if consummated, but that it reserves the right to institute action later if subsequent developments or operations involve antitrust violations.

The Department of Justice cannot answer abstract or hypothetical questions for private parties, but it does seek by the release and clearance program to give businessmen as much assurance as possible under the antitrust laws and to minimize the inevitable area of uncertainty that is involved in the application of all law.

LEE LOEVINGER
Assistant Attorney General
Antitrust Division, Department of Justice
"amount of the crude were made available to the smaller independent companies, it would enable them to afford a greater degree of competition to the company or companies which were the successful bidders than otherwise. I understand that at the conference of Mr. Somerville and Mr. Disney with representatives of your office, they suggested that one-eighth of the total recovery might be made available to refiners or oil distributors who meet the definition of 'small businesses' and who were independent insofar as control by any major oil company is concerned. I believe that the suggestion which they made merits your consideration and recommend that the proposal be adopted if possible.

Mr. Disney will not be able to attend the meeting of the State Lands Commission on March 28, 1963 in Sacramento, California, but please be assured that this office and Mr. Disney's office stand ready at any time to confer with you or representatives concerning the proposed oil lease insofar as it may involve the application of the federal antitrust laws to the private parties desirous of bidding on the lease.

Sincerely yours,

/s/ Lee Loevinger
Assistant Attorney General
Antitrust Division

MR. HORTIG continuing: Mr. Chairman, we have also received the following letters, with request that they be written into the record, the first of which was received on March 20th, addressed to the State Lands Commission, from Pauley Petroleum Inc., signed by Mr. L. E. Scott, and states:

"Gentlemen:

I am in receipt of the transcript of the above captioned hearing and would like to make two corrections thereto:

Line 21, page 117 - The sentence reads: 'I believe forty-eight million dollars were paid in a two-day period.' It should read: 'I believe four hundred twenty-eight million dollars were paid in a two-day period.'

Line 25, page 119 - The figure 'six million barrels of oil' should read '1.6 billion barrels of oil.'

It is requested that these changes be read into the record.

Yours very truly,

L. E. Scott"

From Sign. Oil and Gas Company, addressed to the Chairman:
"Dear Sir:

This letter will supplement and clarify our letter to you dated February 25, 1963, regarding subject documents. (The subject documents being the proposed Unit Agreement, Unit Operating Agreement, and Field Contractor Agreement, Long Beach Unit, Wilmington Oil Field, California)

It is our intention to execute the proposed Unit Agreement and Unit Operating Agreement so as to commit our oil and gas leases in the Townlot Area to the proposed Long Beach Unit, Wilmington Oil Field, California.

Very truly yours,

SIGNAL OIL AND GAS COMPANY

By James K. Wootan, Vice President"

Letter of March 27, 1963, addressed to the Chairman from Standard Oil Company of California, Western Operations, Inc.:

"Dear Sir:

We advised you in our letter of February 27, 1963, in brief, that:

1. We held oil and gas interests in the Townlot Area within the proposed Long Beach Unit Area on about 147 acres, or about 8 per cent of the acreage in the Townlot Area.

2. We are prepared to sign the proposed Unit Agreement and Unit Operating Agreement if they are approved by your Commission.

3. We find nothing in the proposed Field Contractor Agreement that would prevent this company from bidding if it is offered for bid in the form submitted to your Commission.

Regarding these points we should like to add that:

1. Since our last letter we have made a commitment to acquire additional oil and gas interests in the Townlot Area aggregating approximately 170 acres. This acquisition brings our total acreage to approximately 317 acres, or about 16 per cent of the acreage in the Townlot Area.

2. If the proposed Unit Agreement and Unit Operating Agreement are approved by your Commission, we are willing to sign them before the City of Long Beach invites bids on the proposed Field Contractor Agreement and will do so if requested by the City.

3. If the Field Contractor Agreement is offered for bid in the form submitted to you, our present plan is to submit a joint bid on this agreement with certain other companies. In the event our group is the successful bidder, Standard's interest in the Field Contractor Agreement will not be more than 50 per cent and will probably be less.

Very truly yours,

(signed) H. G. Vesper
Letter of March 27, 1963 from Richfield Oil Corporation addressed to the Commission, attention of the Chairman:

"Gentlemen:

Please refer to our letter to the Commission dated February 26, 1963 relating to "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", which was Item 28 on the calendar for the meeting of the Commission held February 28th last.

In that letter we stated that we hold oil and gas leases on 1,015 acres, or approximately 53%, of the 'Participating Townlot Area,' as defined in the Unit documents above referred to; that we 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 thereto, in the forms thereof submitted to the Commission; and we stated without condition or equivocation that we are willing to commit all oil and gas leases that we hold in the 'Participating Townlot Area' to a unit so constituted.

In spite of the commitment contained in our letter which was read into the record at the hearing on February 28th one witness, Mr. L. E. Scott, representing Pauley Petroleum, Inc., subsequently raised the question: 'Does the onshore operator have a veto of bids on Tract Number 1 by refusing to commit onshore parcels to the Unit....?' (Page 118 of the transcript of the February 28th hearing.) Another witness, Mr. Durland Clark, representing Shell Oil Company, subsequent to the reading of our letter into the record, said: '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.' (Page 130 of the transcript of the February 28 hearing).

Mr. Scott's question and Mr. Clark's statement disregard the clear language of our letter and are completely unjustified. We are willing to commit all oil and gas leases that we hold in the Participating Townlot Area to a unit constituted by the unit agreement, unit operating agreement, and exhibits in the form thereof, respectively, submitted to the Commission at its meeting on February 28th last, regardless of who may be the successful bidder for the Field Contractor Agreement covering the tide and submerged lands held in trust by the City of Long Beach and referred to as Tract No. 1 in the above mentioned form of unit agreement.

The foregoing is the position of Richfield, and we believe that it is implicit in the situation that it must be the position of every landowner or lessee in the Participating Townlot Area. Far from having a 'veto power' of any kind, there is no way any owner or lessee in such area can
"develop his property for oil and gas except by joining a unit which also embraces the tide and submerged lands belonging to the State and City.

It should be borne in mind, however, that the State and City are not forming a unit plan which will include the Townlot Area merely to benefit the landowners and lessees in that area. The unit is being formed because the principal oil and gas reservoir in the East Wilmington Field, namely, the Ranger Zone, underlies the Participating Townlot Area (which includes the downtown business section of Long Beach east of Pine Avenue) as well as the tide and submerged lands. The two areas have a common system of reservoir pressure. Wells drilled into tide and submerged lands would eventually lower the reservoir pressure underlying the downtown area of Long Beach, and, as experience in that city has demonstrated, could well result in subsidence, -- the sinking of the surface of the land to a degree which would result in danger to life and in enormous damage to extremely valuable properties.

Obviously, the best solution for all interested parties is to have a unit plan under which all wells can be drilled from offshore islands, and which will permit the maintenance of underground pressure in the entire reservoir, both offshore and upland. Under these circumstances no Townlot Area interest could afford to stay out of such a unit, no matter who operates the tide and submerged lands for the State and City. This is why all oil companies which had oil and gas leases in the Participating Townlot Area were glad to participate in the negotiations of the unit documents.

We are willing to commit our oil and gas leases in the Participating Townlot Area in the manner provided in, and subject to all the provisions of, Article 13 of the form of Unit Agreement which has been submitted to the Commission for approval. We will actually execute the unit documents promptly after the approval by the Commission of the documents in the form thereof now submitted to the Commission and after the approval by the Commission of a form of Field Contractor Agreement, and we will deposit such executed agreements in escrow under an appropriate escrow agreement with the City and State which will provide that the executed agreements shall become effective under and subject to the provisions of Section 13.3 of the Unit Agreement in the form thereof now before the Commission.

We will appreciate it if you will have this letter read into the record at the meeting of the Commission to be held on March 28, 1963.

Respectfully submitted,

RICHFIELD OIL CORPORATION

By R. W. Ragland, Vice President"

MR. CRANSTON: Frank, do you have a tabulation of who has stated that they favor the general plan and who has stated
they oppose it? Who is of record at this point?

MR. HORTIG: No, sir, I do not have it before me. I believe we could approximate it. We have letters or statements of approval from Richfield Oil Corporation; Standard Oil Company of California, Western Operations, Inc.; Signal Oil and Gas Company; telegram of approval from Jade Oil Company; and letter of approval from the Long Beach Unified School District.

The letters of objection have been received, and statements of objection, from Shell Oil Company, from Pauley Petroleum, and Texaco Inc.

I believe that is a fairly complete resume of both sides of the documentation, Mr. Chairman.

MR. CRANSTON: I would like to welcome Senator O'Sullivan to our deliberations here. I apologize for our arrangements and that you cannot sit with us, which is because we cannot meet in the Capitol Building due to the fact of the Senate and Assembly meetings; but I hope you and the other Senators or Assemblymen will consider yourself part of the meeting and make whatever comments you wish as we go along. We will be happy to hear from you.

I think it would be appropriate to hear from Jay Shavelson of the Attorney General's Office at this time, and hear what he has to report.

MR. SHADELSON: Thank you, Mr. Chairman. Our office has put in many months of effort on this project, fully realizing its importance to the State and to the City of Long Beach. Throughout our participation, of course, I think it goes without saying that we have never attempted to influence policy decisions, but simply to see that the documentation that was presented to the Commission was legally sufficient -- whether it complied with applicable statutes and to the extent possible that it said what
it meant to say. Now, our efforts, as you know, culminated in a
sixty-page legal memorandum that has been in the hands of the Com-
mission since January 25, 1963, and in the course of that memoran-
dum we could not, of course, deal with every possible legal ques-
tion that might arise under these agreements. I think that would
maybe take thousands of pages. But we did try to answer all the
questions that had to our knowledge been raised by members of
industry at that time and which were suggested by the State Lands
Division staff, and which we ourselves thought were pertinent to
the particular issues.

At the last meeting of the State Lands Commission, a
number of additional legal questions arose and we have attempted
to deal with those as well in supplementary memoranda which were
made available to the Commission and to the interested legislators.
Since they have been available, we won't attempt in detail to go
into our reasoning, but I would like to state briefly the ques-
tions that were discussed and our conclusions.

The first question that we discussed was a question
raised by Senator Dolwig as to whether or not the seaward bound-
daries of the original unit and participating areas might encroach
upon the claims of the United States under the terms of the Sub-
merged Lands Act and Outer Continental Shelf Lands Act of 1953.
The original participating area is described in the exhibits to
the Unit Agreement and its seaward boundary is a metes and bounds
description that is well within the minimum claims of the State of
California, even if all of the contentions of the United States
were ultimately sustained -- which, incidentally, we hope they
will not be. The seaward boundaries of the original unit area
are in terms of the southerly boundary of the City of Long Beach
and that line, again, is within the minimum claims of the State of
California, with certain margins of safety provided by the fact
that the State's ownership and the City's ownership under the
Submerged Lands Act are measured from the low tide line rather
than the high tide line; and, furthermore, we fully anticipate
that the Federal rule regarding artificial accretions will be
applicable rather than the State law. So we don't think that
raises a serious question concerning the Unit Agreement.

Another question which we have discussed is whether the
Field Contractor's interest will be subject to ad valorem tax-
tation and, if so, what will be the basis of valuation. In response
to this question, we met with various members of the County Assess-
or's Office, together with the City Attorney -- Mr. Lingle of the
City Attorney's Office of Long Beach. After meeting with them, we
ascertained that they are presently working on this -- they have
asked the County Counsel to prepare an opinion upon a related
question, and that is whether an interest of an oil and gas lessee
in tax exempt lands will be valued without deduction of the les-
sor's interest. Although that opinion has not been rendered, it
seems at least very possible that in light of the DeLuz and
Texaco Company decisions that they may reach the conclusion that
that interest will be taxable without such a deduction; and if
they should do that, it is also possible that the Field Contrac-
tor's interest in this instant transaction will be likewise valued
without deduction for the interest payable to the State.

We have gone into this legal question. I was not auth-
orized to issue an opinion of the Attorney General's Office on
this because of the shortness of the time and the fact that it
does affect other State agencies and would require consultation
with them, and would require, I believe, the issuance of a formal
opinion, a formal consensus of the Attorney General's Office,
rather than just my own analysis.

However, I have written a memorandum, in which I have
set forth the decisions which I consider most closely analogous, attempting to set forth both the similarities and the differences in the present transaction; and I think it is fair to say that there is at least some possibility that the Field Contractor's interest may be taxable; and, number two, if it is taxable, that it will be taxed in terms of the entire oil resource over the thirty-five-year period in Tract Number 1, without deduction for the amounts payable to the City and the State.

I think the important question to us is what do we want to do about it and what can we do about it. I think without changing the essential character of the contract, if this contract is ultimately held by the courts to be subject to such taxation, it would be almost impossible to avoid such taxation without such a drastic alternative as the City operating the field itself through its own employees, or perhaps employing an oil company as an independent contractor, to be compensated by means other than from production from the tract.

No one, as far as I know, has suggested such radical alternatives. Another possibility, of course, would be to shift the complete burden of such a tax to the Field Contractor. That is a question of policy and we don't wish to express any opinion on it. Of course, it might be expected to have a very detrimental effect upon any prospective bid.

MR. CHAMPION: Could I just ask one question at this point, while you are outlining these alternatives? Is there a legislative remedy?

MR. SHAVELSON: The problem, Mr. Champion, is that the property taxation provisions are incorporated in the State Constitution. I don't want to make a final answer to the question. I think we probably could evolve a legislative solution, but we might run into a problem conflicting with the State Constitution
because if this is a property interest and if it is to be valued at its full cost, as provided by the Constitution, it might be difficult to sustain a legislative modification.

SENATOR O'SULLIVAN: May I ask a question, Mr. Chairman?

MR. CRANSTON: Virgil.

SENATOR O'SULLIVAN: Are you involved here with the same principle as any other possessory interest tax?

MR. SHAVELSON: Yes -- if I understand your question, Senator. One thing I did not bring out -- that this Field Contractor Agreement is drafted so as to make the Field Contractor an independent contractor, to give him no interest in the lands and no interest in the oil and gas until they are recovered; and that is why I said to go any further to avoid the tax would radically change -- I don't know how much farther we could go in order to avoid the tax.

If I do understand the question, that is the question, there is an analogous case involving the Los Angeles Flood Control District lease in Los Angeles and in our memorandum we have, without reaching any definite conclusion, shown both the similarities and differences from that case. We think we are in a slightly stronger position than was the company involved in that case. Does that answer the question?

SENATOR O'SULLIVAN: Yes.

MR. SHAVELSON: Another matter which we went into by written memorandum was the question as to whether Article 16 of the Unit Agreement violated the prohibition contained in the legislative grant against the alienation of tidelands by the City, and whether that provision violated the rule against perpetuities.

These are very technical questions and I don't want to go into them in detail. However, I would like to say I think some clarification is required as to the purpose of Section 16.1
of the Unit Agreement. Its purpose is merely to require the
owners of working interests within a tract who desire to surrend-
er those interests to the persons entitled thereto, that is the
landowner, to first make those interests available to the parti-
cipants in the other tracts. It is not a prohibition against
alienation to other persons who are willing and desirous of as-
suming the obligations. So in that sense, it is what we would
call a pre-emption option, a right of first refusal -- number
one; and, number two, is not a restraint to alienability at all.

Since its purpose is to affect working interest owners
who do not own fee title to the lands, and since the City, of
course, owns fee title to Tract Number 1, Section 16.1 of the
agreement has no practical application to the City; and even if
it did by its general terms include the City and purport to al-
low an alienation of that interest, Section 3.5 of the Unit
Agreement makes it clear that no provision in the Unit Agreement
may be construed so as to require an alienation in violation of
the trust.

As to the rule against perpetuities, we have discussed
this in our memorandum and concluded by the overwhelming weight
of authority that there would be no violation.

Another question was whether the addition of addition-
al public lands within the Unit area could be accomplished with-
out the consent of the State Lands Commission. Now, it is clear,
of course, that under Section 6879 of the Public Resources Code
and under Chapter 29, where the areas are presently subject to
contract that these areas could not be committed to Unit opera-
tions without the consent of the State Lands Commission.

Now, for the very reason that general provisions such
as this might affect the future powers of the State Lands Commiss-
ion to approve additional agreements, we drafted and the City has
accepted in principle a bilateral agreement which specifically
states that the Commission approval does not constitute prior approval of other agreements that may be authorized by the Unit Agreement and that where approval of such agreements would otherwise be required, it will continue to be required. That is side agreement Number 3 that is set forth as an exhibit to the prior calendar item; and since the addition of public lands would require joinder agreement or further State approval, we think this would not affect the Commission's jurisdiction in that regard.

I would like to refer briefly to some other matters that did come up in the course of the Commission meeting on February 28th. The first is the statement in a letter from the Texaco Company, which is set forth in page 34 of the transcript, to the effect that the agreement would require the injection into the reservoir, concurrently with initial development, of water -- to the detriment of the reservoir.

Now, that is a question that the State Lands Division staff and our Office, and the City Attorney and the City Engineers have gone into in great detail. At pages 36 and 37 of our opinion rendered to the Commission, we stated that we did not think that that required injection prior to the time that there was adequate knowledge of the nature and characteristics of the reservoir, so that there would be injury to the reservoir.

Any such injection, furthermore, would be subject to sanctions by the Oil and Gas Supervisor under Section 3106 of the Public Resources Code, and we regarded that as an additional safeguard; and, finally, the side agreement, the seventh bilateral agreement between the City and the State that is set forth in the calendar item, expressly requires that water injection not commence until there is sufficient analytical information from drilling operations and producing wells that injection can be done consistently with good oil field practice. We think, with all
these considerations, that there could not be injection into the field to the detriment of the reservoir.

Another question that came up in the Texaco letter, which is mentioned on page 34 of the transcript, is whether the indemnity and insurance provisions of the Field Contractor Agreement might make the contractor liable for subsidence damage. I believe that that letter was written prior to the time that we, in conjunction with the City Attorney's office, clarified Section 30 of the Field Contractor's Agreement; and I think that it is completely clear now that the Field Contractor will be liable without entitlement to reimbursement for any loss occasioned by its own negligence, otherwise damages will be shared between the Field Contractor on the one side and the City and the State on the other, in proportion to the net profit bid.

Now, I believe that that provision is abundantly clear at this time. If any of the company attorneys believe there remain ambiguities, we will of course be happy to discuss them.

Another question that came up in the course of Mr. Scott's statement, and that is referred to on page 106 of the transcript of the last proceedings, is whether or not the Field Contractor is required to buy all of the oil produced from Tract Number 1. Now, I think that that question arises through a misunderstanding of the terms of the Field Contractor Agreement and I think that the agreement is abundantly clear; but, there again, if clarification is required we, and I am sure the City Attorney, are open to suggestions.

The purpose of the section of the Field Contractor Agreement to which Mr. Scott referred is simply to set the terms upon which the oil will be valued. The accountability to the City is set forth in Section 5 of the Field Contractor Agreement and both during the production payment period and the subsequent
payment period, it is clear that the Field Contractor must account on the basis of all oil allocated to Tract Number 1. So, whether he takes it himself, sells it off, or drinks it, he must account for it on the same basis and pay for it on that basis.

Now, another question that came up in the course of the meeting that I'd like to refer to briefly is the question, "Why the City should reimburse the pre-unit expenses of onshore operators." I feel that had a pre-unit agreement been executed by the parties, that the terms of that agreement should be available to the Commission as part of its approval and should be available to anyone who signs the Unit Agreement, because that pre-unit agreement will affect the definition of Unit expenses -- which, of course, is vital to everyone concerned.

As a matter of fact, the purpose of that provision was simply to reimburse administrative expenses and printing costs that were considered to benefit all members of the Unit and to assure that those who undertook those expenses would be reimbursed even though the Unit Agreement might not be finally executed.

As a matter of fact, no pre-unit agreement has been executed and it is my understanding that none will be; and I think it should be clearly understood that if and when one should be executed, it must be submitted to the Commission for approval and must be executed before the first person signs the Unit Agreement.

Another question that I'd like to discuss very briefly is the provision in Sec.7.13, Unit Operating Agreement permitting the unit operator to settle claims up to $250,000 without consulting with the other participants. I think it should be made clear that the purpose of this provision is not to give the City as unit operator and as trustee of the State, an additional unencumbered power. It does not give them this, since at this stage of the proceeding the State is not a participant in the Unit Agreement.
and it is quite possible we never will be unless and until Tract Number 2 is committed.

Therefore, the purpose behind Section 7.13 is to simply allow the City, which is trustee for the State and would be liable for the approximately eighty-five per cent of the cost of such settlement, to make it expeditiously and safely and perhaps save hundreds of thousands of dollars without delay, by consulting with other participants; but the persons affected are the other participants, not the City or the State. Therefore, we did not feel that was a detrimental provision, but was of benefit to us.

SENATOR O'SULLIVAN: Do I understand this correctly -- that any claim would, if allowed, be deducted from the entire fund? Wouldn't it?

MR. SHAVELSON: Yes, sir. It would become a Unit expense under the Unit Agreement and would be allocated among the participants in accordance to their tract participation; and since it is anticipated that Tract Number 1 would bear about eighty-five per cent of the cost ....

SENATOR O'SULLIVAN: And on Tract Number 1 at the present time the State has at least fifty per cent of the revenue?

MR. SHAVELSON: A little better than fifty per cent.

SENATOR O'SULLIVAN: So I fail to understand where the interest of the State is not affected.

MR. SHAVELSON: The interest of the State is affected, obviously, to the extent that the City administers the trust poorly or improperly. Now, that gets down, I think, to the very guts of the relationship here; and that is simply that the City, despite Chapter 29, remains the trustee. It has legal titles to these lands and certain limited powers are vested in the State under Chapter 29 to approve the terms of contracts. I do not think that Chapter 29 makes us a copartner in the operation, and
I think that the City still retains all of the powers that any legal trustee has. As you know, there are over a hundred grants up and down the State; and although our interest in this one is much greater, the essential relationship is much the same -- except that we have to give prior approval to agreements.

If the City should act improperly and violate its trust obligations in making such a settlement, then as any trustee I think they would be subject to control and sanctions on the part of the State.

SENATOR O'SULLIVAN: Does this compromise provision bind both the settlor of the trust and the beneficiary?

MR. SHAVELSON: Yes, it does.

SENATOR O'SULLIVAN: If it binds the settlor in the compromise, in the case the trustee makes a mistake in a compromise for $250,000, a mistake is waived under your provision; is that right? How far does it go?

MR. SHAVELSON: If the City is acting in good faith, I think that is correct -- that we would not have that power; but the purpose of inserting this provision in the Unit Operating Agreement is to allow the City to do this without consultation with the other participants in the tract, and certainly as to them it is an extreme provision. Now, it would be possible for us to put in an additional bilateral agreement between the City and the State, under which, say, any compromise for a certain sum would be gone over by the State Lands Commission and by the Attorney General's Office. I think that might encumber the very purpose of it -- which is to give them the ability to make a fast, expeditious settlement of damage claims which might otherwise far exceed the compromise amount.

SENATOR O'SULLIVAN: That is not an uncommon thing in a trust, to make compromises without going to court or getting
approval or disapproval?

MR. SHAVELSON: Of course, there are a number of different types of trusts. I believe that the trend -- and I am no expert in this -- but I think the trend in modern trust instruments is to select a good trustee and then give him a broad range of discretion; and I don't think $250,000, in light of the many hundreds of millions of dollars that are going to be expended on operations here, is necessarily a very large amount and would have drastic effect upon the over-all interests.

SENATOR O'SULLIVAN: Well, of course, you could involve yourself in millions of dollars with a lot of $250,000 claims.

MR. SHAVELSON: That is very true.

SENATOR O'SULLIVAN: But is the City, as a trustee, liable to the State for a mistake -- even for $250,000?

MR. SHAVELSON: It would depend upon the magnitude of that mistake. I think a trustee is required to exercise the care of an ordinarily prudent man in affairs of this character.

SENATOR O'SULLIVAN: That is under the provision or without the provision?

MR. SHAVELSON: With or without the provision, the City is subject, in my opinion, to the same standards as any other trustee. The effect of the provision is to allow the City as against the Townlot owners to make a settlement of this nature without unanimous consent of all of the participants that might otherwise be required and might otherwise make it impossible for them to enter into settlements that the City considers to be beneficial to the interests of the City and State. In other words, it gives them greater powers as against the other participants.

SENATOR O'SULLIVAN: Isn't it bilateral? Doesn't it bind both the City and State with the same provision?
MR. SHAVELSON: Yes. The State is the beneficiary of this trust and would be bound by it; and, as I say, the alternative would be to require the City to come in for approval by the State Lands Commission -- and if the Commission should determine that that is a desirable provision, we can request it from the City. I think that is a matter of policy, as to whether they wish to do so.

SENATOR O'SULLIVAN: In any event, you should have some provision to settle and compromise claims in some amount.

MR. SHAVELSON: Yes, sir.

SENATOR O'SULLIVAN: You might argue about the amount of the claim, $250,000 -- but you certainly can't argue about the principle that the trustee should be free to compromise claims in some sum.

MR. SHAVELSON: Absolutely. I think it would finally cost us money if they had to litigate and get the consent of the participants.

SENATOR O'SULLIVAN: This is not an uncommon thing in trust agreements?

MR. SHAVELSON: It is not uncommon. A similar provision is included in all of the unit agreements that have been executed, but in smaller amounts.

SENATOR O'SULLIVAN: And it is not uncommon to find it in oil leases?

MR. HORTIG: That is correct.

SENATOR O'SULLIVAN: This is not uncommon to find in an oil lease?

MR. HORTIG: In many contracts.

SENATOR O'SULLIVAN: The company can make settlements that bind the landowners?

MR. HORTIG: Well, an oil lease does not ordinarily
involve the landowner; but certain costs that might be a deduction from the royalty payment or otherwise at the discretion of the lessee are not uncommon, no.

MR. CHAMPION: It seems to me what we really have here is a larger question that doesn't go just to this provision, but the whole relationship between the trustee and the State as beneficiary, and what recourse the State has on acts of the trustee with which it may disagree or in which it may want some voice; and this kind of provision just recognizes this basic relationship that is established here.

There is a broader question as to whether the State needs some special provision, because of its very large interests here as beneficiary, that give it some further voice in the acts of the trustee -- not only this provision, but all provisions in the Operating Agreement.

MR. SHAVELSON: I think that is true, Mr. Champion. There is, perhaps, an anomaly here, although it is not uncommon in private trust relationships, where the trustee is obligated to pay over to the beneficiary but nevertheless has complete control of the management. This is true with the City of Long Beach except under provisions of Chapter 29 -- and they do not give the tidelands, they don't give the State the right to control the tidelands, but only to approve the terms of the contract.

MR. CHAMPION: And this probably occurs throughout the Operating Agreement?

MR. SHAVELSON: I believe that is true. In other words, we had to deal with the law as it is, and we think the City remains the trustee -- with very broad powers; in fact, after the decision of Silver vs. the City of Los Angeles was brought down, they were broader than we thought.
MR. CHAMPION: Have you or the staff discussed the possibility of any change in this relationship -- legislatively or otherwise, or by agreement -- to provide some further State participation in the decisions of the trustee, or approval of the decisions of the trustee?

MR. SHAVELSON: One step towards that, Mr. Champion, are the seven bilateral agreements that were entered into. That is something that is not contemplated by Chapter 29, but yet we were faced with the problem that there were provisions that were beneficial as far as the City and the other participants are concerned and yet could be administered to the detriment of the State.

I am not answering your question, quite; but I want to say this -- that I advised the staff that I thought there was a limit under present law to the extent that we could interfere with the day to day operations of this; and, specifically, we have not discussed any particular modification of Chapter 29.

MR. CHAMPION: And it is because of the legislative situation that you had recourse to this growing series of bilateral agreements on these subjects....

MR. SHAVELSON: Yes, sir.

MR. CHAMPION: ... and had to handle each one in a slightly different fashion.

MR. SHAVELSON: That's right. In other words, where the Legislature states that we have to approve a contract and that contract is necessarily broad because of a thirty-five year term and the unknown conditions that might be met, we feel that it has to be made more specific as far as we are concerned. The lack of provision for further Commission approval of specific acts under those contracts is what made that necessary.

Now, I didn't mean to take quite this long, and this
will be the last point I want to go into.

SENATOR O'SULLIVAN: Mr. Chairman, could I ask one question?

MR. CRANSTON: Yes, Virgil.

SENATOR O'SULLIVAN: It appears to me some thought might be given to an annual accounting from the City to the State, just as you have an accounting of a trust, in order to do two things -- to inform the beneficiary of the trust and, second, to relieve the trustee of liability by some sort of accounting to the Lands Commission -- an arrangement for an annual accounting, where they would make an accounting to the Lands Commission and get approval of whatever transactions and compromises were entered into that year, and then proceed.

MR. SHAVELSON: Mr. Hortig wants to respond to that. I want to say, just briefly, that Chapter 29 does require the City to account for its expenditures of its share of trust revenues and provides for inquiry by the State Lands Commission into the operation; and at our recommendation, a provision was inserted in the Field Contractor Agreement that the State would have full power to go into the books and records of the Field Contractor to check on this.

May I turn the microphone over to Mr. Hortig?

MR. CHAMPION: Before you do that -- In providing that, it does not provide any recourse? If the State does approve of any agreement here, as I understand it, all we have is a right to establish the facts and the persuasiveness of the facts on the trustee. There is no way that the State could implement any objections it might have.

MR. SHAVELSON: That is very close to the situation. In other words, before we could establish an actual legal breach of the City's duties as trustee, it would have to go very far;
So for practical purposes, if it is just a difference of opinion between people in good faith on two sides, we have no recourse. That is correct.

MR. HORTIG: I did want to amplify, particularly for Senator O'Sullivan's benefit, the fact that the provisions of Chapter 29 with respect to accounting by the City of Long Beach to the State are, however, distinguished from the type of reporting which is necessarily made with respect to the oil and gas operations and those operations which are conducted by the City under a carte blanche authorization by the Legislature under Chapter 29.

For example, in the matter of the Port operation, there is generally a summarized total reported annually, as required by statute, but the detail therein, if it is to be reviewed, must be reviewed on an audit basis; whereas on the oil and gas operations, there are monthly reports and in view of the fact that the operating contracts for these oil and gas operations are subject to advance approval by the State Lands Commission, these operations are under review continuously; whereas there is a considerable body of the operation by the City under Chapter 29 on which legislative approval has been given by classification of the operation that do not provide equal scrutiny with the oil and gas operations.

SENATOR O'SULLIVAN: Within the trustee's accounting there is an item, but there is no detail. Is this a separate accounting or is it included in one?

MR. HORTIG: The accounting ultimately becomes a composite of a series of accountings from separate funds, which funds in general are accumulated from the oil and gas operation and then are distributed and utilized in connection with various operations and project expenditures -- both for projects
which require advance State Lands Commission approval and the
balance for projects which do not require under the statute the
advance approval of the State Lands Commission.

In other words, the Commission has approval responsi-

bility and authority only as to a portion of the operations by
the City of Long Beach on the tide and submerged lands.

SENATOR O'SULLIVAN: Does the Commission have a
policy decision as to whether there could be a complete account-
ing of funds annually?

MR. HORTIG: Well, there is such a complete account-
ing of funds made, Senator O'Sullivan, but the detail is not
explored in connection with those categories where the Legisla-
ture has previously said tideland funds may be expended for
harbor operations. For that, in a year "X" million dollars
were expended, and that is essentially the end of the report.
Audit scrutiny is given to determine that essentially all the
components were for reasonable harbor operation, but if it got
down to the point, as Deputy Shavelson just stated, of an honest
difference of opinion between the experts on both sides as to
whether or not a particular item was a reasonable harbor opera-
tion, this is where the subject matter currently would stop and
it would be a debating society from there on -- because, in
further reference to Mr. Champion's statement, there is no place
to go with this type of dispute and there is no provision for
the State Lands Commission to exercise any further jurisdiction
under these circumstances.

We have assumed if and when it ever happened the
Commission would have to report to the Legislature. Patently,
this would be a cumbersome administrative procedure.

SENATOR O'SULLIVAN: You have not yet faced the
problem in the Commission?
MR. HORTIG: No, sir.

SENATOR O'SULLIVAN: It occurs to me it might be helpful to have the Commission explore what would be apparently a reasonable system of accounting in both of these fields -- reasonable in several ways; reasonable in the way of the exposition, and reasonable in the way of control, and also reasonable in the way of releasing the trustee from liability for actions at the end of the annual accounting period, whatever it was.

It appears to me that when you have a four billion dollar operation and a City of four hundred thousand, it would not be fair to place upon them the trust obligation and give them no opportunity to render an account and to relieve that liability -- a continuing liability throughout the life of this transaction.

MR. SHAVELSON: Just one more point, and that is on the monopoly question. We went into that matter in our opinion to the Commission, pages 41 to 43 of that opinion, after consultation with our antitrust department; and our conclusion was that neither the City nor the State would be liable for any breach of the antitrust laws by putting this parcel out in good faith, in an attempt to get the most revenue out of it in open competitive bidding -- and especially since the City is reserved broad powers of supervision, so that the Field Contractor would be completely powerless to control rates of production to affect detrimentally the competitive picture.

However, since the question was raised again at the last meeting, we were contacted, as Mr. Hortig mentioned, by the Antitrust Division in Los Angeles of the United States Department of Justice and we arranged a meeting in the Attorney General's Office with Mr. Disney and Mr. Somerville from that office. They suggested the desirability of a sell-off provision
under which the Field Contractor would be compelled to sell off about twelve and one-half per cent or one-eighth of the production to qualified independent refiners, who would have a certain limited number of employees and refinery capacity.

In accordance with that, we drafted an initial provision for the purpose of amending the Field Contractor Agreement to so provide, and we submitted that draft to the State Lands Division staff and to the City of Long Beach for their comment. There has not as yet been time to get their response on it; but if the Commission wants us to do so, of course we shall contact the possible eligible refiners to see whether this provision might meet their needs, and also prospective bidders to make sure it would not impose any unfair burden upon the Field Contractor.

Now, as far as the monopoly situation itself, the productive capacity which the bidder or bidders may acquire, I think that the most we can do is to offer our complete cooperation to the Department of Justice or to any company or companies in obtaining what is usually known as a railroad clearance for the purpose of limiting this at least to a civil liability in case the amount of production should ultimately at its peak about 1970 achieve monopolistic proportions.

MR. CRANSTON: Jay, are there other matters you have under study on which you are not ready to render any formal or informal opinion?

MR. SHAVELSON: Well, I think the matters I mentioned cover what we understood to be the major questions arising at the last meeting. We may have missed some; I hope not.

One suggestion Mr. Scott made, which perhaps may be desirable in light of what I think are misunderstandings that have arisen, is that members of the industry and we sit down
and go over this, provision by provision, to explain the meaning so that everyone has the thought of what it is; and if we have said it ambiguously or if we said something we didn't mean to say, I think that would come out in the course of such a discussion.

MR. CRANSTON: Frank?

MR. HORTIG: Mr. Chairman, as a suggested addition to your list of participants who have indicated approval or non-approval of the proposed contracts, I believe you should add, not as objectors, but possibly in the classification of neutral objectors, Golden Eagle Refining Company -- who have not objected to the contract proposal per se, provided that provision were made for some quantity of oil allocation to small refiners; and Union Oil Company of California, who have also suggested the possible necessity for some modifications to render the contract practicable, particularly from the standpoint of corporate tax problems in relation to the contract as it is being proposed.

Also, the record should show that in connection with my prior presentation to the Commission relative to the data furnished pursuant to previous requests at the last meeting by Senator Virgil O'Sullivan and by Senator Dolwig, while the agenda item indicates these data were furnished to these gentlemen, this is correct as to the principal addressees. Copies were also made available to the other members of Senator O'Sullivan's Subcommittee and Senator Dolwig and to all members of the Assembly Committee on the Manufacturing, Oil and Mining Industry.

MR. CRANSTON: Since the last hearing wound up with the testimony by Mr. Clark of Shell and Mr. Scott of the Pauley Company, I think it might be appropriate to hear from Long Beach representatives, to say whatever they wish in regard to
the criticisms that have been voiced by those two witnesses and
by others, and to comment on any other questions that have risen
up to this stage of the game.

Virgil, are you going to be with us? We might discuss
for a second what arrangements we want to make for lunch. Both
Hale and I have some other matters we hope to get done in the
late afternoon and both of us have suggested having a rather
brief recess -- suggesting that people have lunch in the Employ-
ment cafeteria, which is very fine. Virgil, would that suit
you? We might quit at twelve and continue at twelve thirty, if
that would enable you to be with us. (Response inaudible to
reporter)

MR. DESMOND: Mr. hairman, members of the Commission,
and members of the Legislature -- Jerry Desmond, City Attorney,
City of Long Beach. I would first call on our former Mayor,
Mr. Raymond Kealer, presently City Councilman, who has been on
the Council for approximately sixteen years and chairman most
of that time of the Harbor Industries and Petroleum Committee
of the City of Long Beach. Mr. Ray Kealer.

MR. KEALER: Mr. Chairman, members of the Commission,
let me say first, gentlemen, that I appreciate the opportunity
of speaking to you here.

I merely wish to point out what the policy of the
City has been generally and still is -- that is, of course, by
looking out for the welfare of the community and with respect
to the oil problems we want to do what will redound to the
greatest resultant benefit to the City and State and the inter-
est of all of us.

I think it might be appropriate at this time -- this
will be very brief -- to give you the summary of the events
that led up to this present Unit Agreement and Operating
Agreement and Field Contractor Agreement.

The City became aware of a possible oil field in the submerged lands outside the Harbor District about 1947. They became sure of it because they had prior information on the L.B.O.D. operation at the east end and then Richfield Parcel A in 1947 started opening up a new area in the submerged lands east of the Harbor District from Pine Avenue east. I do not know exactly how many acres, but it is a relatively small parcel.

Then in 1948-1953, the City and State was engaged in a battle on the Federal ownership of tide and submerged lands, and because of that the oil revenues were all impounded during all those years and a good deal of money was accumulated.

Then, in 1953, Congress passed and President Eisenhower signed the bill which quitclaimed the tidelands back to the State of California and that was the grant to Long Beach. Then in June 1953, the Harbor Industries Oil Committee, of which I am Chairman, requested the Long Beach Harbor Department, Petroleum Division, for a report on the oil development and the alleviation of subsidence in the offshore area. This report was submitted and it was recommended that the City conduct a geophysical exploration, drilling core holes in the offshore area, taking necessary steps for the unitization of the subject lands. Part of the reason for requesting that was that there had been a preliminary study and it indicated it would be favorable in very general terms.

In January 1954, the Western Geophysical Corporation did conduct a seismic offshore study and May, I guess it was, the City engaged the firm of Stanley and Stolz to work with our Petroleum Division and Doctor Mayuga to elicit the facts that they obtained by interpreting these studies.

Not satisfied with all the reports at the time, the
City in 1955 again engaged Stanley and Stolz, and they made certain recommendations, which are consonant with the things incorporated in our Unit Agreement.

In February 1956, the subsidence problem became a very serious threat and the various consulting firms who had been consulting on problems with the Harbor District had recommended that waterflooding would be the answer to this subsidence problem.

Then the City was afraid if it was to turn the thing loose, it would have oil derricks uptown in the town area and it would affect the subsidence, because by that time the subsidence had become very bad in the Harbor area, including the Naval shipyard, so the electorate voted on an ordinance which precluded any drilling in the downtown area and which included the submerged lands.

Then the City, in 1951, concluded that it did not need all of these funds for harbor and trust purposes and it requested the State Legislature to pass, I believe it was A.B. 3400, at that time, that fifty per cent was not needed for this purpose; then in the Mallon decision in 1956 the City and the State of California entered into a compromise agreement regarding the tidelands and their future operations and this became Chapter 29 of the Public Resources Code.

In 1957, the City of Long Beach, which had been conducting a waterflooding program, a pilot flood, in the Harbor, formulated a plan to extend this waterflooding to other properties. In 1958, large waterflooding operations were started in the Long Beach Harbor area; at the same time, operations were undertaken to include non-City zones not under City operation. To insure cooperation of the operators of the Wilmington Oil Field, the State Legislature passed a bill establishing boundaries of a subsidence district. These boundaries were established by the
State Oil and Gas Supervisor after a series of public hearings.

In '59, the success of the injection program as a remedy for subsidence became evident in the Harbor district. Subsidence was completely stopped in the Harbor District and slowed down in others.

Under the leadership of the City, unitization of Fault Blocks II, III and IV followed. The City continued to expand waterflooding in the tidelands areas, and water injection was started in Fault Block VI under a cooperative agreement between the City of Long Beach and Producing Properties, Inc. They are the ones that are producing in the Ranger Zone as far east as Pine Avenue.

In '60, Fault Blocks II and III were formally established under unit and unit operating agreements, and in 1961 Fault Block IV was formally established under a unit and unit operating agreement. In the meantime, the success of the water injection program in the subsidence area as a means of stopping subsidence became much more evident. Subsidence was stopped in all of the downtown area and a large part of the Harbor district. The rate of subsidence at the center of the bowl had very appreciably decreased.

In November 1961, at the request of the City Council, the Petroleum Division of the Harbor Department submitted a comprehensive plan for the development of offshore and onshore areas. On February 27, 1962, the electorate of the City of Long Beach voted to permit drilling of oil wells in the offshore areas subject to certain limitations.

From April through September 1962, under the leadership of the City, a Unit Agreement and the Unit Operating Agreement were formulated in cooperation with oil operators holding the leases in the Townlot area. Members of the staff of the State
Lands Commission and the Attorney General's Office were present during the formulation of these agreements.

During this period, the City also prepared the Contractor's Agreement for development of the property.

In October 1962, drafts of the Unit Agreement and Unit Operating Agreement and Contractor's Agreement were submitted to the State Lands Commission by the City of Long Beach for review and approval; and from that date on, of course, they have been up here and the City is doing all it can to expedite them.

At its meeting of March the 26th, the City Council adopted a motion of Councilman Crow and expressly requested me to request your Honorable Body to please expedite the matter as quickly as possible, and if there are any changes or suggestions that are necessary which would not be inimical to the City or State, I think you will find the City will be perfectly willing to work in that manner.

Again, I express my appreciation for being allowed up here.

MR. CRANSTON: Thank you very much. We will now recess and we will reconvene at twelve-thirty.

ADJOURNED 12:00 NOON

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

Mr. Desmond was about to proceed. Before you do so, Jerry, I'd like to make a few comments for just a moment. I wonder if we might, in order to save time today and to speed toward an ultimate decision, consider how we are going to proceed and what should be presented to us at this time.

It was, in part, I think, suggested by Mr. Shavelson this morning that it might be wise to have Mr. Hortig and the staff of the Lands Commission and the appropriate representatives of Long Beach get together at a staff level session with members of industry and go over the contract, and clause by clause thrash out whatever differences of opinion there might be; and then come back to a hearing of this sort after that process. That might save the time of double and triple presentation at this time and then before a Senate Committee and back here.

At the same time, there have been all sorts of hints and suggestions about what occurred in the drafting of this original contract as presented to us and the Unit Agreement.

There were remarks by Mr. Scott when he testified, vague references to oil and gas companies that participated in the drafting and those that did not; and in the material presented by Long Beach, responding to remarks by Mr. Clark of Shell, the introductory remarks state that Shell personnel received copies of the agreements in 1962. I don't know what form they were in, whether they were final or not, but there is some reference that the field operating contract was given to Shell, and I do not know how far along it had been or whatever part Shell had in the conferences on the drafting of the contract under consideration here.
Regardless of what may have happened or not happened or whatever anybody feels might or might not have, I think we show by our procedure that we intend to have everybody comment on all phases of the contracts and they have not been acted upon, and we will not act until everyone who wishes to be heard has been heard; and we will not act until the very best possible agreements are available to us under all circumstances, and circumstances permit us to take whatever time is necessary. At this time, of course, we wish as early a conclusion as possible on the development of this matter, for very obvious reasons.

In addition to what has been said up to this point by representatives of industry and others, I think we of the State Lands Commission itself have our own questions about certain matters which we would like our staff to explore.

We want the staff of the Lands Commission to come in with whatever recommendations they may have on large or small matters. Among the major items, we want to make certain there is the fairest possible, and division of the fairest possible, returns to the City of Long Beach and the State in terms that we get maximum revenue to the State and that we get all possible participation by interested oil companies.

I think we want the staff and everyone interested to study whether the advance of fifty-one million dollars is the wisest way to start, and what circumstances might or might not improve the exact treatment of that fifty-one million dollars; whether developing the field in one unit or more than one unit is advisable. I think in my own view the evidence tends to point to one-unit development; but a related question is whether or not it might be possible to arrange bidding on more units so there could be greater opportunity and more competition and more money produced by that action. That is the thing we would
like to have the staff explore with us.

Also, we would like to explore whether the net profits basis is the best for all or part of the field; whether cash bonuses or royalties or some combination thereof might be possible. These are all matters we want your thinking on; that we wish to clarify our thinking on.

At this point I think we should proceed with whatever comments that would seem appropriate in this general outline, but we should reserve the very precise geological issues and the minute parts of the contract for, first, the staff level of the Lands Commission and the staff of Long Beach and all interested oil companies, and then bring back to us whatever comes out of that process.

Unless anyone wishes to comment upon that general statement at this point, we will turn to Mr. Desmond.

MR. CHAMPION: I agree with what Mr. Cranston has to say but I want to add this -- that this does not mean that in many, if not approximately all, cases we don't feel this is a good document or that we disapprove of what is before us. What we want to do is to explore certain alternatives and to weigh them against these, and to see whether or not this is the best way to proceed.

This is in no sense a disapproval of the contract which has been presented, at least in its major features. This is an exploration on some possible alternatives to be weighed, and I wouldn't want the people from Long Beach or elsewhere to feel that we don't feel this is a good contract or good document at this stage. This is not critical; it is just that we need more information to weigh the different provisions.

MR. CRANSTON: I concur fully with Hale's remarks.

Jerry?
MR. DESMOND: Mr. Chairman, Mr. Champion, members of the Legislature, we would like to touch upon thirteen points. Those will be briefly covered, however. The thirteenth and last relates to a time schedule.

A number of questions have been raised. We have read them in statements; we have read them in newspapers; we have read them in certain activities or reports of the Legislature.

The first, and several of these, have already been touched upon, and very ably and capably, by Mr. Shavelson; but without repeating, we do feel that some of these should again be touched upon. One is the matter of taxes and the question of State and local and Federal taxes.

The matter of Federal tax comes up first, perhaps, in relation to the fifty-one million dollar advance payment. Now, if this were a bonus, it would have certain impact; if it is treated as a production payment, then a different impact from a tax standpoint -- because the first must be capitalized. Now, what is important here is to stress and to realize that we are trying for the State and the City to obtain the best bid possible and if those companies desiring to bid feel that in the way the matter is presented to you it is a production payment and they will bid higher, this is a matter for the bidders to determine. The only reason that we have prepared the advance payment in the manner we did is to improve the bid. There would be no reason not to prepare it as a bonus and have the fifty-one million dollars paid over the same period of time, strictly as a bonus -- if it is done that way, that would be much simpler than what is proposed here -- except then capitalization is certain and, therefore, the bids of all people would be less than the higher bid of at least those few who, with a production payment, would have tax gains.
Referring to the ad valorem tax matter which Mr. Shavelson has already touched upon, we are not here to solve the problem of whether or not there might not be new taxes of this nature or others that the County or someone else might assess. We are not trying to solve this and, by doing so, saying this is excluded -- that this will not be considered a chargeable expense. If we shift the risk to the bidders, then we believe that there would be a poorer bid from the standpoint of the State and the City.

Furthermore, the taxpayer, the successful bidder, might get a windfall and we think it particularly important that if this is not a chargeable expense, if the successful bidder does not have sufficient possessory interest, there might well be a loss of his depletion allowance; and one might comment upon that, that there was a notice in the Wall Street Journal yesterday about what that actually means -- and it would be considerably higher.

The second is the matter of the antitrust matter and I think Mr. Shavelson has fully covered that and we ask the State Lands Commission to approve the contract as it is, subject to certain conditions. You tell us as a condition of your approval that there first must be a split-off of a reasonable amount -- of course, after the contractor has had a return on his investment -- but in a form which is satisfactory to the Lands Division and to the Attorney General -- make that one of your conditions and, of course, the City will comply. The City must, in other such conditions, take another look -- because that would be a change from the form that has been approved.

If I may pass this back and forth a little in the interest of saving time, I wanted Mr. Lingle to comment upon the question, also in part touched upon by Mr. Shavelson, of
the liabilities as between the Contractor, the City, and the
State -- the matter of the $250,000 allowance for settlement.

MR. LINGLE: Again I wish to emphasize the question of
State control. The amount does not enter into it. If it is
five dollars or fifty thousand or five hundred thousand, we are
living under the law under Chapter 29, as far as the City's
right to execute the Unit and Unit Operating Agreements.

MR. DESMOND: The fourth part is the capacity and geo-
logical aspects of the pool. This will be covered by Doctor
Manuel Mayuga, the Petroleum Engineer for the Harbor, briefly
at the close of our remarks.

Number five is the matter of title aspects and I be-
lieve that Mr. Shavelson's comments covered this entirely --
the matter of 16.1 of the Unit Agreement. All that, he has
made very clear to all of us, and I would only like to add that
the Long Beach Unit Agreement which is before you is modeled
after the three that are already in existence, all three of
which were previously approved by the Lands Commission and one
of which was before the California Supreme Court and approved.

The next, the sixth, is relative merits of a net
profit or leasing arrangement; and perhaps what is really
thought of here would be more the difference between a percent-
age of net profit or a bonus plus a fixed royalty. I think Mr.
Hortig's comments at the start of the last meeting covered that
very satisfactorily, but Mr. Brock, the Petroleum Administrator
of the City of Long Beach, will in some charts, I think, make
very clear to you just what the cash flow is that will come
from the development of this area.

Then, number seven, also to be covered by Doctor
Mayuga -- the question of subsidence abatement and methods.
Incidentally, of course, the methods used have stopped
subsidence and the methods used have produced such a fine
secondary recovery that those figures have already been submit-
ted to you; and I believe Mr. Hortig reported last month in
detail upon the economic analysis which he had requested and
which he was furnished, which covers that.

Number eight -- the effect of the rate of production
on imports. I think this would perhaps be repeating in part
what we said a month ago, but the State needs a total of one mil-
lion barrels of crude; the State production is eight hundred
thousand barrels; therefore the need for imports of two hundred
thousand. If this new area is developed and if it produces, say,
one hundred to one hundred fifty thousand barrels, there is
still need for additional imports of at least fifty thousand
barrels. This is the daily production. We suggest keeping this
business in the State of California.

Number nine out of the thirteen, Mr. Lingle will com-
ment upon -- the matter of average posted versus the highest
posted price.

MR. LINGLE: In our present agreements in Long Beach
we are paid on the basis of average posted price. We think that
the bidder will be able to give us a better bid if he knows that
he is bidding against an average posted price, rather than if he
must account to his working interest accounts based on the va-
garies of an artificially high price. An average posted price
would tend to be more realistic as to what oil is actually
worth. If he has to account for the highest posted price, some
unsuccessful bidder might artificially bid a higher price and
thus have the Field Contractor at his mercy. Thus, we feel the
average posted price will produce an over-all better bid.

We made a comparison since 1950 and found the variance
on the average posted price and the highest posted price on the
oils the City sells on existing contracts amounts to 16/100ths of one cent; and traditionally, all posted prices may vary a day or two and then they are all the same anyway.

Furthermore, we wish to emphasize we will again be paid for on the tenth degrees of gravity, which we think will amount to three cents a barrel, a substantially important figure to us.

For these reasons, we believe the average posted price will enable the bidder to return to us a greater amount than another method.

MR. DESMOND: Number ten -- the matter of the interest rate. Our City Manager, Mr. John Mansell, is here today, and will explain to you the manner in which this rate was established and I would like to stress that whatever the interest rate, it is in the bid. It is part of the bid itself; so long as it is less than the company would expect to earn on its own money.

This has been used again as part of the creation of the production payment concept. So whoever is successful will have at least a chance for a better tax position and he would, therefore, bid higher and a greater return would come to the State and the City. But, again, we hope that the Lands Commission will approve this group of documents before you and let the Commission set whatever that rate may be, and do so on the basis that the contracts, when this particular contract is approved, provide that the interest rate is changed to "X" rate satisfactory to the Commission.

Number eleven -- the matter of specific tract inclusions in a Unit Operating Agreement. May I say, before I ask Mr. Lingle to touch upon this, that I agree with what the Chairman said earlier. Evidently, there was considerable misunderstanding about, perhaps, the use of the word "participating." Now Mr. Lingle will explain the procedure followed in the formation of the Long Beach Unit and he will explain that the people
with working interests were called upon to participate -- because after all, if I have an agreement with my neighbor for a community fence, I don't speak to the man up the street and tell him I am talking about this; I don't call in the outsider. In no unit is that done.

Now, on the other hand, when we speak of the Field Contractor Agreement, which has actually no relation to the working interest owners as such in the Unit Agreement and the Unit Operating Agreement, that was, as we have said several times, prepared by the City; but, as we have stressed at all times and I think have set out very clearly in the statements we will file at the conclusion here, we have solicited information from all of the companies -- all that we thought might possibly have some interest in the proceeding. So that one of the three agreements, that was prepared by the City; but, as you know I am sure, we did solicit information and suggestions and then we considered those, but the decisions were made by the City of Long Beach.

There was also, of course, discussion with Mr. Hortig and the staff and Mr. Shavelson and others from the Attorney General's Office; but I would like Mr. Lingle to speak on the matters of the Unit because I believe there has been a great deal of misunderstanding -- I am sure not by members of the Commission, but perhaps by some others.

MR. LINGLE: I have been asked to oversimplify the statement of what unitization is. Unitization will enable us to develop the Long Beach Unit, the largest known undeveloped oil reserve in the United States, without the risk of subsidence. I don't want to further elaborate on that -- you well know about that; but it also enables us to do this without the danger of damaging the beauty of our residential or shoreline area.

These are some pictures of Huntington Beach and similar
beach communities. The exact date of this picture I am not sure of, but I think it gives you an excellent illustration of what we don't want to have happen in Long Beach. The second group of pictures were taken in 1955 in the development of downtown Signal Hill. We all remember Signal Hill and Huntington Beach, with their forests of derricks -- at least, those of us from Long Beach do.

This was because oil operators secured leases and developed them to the maximum. There was no concern over the most efficient way to develop the oil reserves or the ultimate maximum return. The concern was how much immediate profit could be gotten from each lease.

The industry came to realize that much of the development was duplication and waste, and one well could do the work of several.

Progress in secondary recovery methods showed that as much oil again could be produced by secondary methods such as water flood or gas injection as had been produced by primary methods. Engineers realized that the key to developing entire oil reserves so as to avoid duplication and waste and to permit pressure maintenance and repressurization was a method that would enable them to ignore property lines. The old concept of developing each separate property had to be obliterated in the future. The solution was unitization.

Customarily, to achieve unitization, two contracts are drawn. In the Unit Agreement, the property owners -- in other words, the lessors -- who usually receive a gross royalty on all products produced, under this gross royalty do not participate in the expenses. Under the old type leases, the operator had to account for the oil produced from this lot and from this well. So, if you are going to avoid duplication and not have a well on
each lot, you had to find some way to have fewer wells and to
give the property owners an undivided interest in the entire
field, and this is the point: When you have property owners
either actually assigning or by powers of attorney in their
leases permitting their working interest owner to join other
working interest owners, you obliterate the necessity of account-
ing for how much oil is produced from this particular piece of
property and get away from having oil wells on the uplands.

The Unit Operating Agreement is executed by all the
working interest owners and provides for day to day operation of
the oil field and provides for agreements for sharing expenses.
That's why our ability for the City to settle damage claims up
to $250,000 is in the Unit Operating Agreement. That is why the
royalty interest owners, the property owners, customarily do not
care what is in the Unit Operating Agreement, because they are
paid on gross and not on net.

However, one important concept -- it still remains the
responsibility of the working interest owner to market his own
oil; the unit will produce, develop it, and deliver it to you
but you have to find a buyer for the oil.

Long Beach entered into unit agreements in the Harbor
area when the Fault Block II and III agreements were executed in
1959. In 1961, a unit agreement was executed in Fault Block IV.
As you know, the major point was to repressurize the area, curb
subsidence, and produce greater income to the City. Fault
Blocks II, III and IV are among the largest oil producers in the
United States and the largest water flood projects in the world.

The Fault Block II agreement was approved by the Cali-
ifornia Supreme Court, and each of the unit agreements was ap-
proved by the State Lands Commission and the Attorney General's
Office. Each of these has served as models in the agreement
before us.

The Long Beach Unit Agreement, about which we are talking, covers an upland area which consists of more than ten thousand separate tracts. Richfield, Superior, Jade, Signal, Union, Standard, and Continental Eastern were the companies who had secured leases on these uplands, so naturally these were the companies who participated with the City in formulating the Unit and Unit Operating Agreements. Companies without leases in the Townlot area would only have academic interest in such Unit agreements. Richfield and Superior have been paying delay rentals on their leases for years. Other companies entered the leasing picture about in 1962, about the time of the City ordinance, while others did not proceed with leases until the summer of 1962 and they are still leasing.

In all unit agreements, it is essential that all working interest owners approve the terms of the agreements; otherwise, we would be wasting our time. This requires cooperation from all companies. The City had one advantage in negotiating this agreement -- the only way that oil could be produced was from an offshore drilling island, and thus the City was demanding the safeguards it felt necessary. The City was designated Unit Operator in the agreements. In other words, the City has the responsibility to see to the actual development; and as Unit Operator, the City has responsibility to build the offshore drilling islands, drill the wells, build all the needed facilities, and develop the fields.

It has been said we don't really need a Field Contractor Agreement. There is nother alternative, a permissible route that we could go. However, it was decided the most satisfactory method would be to hire a Field Contractor to do the work under the supervision of the City. So the City drafted
the Field Contractor Agreement to set forth the terms under
which the Field Contractor will operate on behalf of the City as
Unit Operator; and, in addition, the Field Contractor also has
the responsibility to take and pay the City for oil and wet gas
products from this tract in the next thirty-five years.

The City gave any interested party all the information
at our disposal. We have records of contacts with more than
sixty-five such companies, who secured various types of informa-
tion from the City at various times -- but the City contacted
the interested companies and informed them that the City had
such information available.

In late December 1962, we mailed a letter to over forty
companies, informing them that we felt we were nearing a final
draft of the Field Contractor Agreement and requesting them to
give us any comments they might have.

MR. DESMOND: Number twelve -- the question of the com-
mitment by the necessary sixty per cent. This has been touched
upon, but again we would suggest that the Lands Commission ap-
prove the documents before you, subject to the condition that
there be approval, there be commitment, by the necessary sixty
per cent within a specified period of time, and a period of
time prior to the opening of the bids on the contract.

May I note that, in addition to the letters that have
been received, I have been advised that the companies are pres-
ent and they are here to advise, if you care to hear from them,
that they are ready -- more than the necessary sixty per cent --
they are ready to sign after approval; not after the opening,
not after the decision on the award -- but immediately.

Now, thirteen, the last one ....

MR. CRANSTON: On that point, Jerry, are you unable to
act presently, as was discussed in our last meeting, until the
Commission has approved the agreement by the City in writing?

MR. DESMOND: Not entirely. This has been discussed with Mr. Shavelson and I know that the companies have indicated that they are willing to sign now. I believe Mr. Shavelson's advice would be against this, but if you will let us have your suggestion that it be done in one month's time -- we don't know when we will open ....

MR. SHAVELSON: The only thought I had in mind was that I don't like us to be under pressure to preserve existing provisions any more than we have to. The $15,000 or whatever it is printing cost has already done that. In the course of drafting the provisions, there is certain language that we might consider ambiguous -- not basic matters, but little things that we would like to feel free to change; and I think the actual execution of this would freeze it more than it is frozen now. That was the only thought I had in mind.

MR. CHAMPION: In other words, you want to know what the form of the Field Contractor Agreement is before you know precisely what kind of commitment you would have signed by the companies.

MR. SHAVELSON: That is a good point. In addition, the general complexity and the novelty of this thing is such, I think the more we go over it the more ideas we will have. That's all.

MR. CHAMPION: We can simply make it conditional -- the approval of the Operating Contract is conditional upon signing of the commitments.

MR. SHAVELSON: I would feel that would fully take care of that.

MR. DESMOND: The last of the points before presenting others to cover those which we skipped over, is the matter of
the time schedule. The Long Beach Oil Development has an operating contract with the City of Long Beach which expires in March of next year. You members of the Commission, I am sure, will recall that there were previously several contracts, all of which were consolidated for the purpose of allowing the City properties to enter the units that we have been speaking of earlier; but at the same time, there was not and there could not be under the law any extension. The fact is that for some of those contracts there was some shortening of the existing contracts in this combination.

The Long Beach Oil Development contract since 1939 has produced well over two hundred eighty-two million dollars to June 1962, in addition to the many millions of dollars which have paid for equipment in the area; and it is expected that a very sizable portion, approaching that amount of money, is probably still beneath that area covered by the present operating contract, and it is to the interest of the State and the City that the best bid possible be obtained for the development of that developed field. I heard some comments before about it being drained and I can assure you that from all information that is available to the State and City, there is oil there.

Now, let us talk for a moment on the time schedule, actually two time schedules -- if we go backwards from March in relation to the Harbor parcels and if we go forward to the contract today, the letting of the contract and the development of the new area.

If we can take some arbitrary figures as we go along, talking about the Harbor parcels we know that in March 1964, less than a year from now, there must be an operator ready to operate. We want the best bid possible. We do not want to set this up for any company such as the one in existence. We want this to
be full and competitive bidding, and we want the best bid for
the State and the City. There is no provision for extending the
contract -- that would be violative of law.

I think I have explained, without necessity of repeat-
ing, those are not wells that can be turned over -- neither the
producing wells nor the injection wells; and we are not inter-
ested and the State is not interested in loss of revenue.

Let us say, for a state of transition for a successful
bidder to move into the area and take over the operation of the
area, to keep those wells pumping and those water injection wells
injecting water -- let's say he would have a period of three
months in advance of that closing date in March that he would
know he was going to take over.

I won't go into the quite obvious matters of personnel,
procedures, equipment, other things he would have to take care
of in that period of time. We are back in December of this
year.

There is a thirty-day waiting period in which all con-
tracts must lay on the City Council table; also there is the
necessity for approval by this body of the new contract, the
award of the new contract, the award itself. So let's say a
month before. There is no leeway. We are not allowing any ex-
tra days here. Thirty days before, we are in November now, the
decision should be made that this is the successful bidder, and
the compulsory thirty-day waiting period.

Then, how long should this bid be out? How long should
this notice inviting bids give the people to work on a very
large and substantial area for development? Should we say a
three-month period, ninety days? Then we are back in August,
and that means that in August we must advertise for bids on
this contract. Prior to that time, prior to the advertising,
there must be approval by the State Lands Commission, as well as the City Council of the contract itself; and we are now talking about August. This means advertising for bids.

There must be, then, the period of time for consideration and approval, the work that would be necessary with the State Lands Division, the Attorney General's Office, again looking toward the approval of this Commission; and we are just about at that point right now where this should be at least presented to you. So we are back in March, the end of March, or the first part of April.

So, going from April on the other contract, the one that is before you -- This is April, and how long should it be up for bids? If we say ninety days, then July; open the bids in July, and then there is the necessary thirty-day layover for approval by the City Council.

There is the necessity during that same period of time to have approval of the Lands Commission for the award of the contract; and I repeat, because I think this is vitally important, that if the bids are not satisfactory to this Commission, then certainly this Commission is going to throw them out and the City Council would not be interested in approving an award if we do not have good bidding.

But, let's say this is determined -- that's July. That is a matter of having the actual award of the contract itself made in the month of August.

We think it to the disadvantage of the State and the City to have the two in competition one with the other.

Now, we could all make variations. Where I said three months, we could say four or two or something entirely different.

I'd like at this time to call Doctor Mayuga to cover the two items I spoke of earlier; I remind you -- of the matter
of the geological aspects, capacity of the pool, and then the
question of subsidence methods, subsidence abatement. Doctor
Mayuga will be assisted -- it probably would be easier, Mr.
Chairman -- whatever you believe is best -- if he were there and
perhaps Mr. Brock would assist him if we have the explanation of
the charts which he has.

Mr. Brock, who is our Petroleum Administrator, has
worked actively as a petroleum engineer in the Wilmington Oil
Field for the past thirty-five years, for the last ten years of
that period of time with the City of Long Beach.

Doctor Mayuga is also a petroleum engineer with a
Bachelor of Science in Mining Engineering in '38 -- I am intro-
ducing Doctor Mayuga because I know he has not previously spoken
to you and I know you heard from Mr. Brock last month. Doctor
Mayuga -- Bachelor of Science in '38, Master of Science in Geolo-

cy in 1940, Ph.D. in 1942. He has been with the City since
1948. Prior to that he worked for two years in the same Wil-
mington Oil Field. He is a registered petroleum engineer since
1948 and in his spare time that we don't take from him, he is
very active as a retired Air Force Colonel.

MR. CRANSTON: Jerry, I do suggest that the areas
Doctor Mayuga should cover be those that are relevant at this
moment, reserving for discussion with staff and industry the
details. That would, perhaps, be more appropriate at this time.

MR. DESMOND: We talked to Doctor Mayuga, and I know
because of the knowledge he has he could take a great deal of
time, but I believe the charts would be of great value to you
and I believe we ran through them in ten minutes last night.

I believe it is important to know the complexity of
the field which is to be developed and to hear some reference
to the problems that do already come up.
DOCTOR MAYUGA: Mr. Chairman, Mr. Champion, I am glad for the opportunity to explain to you the complex nature of our oil field. I think a little understanding of the actual geology aspects would explain the reasons behind why you have such a proposal before you.

Our oil field is located in the southern part of Los Angeles County, as most of you are familiar with. This chart indicates the location of the area that has been developed and the undeveloped area, and it isn't a mysterious oil field as far as we are concerned -- we have worked around it, on its edges for many years.

Getting a closer look at the oil field, we have the developed area which is now under contract to L.B.O.D. and the Richfield parcel, and the Townlot operations. This itself might constitute the largest oil field in California and the second largest in the United States; and the subject land in question is covered by these outlines which I am showing with my pointer. This happens to be the State lease which is the Belmont offshore oil field.

Here again, gentlemen, is a picture of a closer look at the structure configuration of the developed area. I included this chart to show you we do know a lot about this oil field because there have been almost three thousand oil wells drilled in this area.

Again, here is the L.B.O.D. area and Parcel A -- and this, now, is our offshore area now in question.

In 1958, because of the problem of subsidence -- Mr. Kealer earlier referred to it in his testimony and again it was referred to by Mr. Lingle -- in 1958, by an act of the Legislature, later on by the determination of the Division of Oil and Gas, a subsidence district of this configuration was declared.
or embodied as a determination of the Division of Oil and Gas. The entire area we are discussing now is in this subsidence division. I would like to point out the subsidence contour, which shows currently about twenty-seven feet at the center of the subsidence; but definitely from 1959 to the present time we have practically stopped subsidence with our repressuring operations; and, as Mr. Desmond pointed out, we have roughly increased production in tidelands areas alone about two and one-half times what we would ordinarily have obtained by ordinary methods. Therefore, we have accomplished two things — we have stopped subsidence in the area and have increased our production in a large proportion.

Just by relative areas, or in acres, we are talking about in what is referred to as Parcel 1 approximately 4400 to 4500 acres, the Alamitos State Park is roughly 400 acres, and the Townlot area may exceed 1700 acres at the present time.

Now, in 1954, the City of Long Beach, after the Federal Government settled the question as to the tidelands ownership, proceeded by instruction of the City Council to conduct a geophysical seismic operation in its offshore area and this is the result. It is a seismic map. It probably doesn't mean very much to an untechnical man, but to just give you briefly how we arrived at this, this is essentially a method well known in the industry — where ninety-pound black powder charges were made every twenty feet along this area and the shock waves at great depths were registered on seismic geophones; and the seismologists came out with the structure's configuration.

Briefly, this represents the top of the contour of one of the horizons some two thousand feet above sea level. Based on this map, the seismologists refined it and came up with a structural configuration which I think a simple
way to explain is that we removed two thousand feet of over-
burden in this area. We actually have a buried hill some fif-
teen hundred feet high -- this is the top of that hill, and
here would be about the bottom of the valley.

Another one, on the northern part of our City, was this
hill, actually known as an anticline in geological terminology,
and here is the trap that laid there and trapped the oil for
millions of years.

Let me point out the complexity of the developed area.
We have a number of faults. These are movements that happened
many years ago and based on our seismic survey we located simi-
lar faults that complicate our area in the developed portions.
So we anticipate perhaps more complex or just as complex oil
fields in the undeveloped area.

Based on that map, we draw a cross-section through
that hill in a southeasterly direction, take a slice off it and
remove one-half of that particular oil field, and step aside
and look to the north. A geologist sees a configuration like
this. It is a cross-section which shows in red the developed
portion of the field and our estimate of the oil horizons in
this area.

I'd like to emphasize that these are seventy-five pic-
tures, simplified into geological interpretations, because actu-
ally this consists of some four thousand feet of sediments, of
alternating shales and sands, varying in thickness from two
inches to one hundred feet, all with different limits, all
with different characteristics, all with different aspects.
I am pointing this out because what we found in this developed
field -- it took many hundred wells to actually pin down our
construction of the area.

Now, drawing a cross-section in a north-south direction
we have a configuration that looks like this. This is the anti-
cline of the hill I am referring to, part of the hill. This
red line indicates the approximate boundary of the Townlot area,
the onshore area. With respect to the offshore area, I think
this diagram will show very clearly the connection of the reser-
voir and also many of the sands and water limits.

This happens to be the Ranger Zone, which extends some
distance into the Townlot area. It is approximately
three miles from what we regard to be the approximate limit to
the north and to the south. I think this cross-section shows
vividly the complex currents of oil.

Incidentally, there are six different zones that we
know of within this area.

Here is another cross-section, more to the east. It
just shows more of the complexity of the oil in the offshore
area.

A plan was proposed by the Long Beach Harbor Department
in its 1961 report of repressuring or maintaining, producing by
pressure maintenance in this area, by injecting water along the
aquifer and also in a pattern flood along the main part of the
structure in an alternate five-spot pattern, five-spot placing --
where we would produce at the same time oil with the repressur-
ing operation. This is one of the zones.

On the next map -- as I mentioned, we have six differ-
ent zones -- here is a little narrower zone. We have proposed
a number of wells in the structure and water injection in the
aquifer.

Here is another zone, the Ford zone, just a little bit
narrower; the Lower Terminal zone; the Union Pacific zone. In
other words, what I am developing here is different zones of
water limits in the area. Here is our known deepest zone in the
We propose to drill some wells for this offshore development from our Pier J, which is now under construction, and we have made plans for a drill site. At the same time, this Pier J will be the site of wells that we are trying to drill on the presently developed area, on the L.B.O.D. parcel in particular, so that Pier J will play a major part in our oil development.

In order to develop this field, our petroleum staff has determined, and it was proposed to our City Council and approved by the voters, that the field will be developed from four drill-site islands, approximately ten acres in size, located approximately in this area shown on the map; and this different colored archaere indicates the angle of the whole to the vertical in order to reach these various portions of the oil field.

You can readily see that we can reach all of the formations here within our estimates. We can develop every portion of this formation from these four islands.

Here is a little detailed picture of the island we have proposed. This is just a proposal. It will probably be subject to some changes as we get closer to the actual operation, but essentially this island, which can accommodate three hundred wells, has provision for water knock-out facilities, production yards, buildings, and so on, and oil will be piped out from these islands into the Harbor district, none of which will go through our downtown section; and it will be essentially a water-borne operation.

Gentlemen, when we made a proposal in 1961 to develop this offshore field and wrote this report to the City Council, we were guided by certain obligations which we felt the City has in the administration of its trust that we have in Long Beach. First, we feel that if we have to propose a program of
development, it should be a program that should fulfill the terms of the trust; it should be a program where we can conduct the producing operations according to law with maximum safeguards against subsidence damage, noise, contamination, waste, and the detriment to the beauty of our shoreline; and, third, which we think is important to us and the State, we must secure contracts and agreements with maximum returns to the City and State.

I think, gentlemen, the proposals before you have been designed in this manner. We feel that a single unit operation in the area, that will enable us to apply our engineering techniques and geological techniques without regard to parcel boundaries, would be in the best interests and allow us to fulfill our obligations.

Another important feature before you is the City control of these operations, in order to protect the City from these items under (b) in my chart. We feel that any deviation from that will prevent the City from fulfilling all its obligations.

Thank you very much.

MR. DESMOND: Now, Mr. Brock has a chart from which he will speak, and this relates to the flow of cash that is proposed and I think it is important to stress that while there has been talk also about the spending of the money, I think it is going to be clear that one can't spend oil, and that oil is out there; and under the operation, no matter what division there might be, there is only so much money available to start development and so much money available in the next few years.

Mr. Brock.

MR. BROCK: Actually, I was going to compare the contracts themselves but I believe Mr. Cranston has done that with
the members of the staff. However, this operating profit is
very pertinent to any method that you use to develop it. Actu-
ally this shows the money that is there and I think that is
what we want a contract for. This actually shows the cash flow
under the proposal that we now have before the Lands Commission.

You will note the dark red is the operating capital
that the operator himself must put up for Tract Number 1 only.
The pink is the advance production payment that he will be mak-
ing to the City until such time there is net profit available,
under the terms of the net profit contract. The lighter green
is the advance payment or production payment itself that would
be split with the City and the State.

This net operating profit does not take into account
the contractor's bid. These amounts actually, at the end of the
seventh year, would peak out at one hundred five million dollars
profit for that year. From that must be taken the bid of the
contractor, the Field Contractor.

It should be noted that if there were no advance or
production payment, that under this type contract there would
be no moneys to the City and the State until the end of the
fourth year. Without the production payment, the operator's
capital investment will pay out in about three and a half years.

MR. CHAMPION: Three and a half from what date -- the
date of the contract?

MR. BROCK: From the date that the contract is awarded.

Now, there are some other points to this. Certainly,
there are many assumptions that go into this. Part of them are
that we have eight exploratory holes drilled in sixty-five
hundred acres. That isn't very conducive to accurate estimates
on the oil. We have, however, with the knowledge we have from
the Wilmington Field, compared the activity of the Wilmington
Field with the logs we have obtained from these holes, and I do believe this estimate is fairly realistic.

The Field Contractor will build all islands in the first year. He will have sixteen drilling rigs going from the first to about the seventh year. At that time he will cut down to four and will maintain a fairly constant rate of production of about 160,000 barrels a day total for the whole unit.

At this point, I think there has been a considerable amount of misinformation from our figures. I say this because at the last Commission meeting Mr. Clark, for instance, said that we had eight hundred million barrels; Mr. Scott, we had a billion six hundred million barrels. They would take our figures and multiply them with their figures . . Just for the record, if you want to use our figures, use them all, take them all, and don't take part and put yours in.

I'll quote what we think this amounts to: For Tract 1, which is the tract that the Field Contractor will participate in and will bid on, there will be a net operating profit after thirty-five years of one billion, nine hundred million dollars; the State Park will have one hundred thirty-eight million dollars; the Townlot operators will have one hundred ninety-one million dollars to split. I think that everybody realizes that these figures are predicated on rate of development, the cost of operations, and such things as that. However, we have taken onshore known costs, projected them into the area, and added what we feel would be realistic to operate from an island.

MR. CHAMPION: Excuse me. These are net returns to the parties you mentioned?

MR. BROCK: The net operating profit. Now, in the case of Tract 1, you will have to deduct from that the amount of bid that the Field Contractor will have; in the case of the
State Park, we don't know what is going to be done, but there
will be one hundred thirty-eight million dollars that will be
divided in some manner between the State and whatever arrangement
they have with the operator.

MR. CHAMPION: Have you estimated -- I mean, you can't
estimate, but have you looked at a probable bid range?

MR. BROCK: Yes. I think this is personal and I am sure
that anybody who told me this is going to deny it. I believe
something in excess of eighty-five per cent, certainly.

Without going into any detail, I would like to add
several points on the bid itself. When we looked into the bonus
and royalty type bids, such as the State has, we felt that be-
cause of three major reasons you would get a very inferior bid
under these contracts. I believe everybody is aware of subsid-
ence and I believe they agree the City must control and maintain
control of subsidence.

Under a royalty type bid, the operator is required to
put up all the money. He must operate and attempt to make the
most money. That's what his bid is predicated on. If he has a
factor that the City can make him do things that may be unecon-
omic, just to stop subsidence or for beautification, it certainly
is going to influence his bid.

We feel that the contractor in a royalty bid has both
control of the rates of production and control of development.
Part of the advantage of the royalty bid is that he has full con-
trol of operations. If he has a shortage of oil, he can speed
his operations up; if he has too much oil in his refinery, he
can slow things down. On the basis of this contract, this
means the contractor bidding on this will have to take this
into consideration.

The people arguing against us last week made the best
argument they could against bonus bidding. Mr. Clark said --
and whether you need to capitalize this money or not, this is
only fifty-one million dollars - - that this will amount to two
digit million dollars. That means something between ten and
one hundred million dollars. If this is on only fifty-one mil-
lion, and you were to submit this to straight bonus bidding you
might get two or three hundred million dollars -- under his
terms that means that out of the net operating profit this
contractor would have to pick up a like two or three hundred
million dollars just to cover the tax advantage that he would
lose because of the bonus.

We feel that, also, under the net profits type bid in
order to maintain control over the operator, he still has some
protection. He knows when the City and State requires him to
do something that it is a big chunk of the City's money going
into that and of the State's money, and it will be something
to benefit everybody, and it would be very reassuring.

I think that those are the main points. There are
many others but I believe in the interest of time that these
can be taken up before the staff. Thank you.

MR. DESMOND: We would like to close at this time with
delivery of these to the Commission; and, as I said to the
Chairman earlier, we would be glad to read these into the
record, but I think they would be rather boring. These are
the comments of the City of Long Beach on the comments of Mr.
Clark at the last Commission meeting and the comments on the
statement of Mr. L. E. Scott of Pauley Petroleum Inc. at the
last Commission meeting.

We do ask that these be read -- there are copies
available. We are very anxious that they be made a part of
the record. Both of the statements have been taken, paragraph
by paragraph, and answered and commented upon by the City. We
would like to deliver the copies at this time. Others are
available if they are needed.

MR. CRANSTON: These will be incorporated into the
record and I assure you they will be carefully studied. Does
that complete Long Beach's presentation at this point?

MR. DESMOND: Yes, sir.

The documents referred to above are reproduced at this
point:

Subject: Comments by City of Long Beach relative to statement
of Mr. L. E. Scott, Pauley Petroleum Inc. to the
State Lands Commission Meeting 2-28-63

Pauley Petroleum Inc. was offered every opportunity to
present any suggestion or criticism of the proposed documents
directly to the City. City representatives would have been
happy to discuss and attempt to clarify any points in these con-
tracts. Pauley Petroleum Inc. was sent all documents and re-
lated data.

" 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 con-
taining in excess of 1 1/2 billion barrels of oil, and
worth somewhere between 4 1/2 and 5 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 the 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."

COMMENT:

The State has much more information on this reservoir than they do on most of their own tideland leases at the time they are put out for bid. On many State tideland leases there is no reservoir information whatsoever when leased. In the Long Beach tidelands area information from eight exploratory core holes, a seismic survey, and production and geologic data on each end of the area is available. The Conservation Committee estimated California proven reserves of 3.3 billion barrels in 1941 and 3.6 billion barrels in 1962, even though 7 billion barrels were produced in the interval between 1941-1963. Mr. Scott's estimate of California reserves apparently is based on the fallacious assumption that no additional oil discoveries ever will be made in California and that California oil producers will not take advantage of secondary oil production techniques constantly being developed and improved. In addition it has been reported that ownership of a potential of many billion barrels of oil is involved in the current legal dispute between California and the Federal Government as to the extent of the State submerged lands.

"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."

COMMENT:

These proposals are not monopolistic, and we object
strenuously to the implication that they were planned to be. The expressed purposes, and we believe these documents achieve this end, were to obtain the maximum economic return to the City and State while protecting Long Beach from subsidence and despoilment of the beaches and tideland area.

The City is always willing to present desired information at a public hearing, but we are sure that the same information can be obtained from the Lands Division and from the Attorney General's office because they assisted in the preparation of these documents. In addition, all phases of this proposed development program were reviewed at open public meetings of the Long Beach City Council before submission for final approval by the State Lands Commission.

The Unit Agreement and Unit Operating Agreement were drafted by representatives of all the working interest owners, including the City, the State, the Long Beach Unified School District, a property owners' association and the various oil companies representing the landowners of some 10,000 parcels of privately-owned property. This is the customary, logical and proper way to form such unit agreements. It is the precise procedure followed in the preparation of the existing unit agreements in the Wilmington Oil Field, all of which have been approved by the State Lands Commission. The form followed in the other units, which is similar to this unit, has been approved by the California Supreme Court.

On the other hand, the Field Contractor Agreement was prepared by the City of Long Beach.

"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 #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 #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 90 and 100 million dollars in initial investment to carry out the development of Tract #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 100 million dollars on any one project? Your attention is directed to Paragraph 23, page 21, of the Field Contractor Agreement, wherein the Field Contractor is not permitted to pledge or hypothecate this contract without first receiving 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."

COMMENT:
Mr. Scott states that Pauley Petroleum with its partners has given the State $24,000,000 for offshore leases. It would seem reasonable that Pauley Petroleum could organize a bidding group and bid on this project and we hope the company does. Mr. Scott states that the provision to require prior approval from the City before allowing any assignment or hypothecation of this agreement is designed to eliminate competition. This is not true. This provision is a standard part of City contracts and is particularly necessary in a net profits contract. In the past the City has approved all legitimate assignments of oil contracts, production payments, etc. Never before has any company questioned such procedure. It is important to know the financial background and operational competency of contractor. Information concerning these factors is required of a bidder and would be of little value if the successful bidder could then assign the agreement to a substandard organization. The State Lands Commission staff also deemed this provision essential and rightfully wishes similarly to reserve approval of assignments as provided in Paragraph 3 of Exhibit A attached to the State Lands Commission calendar item of February 28.
"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 51 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."

COMMENT:

The purpose of the production payments was to provide income to the City and State during the period when no net profits are available. It is expected that under a reasonable development program, net profits for payment to the City and State will be available in 3 to 3½ years. If a fixed payment of $51,000,000 were required at the time of bidding, these funds would be available to the City and State, without any possibility of avoiding capitalization of these funds for income tax purposes. Pauley Petroleum Inc. is in no better position in respect to any of the leases they acquired from the State if litigated to a standstill, or if no oil were discovered. The State still would have its $24,000,000 bonus, and Pauley Petroleum would be unable to operate or recover their investment. The only difference with the City proposal is that the payments would be spread over three years, and there is no possibility of not finding oil. It certainly is not intended to eliminate competition but only to insure the City and State income during the period when no net profits are available.

"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 #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

<table>
<thead>
<tr>
<th>Major Companies</th>
<th>Actual 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 #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 of California, 143,000; Texaco, 48,000; Tidewater, 53,000 barrels. If any one of these companies are awarded Tract #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 #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."

COMMENT:

The amount of imports is based primarily on the historical refinery through-put of domestic crude and not on production. Therefore, Tract No. 1 could not give any oil companies control of West Coast imports.

The major companies have historically produced a large percentage of the oil in California and will continue to do so
with or without this Long Beach tract. The competition is as keen between these major companies as it is with the smaller independents involved.

The addition of Tract No. 1 production could not give "a major refiner in California" the monopoly of the crude oil market of the U.S. as a whole since Texas producers alone have currently "shut in" more crude production than all California refiners produce in California.

If a major refiner were to get this contract and not purchase crude from other California producers, such crude then would be available for the smaller refiners.

"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 are going forward with 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."

COMMENT:

It is understandable that, prior to the bidding on these large offshore reserves, the interested companies are looking forward to this program and are not particularly active in exploratory programs at the present. We believe the unsuccessful bidders will redouble their efforts to keep pace after the contract is let. The Pauley Statement suggests that a reasonable
basis should be worked out to allow all operators to participate.

This would be impossible because there are 1344 independent operators listed by the 1961 Conservation Committee report.

"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 tideland oil. Under the Long Beach Agreement, the contractor will have the exclusive right to take any and all oil allocated to Tract #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 #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."

COMMENT:

The pricing provisions of the proposed contract will result in a higher over-all return to the City and State. The pricing procedure for all the crude oil assigned to Tract #1 is fixed by the terms of the Field Contractor Agreement. The requirement of City Manager approval of oil purchase contracts is to insure the financial responsibility of the purchasers. Although the State Lands Commission does not have the right to force the oil to be sold to anyone other than the Field Contractor, neither does the Commission have the obligation to find a purchaser for the oil in times when an oversupply of oil exists.

"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."

COMMENT:

The precedent of using the average posted price for determining the market value of oil was established in the other Wilmington Units. All these other units approved by the State Lands Commission provide that the market value of oil will be "established by the average of the prices posted by Standard Oil Company of California, Socony Mobil Oil Company, Inc., Texaco, Inc., and Union Oil Company of California....." Furthermore, this type of Unit was specifically approved by the California Supreme Court in the case of Long Beach versus Vickers.

Both existing Long Beach tidelands oil contracts provide for oil payment on the average posted price. These contracts are generally regarded as providing the greatest financial return to the landowner of any contract in the history of the U.S. oil industry.

'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. 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 #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 California Tidelands. If we do not, we will have a situation where oil from Tracts #1 and #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.'

COMMENT:
The State lease form differs from the proposed Field Contractor Agreement and thus one cannot compare the pricing provisions of the two without taking into consideration all aspects of each form of agreement. For example, State leases can be quitclaimed at any time thus relieving the operator of the effect of any unrealistic high oil price. In addition, only the State royalty share of the oil is subject to the pricing provision. This is normally a relatively small percentage of
the oil.

The State Leasing provision requires the crude oil price to be the current market price, defined as "not 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." This does not mean the "highest posted" price at the well. The use of such qualifying terms could cause considerable misunderstanding and lead to possible law suits.

"We are all aware of the situation which existed in California a short time ago where one company posted a price for oil of 40c a barrel less than one of the other big producers. If there is a 40c differential in the price of crude oil, then the average price received by Long Beach would be 20c 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 #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 #1."

COMMENT:

Price manipulation has never been and is not expected to be a problem in the Wilmington Oil Field. The purchaser, if he posts, will have only one of the prices used in the average, and the City feels that antitrust laws are adequate to protect the City and State.

A tabulation of every posted price for 20 degree API crude in the Wilmington Oil Field during the past 12 years by the three companies currently posting indicates that the difference between using the average posted price and using the highest posted price for the production in the L.B.O.D. parcels would have been approximately 16 hundredths of a cent per barrel. Compare this figure with the 3 cents per barrel gain referred to below.
"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 would ordinarily. The City of Long Beach and the State of California will receive less net profits from Tract #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."

COMMENT:

We disagree that the City and State would be receiving less money. This proposed contract requires payment on the tenth degree gravity. This will average about three cents per barrel more than an even degree gravity payment.

An adverse effect on the over-all bid would result if the Field Contractor were to be put at the mercy of any small operator who for short periods of time paid an unrealistic price for oil to insure immediate refinery needs. The short term purchaser takes advantage of depressed prices when the market is oversupplied and pays a premium when oil is in demand. A long term contract should give a true value to the oil without these short term fluctuations caused by the immediate needs of any purchaser. The bidder need not assume the risks arising from an unrealistic high price, and therefore his bid should be more favorable as far as financial return to the City and State is concerned.

"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 to 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 has 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 contractors 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 contractor 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."

COMMENT:

The proposed Field Contractor Agreement requires the successful bidder to pay the working interest account for all oil assigned to Tract No. 1; thus, the City and State have no worries about disposing of the oil outside of the contract. The contract which was drafted by the City and not by any company or companies, still contains this obligation on the contractor to pay for all of such oil. The present language is the result of a suggestion by the Attorney General's Office.

The field contract does require the successful bidder to pay for the natural gasoline. This may be viewed as an asset by some bidders while others may view it as a liability. They will bid accordingly. We feel that private enterprise can better market this gasoline than the City or State, especially in times of distress.

"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 knowledge, none of them. The only way this could be done is to cut off purchases and stop buying oil from the balance of the producers 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 throughout 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."

COMMENT:

Inasmuch as California does not produce enough crude to meet its demands, the additional Long Beach Unit crude can be absorbed either through increased demand or by a reduction in the amounts of imported foreign crude. There would be no net effect on the total market demand for California crude whether the oil is taken by a single refiner or split among a large group of refiners.

"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-cut' 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."

COMMENT:

This procedure of putting up a portion of the crude for competitive bids each six months was suggested by the small refiners themselves. The pricing procedures under long term contracts by necessity vary from prices paid by short term purchasers.

"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."

COMMENT:

There is a long range supply of oil now available from small producers if these refiners are willing to execute long term contracts.

"If the small refiners are required to bid for crude, then we recommend that all of the crude under Tract #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"

**COMMENT:**

The most valuable single feature of this contract, from the standpoint of attracting the highest bid for the State and the City, is the long range supply of oil available to the successful bidder. Conversely, the greatest risk possible to the State and the City in obtaining the maximum economic return would be involved in gambling on the City's ability to market the oil on a short term basis. There have been times when a large percentage of producers in Wilmington who did not have long term contracts either were forced to curtail production or to sell their oil at fifty cents below the average posted price. On the other hand, under the proposed contract, the State and City are guaranteed profits based on average posted price.

The statement that the City and State are assuming all the risks under a net profits contract is absolutely false. Under the Field Contractor Agreement, the City and State will participate in the large profits, which under other types of contracts would be taken entirely by the contractor. Instead of the City and State assuming any risk, the Field Contractor is required to advance all monies for development as well as paying the $51 million in production payments.

"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 5760 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 Sts 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."

COMMENT:

Neither the State Lands Commission nor the Federal Government has leased tidelands in an area that has been damaged by subsidence. It is imperative that the City maintain full control of these operations as a safeguard against further subsidence damage in this area. The only realistic way to accomplish this is to develop this offshore area as a single tract. This was realized by the electorate of the City of Long Beach when they passed the drilling ordinance that required this area to be developed as a single tract.

In answer to the Pauley statement as to the State leasing policy of limiting the area to a maximum of 5,760 acres, Tract No. 1 contains approximately 4,500 acres.

"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% 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 Oil 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, can borrow
"money at much less than 3.75% interest. We think this is against the best interests of the State of California and its citizens. We think this provision should be stricken."

**COMMENT:**

The provision to allow interest on the production payment account is one of the features incorporated to enhance the bidder's opportunity to avoid capitalization of this payment. The rate selected was the approximate interest yield for Federal securities maturing at the approximate time the production payment account would be repaid. No matter what interest rate is used, it will be considered by all companies in submitting their bids. This would be fair to everyone. If no interest were allowed, then the bids to the State and City naturally would be lowered to the extent of this factor.

"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 25% at the time the Operator bids and 25% 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 have 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."

COMMENT:

It should be made clear that income to the City and State is not affected by whether or not the production payment must actually be capitalized, but by whether or not, in making his bid, the Field Contractor thinks that it must be capitalized. It is in the best interest of the City and State in obtaining the maximum bid to enable those companies who think this production payment does not need to be capitalized to bid accordingly. The provisions regarding the production payments have been drafted to enhance the chances of bidders to obtain a favorable Internal Revenue Service ruling if they think it advisable to seek one.

"8. It should be pointed out to the Commission that if Tract #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% 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."

COMMENT:

Our understanding is that the import quota from District V is based on the historic refinery through-put of domestic crude. Additional production does not give a refining company additional
imports. The effect on the import quota of a refining company will be the same regardless of whether or not it produces this 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 some time in the future, it is strongly recommended that you allow at least 270 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 was done in May 1958) 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 interpret."

COMMENT:

Pauley Petroleum Inc. has had most of these documents for nearly five months. If the company found any items difficult to understand or interpret, it did not so state prior to February 28, nor did it seek understanding or interpretation. All meetings before the City Council and the Oil Committee of the City Council concerning these documents were open to the public and many companies availed themselves of the opportunities to become informed.

"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 would permit the State Lands Commission to put Tract #1 and Tract #2 out on an equitable, fair, 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."
COMMENT:

The Field Contractor Agreement was drafted by the City as previously pointed out. However, the suggestions of any companies which desired to submit them were solicited by the City. Attached are copies of letters sent to approximately 65 companies throughout the State. Also attached is a list of these companies which we kept informed and from which we solicited suggestions. The City believes that the proposed contract does present an equitable, fair and competitive basis for companies that are qualified to join and bid on this project.

"(a) It is our recommendation that the State Lands Commission put Tract #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 #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 #2 be leased pursuant to present existing laws; a copy of our request is hereby introduced as evidence as part of this presentation.

"Under the present statutes, the State Lands Commission cannot put Tract #2 under the Long Beach formula because it is not permitted by the statutes. 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 #298 which permits the State of California, as Oil Operator, to unitize Tract #2 with the Tidelands in Long Beach. We are strongly opposed to this bill since it not only permits the unitization of Tract #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. The bill has also been referred to by some as a 'two-page Proposition Four.'"

COMMENT:

The Alamitos Beach State Park Tract #2 is not now under consideration. However, the Unit Agreement does allow the State to bring Tract #2 in as a working interest owner or to lease Tract #2 as in any other area.
It is recommended that the State Lands Commission and The City of Long Beach cut Tract #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 to 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 25% 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 #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. 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 in 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 #1.

COMMENT:

Physically splitting the offshore area into several operational parcels is completely unacceptable from the standpoint of subsidence control. The continual supervision, coordination and arbitration between operators that would be required to insure adequate protection against subsidence in this very complex geologic area would be extremely costly. The duplication of operations and personnel required by the several contractors also would add greatly to the cost of operations. It probably would require a change in the City drilling ordinance. Furthermore, it offers no advantages that cannot be obtained by other means.

It is suggested by Pauley that Tract #1 could be split into parcels but operated by one contractor under the terms of the unit agreement. Although less objectionable from the standpoint of subsidence control, and possible under the City drilling...
ordinance, this plan also has disadvantages. It seriously com-
plifies the determination of equities. Additional City person-
nel would be required for the coordination of the probably 
divergent interests of the various contractors. The bid would 
suffer because of the uncertainty involved in dealing with un-
known partners and because of the fact that no bidder would have 
advance knowledge of the operational and technical ability of 
the Field Contractor. Again this plan offers no advantages 
which are not available under the alternate proposals discussed 
later.

Earlier in his statement, Mr. Scott stated that under the 
Long Beach proposal a successful bidder would be required to 
commit $100 million, to which he objected vigorously. Now he 
suggests that it would be entirely feasible to split Tract #1 
in parcels and offer it for bonus bidding, for which he thinks 
the bonus bids might be from $350 to $450 million (Transcript, 
State Lands Commission meeting, February 28, 1963, Page 117, 
line 16). In addition to the bonus, of course, his estimated 
$50 million in initial investment would be required of the suc-
cessful bidders. We submit that if no company can risk $100 

Without in any way attempting to evaluate the many factors 
that must be considered to properly equate the monetary return 
from different leases, there are no major State leases that have 
a return equivalent to 67% straight royalty. Long Beach has one. 
In considering Mr. Scott's request that the State exercise its 
sovereignty to require the area to be split into parcels, it 
should be realized that the people of Long Beach voted to re-
quire this area to be developed as a single tract as a reason-
able safeguard in the program to prevent subsidence.
"It is very interesting to note that unit area has about ninety parcels on shore that are owned by separate companies and individuals. You also have Tract #2 owned by the State of California. This agreement very easily takes care of the unitization of this 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."

COMMENT:
Our objectives are to produce the highest economic return for the City and the State and to protect the City against subsidence. Neither of these objectives can be achieved if we endeavor to split the area into parcels small enough to allow all 1,344 California operators to participate. It is impossible to satisfy all operators and at the same time best protect the interests of the City and 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. We suggest that one interest be for 30%; one interest for 20%; three interests of 10% each; and four interests of 5% each. The contract should designate the company winning the 30% bid as operating Field Contractor. All other undivided participants in Tract #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."

COMMENT:
The suggestion of splitting Tract No. 1 into biddable undivided interests is operationally similar to the proposal by the City. The main operational disadvantages would be the added City staff and State personnel required to coordinate the operations and the loss occasioned by the inevitable compromises.
among the large number of divergent interests. All indications are that no single company will bid on this project alone. The charge of monopoly is not satisfied by the letting of the bid area in parcels, because a company or group could win all parcels. It should be noted that where the Pauley Statement refers to a 5% interest, there are only 18 of the aforementioned 1344 producers who produce such quantities as would amount to 5% of the estimated daily production from Tract No. 1.

The main difference between this foregoing suggestion and the proposed Field Contractor Agreement is that the City would allow the companies to follow the processes of free enterprise and select their partners and the terms of the agreement that bind them together. The undivided interest proposal would force companies together with unknown partners under a contract formed by governmental bidding procedures.

For the following reasons, the City proposal is superior and will result in a greater income to the City and State:

1. Advance knowledge and confidence in the technical ability and operational know-how of the field operator by the partners in the combine will result in a better bid.

2. The flexibility in forming a bidding group to meet the particular needs of the various partners will result in a more favorable bid. As an example, a group could be set up whereby one partner conducted the operations, took 20% of the oil, put up 10% of the capital and obtained X percent of the operational profit. Another variation could allow one partner to take 5% of the oil in the initial stages and 40% after ten years. The opportunity to change these percentages as operations proceed could also be extremely valuable.

3. An advance voluntary agreement prescribing operational procedures among partners and presenting a unified plan to the
City and State will be more assuring to bidders than being at the mercy of unknown partners and operators.

4. It will be far more economic for the City and State to deal with one identity rather than several.

5. The advantage of operating the property, including the 3% overhead allowance, would be reflected in only one segment under the undivided interest bid, while it would be favorably reflected in the whole bid as proposed by the City.

6. A bid on the whole by a group of companies formed under their own terms will be superior to that of individual companies bidding on undivided interests. Since the various groups have but one chance they will exert more effort to produce the best bid. This method will minimize the possibility of collusion involved in multiple parcel or undivided interest bidding.

"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 25% paid 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."

COMMENT:

These proposals by Mr. Scott are merely variations of his previous proposals which we already have answered. Bonus bidding on semi-proven reserves will inevitably sacrifice maximum ultimate return for a lesser though more immediate financial gain.

"(d) It is strongly recommended 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 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."

**COMMENT:**

Even if the State of California were in dire need of immediate cash, we should not forget long range obligations to the future of California. The State of California can best be served by assuring the maximum ultimate financial return over the entire life of this field. Furthermore, because of the City control that must be sustained to guard against future subsidence in the area, a fixed royalty contract would result in a substantially inferior bid.

"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 #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 #1 in one operator, or one group of operators, and refer this matter to the State Legislature in order that legislation may be passed to accomplish this purpose.

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

1. Ad valorem and other taxes;"

**COMMENT:**

Although we appreciate the industry's concern over taxes, we submit that consideration of the tax question is not relevant to consideration of this contract. A net profits type of contract minimizes the risk to bidders on the tax issue and therefore their bids should bring greater financial return to the State and City.
"2. Question of why City of Long Beach should reimburse pre-unit expenses of onshore operators;"

**COMMENT:**

The only pre-unit expense that would be reimbursed to the onshore participants is for a share of the printing of the unit documents (about $20,000). On the other hand, the City and State will receive reimbursement of the cost of the core hole drilling program which already has been completed by the City at a cost of about $600,000.

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

**COMMENT:**

Under the terms of the unit agreements, the City as Unit Operator does have authority to settle claims up to $250,000 without the prior consent of the onshore participants. Such participants approved this provision.

"4. Does the onshore operator have a veto of bids on Tract #1 by refusing to commit onshore parcels to the Unit;"

**COMMENT:**

Over 60% of the onshore operating interests have already expressed in writing their desire to execute the Unit Agreement if approved by the State Lands Commission. Such execution will take place prior to the opening of the bids. We request that the State Lands Commission, as a condition of approval of the contract before it, require execution by the necessary 60% within a specified period of time.

"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;"

**COMMENT:**

Since the Long Beach Oil Development Company lands are not contiguous with this area, they cannot be included in this unit.
The Unit Agreement in no way would allow the City to extend the 
term of any existing contract or enter into another contract 
without competitive bids. Competitive bidding is a requirement 
of both the City Charter and State Law.

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We are sure that the oil operators of California, as sincere 
advocates of the American free enterprise system, will voluntar-
ily organize into the combinations required to bid on this con-
tract and not look to government -- the City of Long Beach and 
the State of California -- to guarantee them an interest in this 
development.

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From the Office of Leonard W. Brock
Petroleum Properties Administrator:

LIST OF COMPANIES AND INDIVIDUALS WHO HAVE RECEIVED
UNIT AGREEMENTS AND LETTERS OF NOTIFICATION

1. C. C. Albright
2. Amerada Petroleum Company
3. Robert E. Anderson
4. Atlantic Oil Company
5. J. F. Austin
7. Burnside and Fischer
8. John Carr
9. L. J. Burnside
10. Byron Oil Industries
11. Citizens National Bank
12. City of Los Angeles
13. Henry Clock
14. Conservation Committee of Calif. Oil Producers
15. Continental Eastern Corp.
16. Continental-Emisco Company
17. Continental Oil Company
18. Core Laboratories
19. County Assessor's Office
20. DeGolyer and MacNaughton
21. Douglas Oil Company
22. Franwin Oil & Gas Company
23. General American Oil Corp.
25. Gulf Oil Corporation
26. E. B. Hall Company
27. Lynn O. Hosson
29. Humble Oil Company
30. Harry Kues
31. Jade Oil & Gas Company
32. Jan Law, Consultant
33. Long Beach Oil Devel. Co.
34. Leibroch, Landreth, Campbell & Calloway
35. James A. Lewis, Engineers
36. Marathon Oil Company
37. Mobil Oil Company
38. Morgan Guar. Trust Co. of N. Y.
39. W. A. Moncrief
40. The Ohio Oil Company
41. Orion Oil Company
42. Pauley Petroleum
43. Producing Properties, Inc.
44. Richfield Oil Corporation
45. R. N. Richey
46. John R. Rumbaugh
47. Security First National Bank
48. Shell Oil Company
49. Signal Oil & Gas Company
50. Southern Calif. Edison Co.
51. Standard Oil Company
52. Stanley and Stolz
53. State Lands Commission
54. Albert Stevenson
55. Sunray Mid-Continent Oil Co.
56. Superior Oil Company
57. Texaco, Inc.
58. Tidewater Oil Company
59. Union Bank Petroleum Dept.
60. Union Oil Company
61. C.R. Dodson, United Calif. Bank
62. Westates Petroleum
63. Read Winterburn
64. Phillips Petroleum
65. Western Oil & Refining
COPY OF LETTER  December 7 1962

Pauley Petroleum
10000 Santa Monica Blvd.
Beverly Hills, California

Gentlemen:

Revised structure and isopachous maps of the productive intervals in the Wilmington Offshore area, along with ditch sample descriptions for the eight core holes drilled in the same area, are available at the Long Beach Blueprint Company, 250 Locust Avenue, Long Beach, California.

Also available, at the Long Beach City Clerk's office, are the well histories of the aforementioned eight core holes.

It is felt that the structural interpretation of the Wilmington Offshore area has been fairly well established based on information obtained from the eight exploratory core holes. No further major changes are anticipated until additional data becomes available.

The only charges for the structure and isopachous maps will be the Long Beach Blueprint Company charges. The core hole well histories are available in sets and may be purchased for $3.00 per set, including tax, from the Long Beach City Clerk, 101 City Hall, 205 West Broadway, Long Beach 2, California.

Very truly yours,

LEONARD W. BROCK
PETROLEUM PROPERTIES ADMINISTRATOR
by J. W. Parkin
Petroleum Engineer

LWB: JWP: dl

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COPY OF LETTER  December 27, 1962

Shell Oil Company
1008 West Sixth Street
Los Angeles 54, California

Attention: Mr. Earl A. Armbruster

Gentlemen:

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.

Very truly yours,

LEONARD W. BROCK
PETROLEUM PROPERTIES ADMINISTRATOR

LWB: dl
COPY OF LETTER

CONTINENTAL OIL COMPANY
1137 Wilshire Boulevard
Los Angeles 17, California

ATTENTION: Mr. Schmidt

Gentlemen:

Copies of all the logs run in the first three test holes drilled in the Long Beach Offshore Area, together with all core and sidewell sample analysis data, are available at the Long Beach Blueprint Company, 250 Locust Avenue, Long Beach, California. A base map showing the locations of the core holes is also available. The only charge is the cost of reproduction.

Additional data will be made available through the Long Beach Blueprint Company at a later date on the other test holes which are currently being drilled in the area.

Very truly yours,

LEONARD W. BROCK
Petroleum Properties Administrator

COPY OF LETTER

September 20, 1962

Texaco, Inc.
1215 East San Antonio Drive
Long Beach 7, California

Attention: Mr. Norris Saunders

Gentlemen:

Transmitted herewith is a copy of the Unit Agreement, Unit Operating Agreement and Exhibits to Unit Agreement for the Long Beach Unit, Wilmington Oil Field. Also included is a copy of the first draft of the Field Contractor Agreement. These documents and any revisions thereto must be approved by the State Lands Commission. If approved, it is hoped that the City will ask for bids on the Field Contractor Agreement in early November.

The Field Contractor Agreement is still in the early drafting stage and is submitted to prospective bidders as a means of expediting the operations. Although the general provisions have been discussed and approved by the City Council, the agreement itself has not been considered. Any criticisms or suggestions to improve this agreement will be considered but must be made at the earliest possible time.

Very truly yours,

LEONARD W. BROCK
Petroleum Properties Administrator

(End of comments on Statement of L. E. Scott)
Before commenting on the Shell Oil Company statement itself, it is well to note that representatives of the Shell Oil Company have been given every opportunity to make suggestions and criticize any of the proposed documents. They have been given all available data that they requested. Shell personnel received copies of the Unit Agreements and other related documents as early as 9-19-62. Many meetings between Shell and City representatives have been held, but most of the objections raised in Mr. Clark's statement to the State were never presented by Shell. It should be noted that the documents as presented were finalized only after extensive consultation with members of the State Lands Commission staff and the State Attorney General's offices and many modifications were incorporated in the final contracts.

This discussion follows the sequence of comments as presented in Mr. Clark's prepared statement, which will be quoted as each section is answered.

"COMMENTS ON PROPOSED LONG BEACH UNIT - WILMINGTON FIELD - BEFORE SPECIAL HEARING OF STATE LANDS COMMISSION, SACRAMENTO, CALIFORNIA - FEBRUARY 28,1963 BY D. E. CLARK, SHELL OIL COMPANY"

"We appreciate the opportunity to comment on the proposed form of contracts for the formation and operation of the Long Beach Unit of the Wilmington Field.

"Our views on the proposed contracts, briefly stated, fall under three general headings: Operations, the State of California's Interest, and Industry at Large."

"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 language relating to operations is well known to us and the scriveners demonstrate considerable familiarity with the oil and gas operations. The observed omissions are generally most favorable to the industry."
COMMENT:

Shell's comments on the operating features of these contracts are generally favorable. We find nothing constructive in the inference that there are certain "omissions" that are "generally most favorable to the industry." We know of nothing omitted from these documents which would be detrimental to the interest of the City-State or the public interest.

"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 significance to the State."

COMMENT:

It is difficult to comprehend this statement, for when the Contractor computes a bid, all phases of cost must be considered when analyzing any expense item and thus all expense items affect both the Contractor and the State and the City. This would be true under a gross bid, net bid, bonus or combination of same. We feel that the method as recommended by the City better protects the public welfare and will be further elaborated on under the two subsections, one of which, Federal Taxes, is not a reimbursable item, and the other, Ad Valorem Tax, which is a reimbursable expense.

"1. FEDERAL TAX"

"The proposed field contract provides that the so-called production payments constitute installments 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 Contractor, i.e., 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."
COMMENT:

The method as arrived at in the proposed agreement was ascertained only after long deliberation with tax attorneys representing the oil industry, including Shell. Our main thought was to eliminate the treatment of this payment as a bonus under income tax interpretation. It should be pointed out that the City may exercise the option of requiring this payment. It was the thinking of some that this definitely would strengthen the contention that this item need not be capitalized.

Although Shell representatives brought up their objections to the advance royalty clause as contained in this contract at various meetings, they offered no acceptable alternates.

Shell has stated that it has an informal opinion from the Treasury Department stating that this payment would be a bonus. We requested a copy of this opinion from the company in a letter on March 8, 1963.

While any acceptable proposal certainly would be considered, it should be pointed out that this is but one factor in the bidding. If some companies feel that this is a bonus, they should bid on that basis. However, there are others who regard it as a production payment and will bid in accordance with that opinion.

This element of risk is one of the features of competitive public bidding in a true democratic society.

We feel that there are many factors of a far greater magnitude that all prospective bidders must consider. Such is the cost per barrel for the extraction of oil. Some might feel that 75¢ per barrel is adequate while others might feel $1.00 is more realistic. We have had various opinions from tax consultants relative to the advanced royalty payments, and from engineers on costs and production. We feel that the contractor must take all of these items into consideration, and the one who is willing to bid the most after studying all factors will be the successful

95
bidder. In short, we feel that the City or State is under no
more compulsion to guarantee this phase of the contract than they
are to guarantee various engineering and 'her cost items, which
would have far more effect on the ultimate bid.

"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 confer-
ence 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 100%
interest in the tidelands property rather than only the net
profits interest of the contractor. The De Luz case (Calif.
Sup. Ct. 1955) 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 deduc-
tion 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 re-
duced, since under the field contract taxes are a chargeable
expense. We estimate that on a recovery of only 800 mil-
lion barrels of oil in a thirty-five-year period at a per
barrel rate of 20 cents, which appears to be the current
maximum 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."

COMMENT:

In reviewing various State leases throughout California,
we find that the taxing jurisdictions tax the company's inter-
est in the operation. We have discussed this matter with Mr.
Watson, the County Assessor, and as of now, no definite conclu-
sion has been reached in regard to the proposed tax to the
contractor on the entire leasehold and the undeveloped oil
reserves. However, we in no way believe that the contract as submitted by the City in any way strengthens the possibility of this tax. Certainly by the net profit method contract as proposed by the City, the ultimate bid factor would be only a fraction as compared to any other type contract. This would also eliminate the possibility of a windfall for the company in the event that the assessment was not made in the manner indicated by Shell.

In summary, (1) the type of contract has nothing to do with the assessment methods, (2) the City and State are better protected under the proposed type contract than any other.

"3. 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 lawsuits 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."

COMMENT:

The purpose of advance payments is to provide income to the City and State during the period of development when no net profits are available. It is expected that under a reasonable development program net profits for payment to the City and State will be available in three to three and a half years. Under bonus type bidding as advocated by some, and practiced elsewhere, the entire amount would be paid in advance with no thought of impoundment.
"(2) The contract contains three elements providing for its own nullification.

"First, we refer to the requirement of the commitment of 60% 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."

COMMENT:

On this point, Mr. Clark is referring to companies who had previously submitted into the record letters stating their desire to sign the Unit Agreement. The City representatives have been assured to their own satisfaction that the companies involved in drafting the Unit Agreement were prepared to sign these agreements when asked.

Obviously it is the City's intention, and we believe the State would insist, that the Unit and Unit Operating Agreements be executed prior to opening the bids for the Field Contractor Agreement.

At the Unit meetings when the execution of the Unit Agreements was discussed, it was the City's contention that no point would be served in signing prior to State Lands Commission approval. Conversely, the impact of bringing a signed document to the Commission for approval might be interpreted to mean that a rubber stamp approval was indicated.

"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 21 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."
Similar provisions are found in the Fault Block II, Fault Block III and Fault Block IV unit agreements now in effect in the Long Beach Harbor area which the Attorney General and the State Lands Commission previously approved. The Fault Block II contract, which was the forerunner of these units, was approved by the California Supreme Court in the case of Vickers v City of Long Beach. Such agreements have been approved by attorneys representing each of the companies owning working interests in the units including Socony Mobil, Union Pacific, Ford Motor Company, Signal Oil and Gas, Southern California Edison, Humble Oil Company, Richfield Oil Company, Termo Oil Company, Superior Oil Company, and Universal Consolidated Oil Company.

In addition, attorneys for Standard, Union, Signal, Richfield, Jade, and Continental Eastern together with the Attorney General and the Long Beach City Attorney, have approved the Long Beach Unit.

"(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. This 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."

The Unit Agreement states the addition of lands by resolution of the City Council can be done only "when the City Council of the City by resolution finds there is a danger of subsidence in the Unit Area without the addition of tide and submerged lands" east or west of the Unit area. This provision is designed to allow the City Council to extend the Unit to the east or...
to the west without obtaining the approval of other companies in
the Unit in the event it is necessary to do so to prevent sub-
sidence.

The provision referred to was placed in the agreements at
the insistence of the City over the protests of Upland working
interest owners. This provision in this Unit Agreement obvi-
cusly cannot affect the terms of other agreements or contracts
covering property to the east or west of the Unit area. It in
no way would allow the City to extend the term of any existing
contract. At the expiration of these contracts, both the State
Lands Commission and the City Charter require competitive bid-
ding for new contracts.

"(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."

COMMENT:

The State leasing provision requires the crude oil price
to be the current market price defined as "not 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 delivering of such oil to onshore storage and trans-
portation facilities." This does not necessarily mean the
"highest posted" price at the well. The State leases obviously
deal with a different pricing policy than the one before us now.

It must be remembered that the contractor on a State lease
can quit claim the lease at any time and avoid all further obli-
gations including the purchase of oil at an unrealistically high
price. In addition, the oil involved in the State pricing pro-
vision is only the State royalty oil, sometimes as little as
12½% from the lease.
The precedent of using the average posted price for determining the market value of oil was established in the other Wilmington units. All these other units approved by the State Lands Commission provide that the market value of oil will be "established by the average of the prices posted by Standard Oil Company of California, Socony Mobil Oil Company Inc., Texaco Inc. and Union Oil Company of California ......"

Both existing Long Beach tidelands oil contracts provide for oil payment on the average posted price. Since 1950 the difference in payment on the LBOD contract between the average and highest posted price has been equivalent to about 16 hundredths of a cent per barrel. This proposed contract requires payment on the 1/10 degree gravity. This will average about 3¢ per barrel more than an even degree gravity payment. The Field Contractor must pay a price as high as he pays anyone else in the field. Since the equity formula is influenced by the fluctuation between high and low gravity prices, it is well to have the price tied to the average. A townlot working interest owner who also posts would have little effect on the over-all price.

A tabulation of the "posted" price of 200° crude for the past ten years is attached.

The City feels that the antitrust laws concerning "posting" and regulation of prices are adequate to protect the City and State in this instance. The purchaser if he posts will have only one of the prices used in the average. His motives would be fully understood if his price were always low. An adverse effect on the over-all bid would result if the purchaser were to be put at the mercy of any small operator who for short periods of time were paying an unrealistic price for oil to insure immediate refinery needs. The short term purchaser takes advantage of depressed prices when the market is oversupplied and
pays a premium when oil is in demand. A long term contract should give a true value to the oil without these short term fluctuations caused by the immediate needs of any purchaser. Several years ago a large percentage of producers in Wilmington that did not have long term contracts were either curtailed or selling oil at 50c per barrel under "posted" price.

"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?"

COMMENT:

If this is a problem, it would be a problem which would exist regardless of what price standards are used. The pattern of using average posted prices has been used in existing units in the Long Beach Harbor area of the Wilmington oil field and no problems have been encountered. Further, we feel that there are ample laws in existence which protect against price fixing.

If ever found to be a problem, the companies involved can easily take care of it by simply stopping their practice of "posting."

"(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 1½ billion barrel reserve in a single parcel by a single operator or even a combination thereof.

"The problem that concerns us is the antitrust 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
"antitrust 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."

COMMENT:

It hardly seems possible that a 1 1/2-billion barrels reserve will materially affect the world reserve of in excess of 300 billion barrels. What is the real effect of the estimated 150 thousand barrels per day production on the national demand of 10 million barrels per day? The Shell import quota is now 47,000 barrels per day of cheap foreign oil which would equal 600 million barrels over the term of this contract.

It is interesting to note that on the basis of the Royal Dutch Shell Group current production of 2,900,000 barrels per day (statement of President of Royal Dutch Petroleum Company) that during the lease period of the proposed contract that they would produce 35 billion barrels or in excess of 21 1/2 times the total production of the area under discussion. Considering the Shell Group production above, one must stretch his imagination to remotely envision the "complex international" problems that this contract would create.

This contract will be awarded after competitive bids. It also must be remembered that the City with State coordination retains full control over the rate of production and the Field Contractor does not own the oil in place as in a normal lease.

We understand the antitrust section of the Attorney General's Office reviewed this aspect of the contract before the Attorney General approved the form of the agreement.

"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."

**COMMENT:**

The Shell Oil Company statement offers no substantiation that letting the contract in parcels will afford a greater return.

Physically splitting the offshore area into several operational parcels is completely unacceptable from the standpoint of subsidence control. The continual supervision, coordination and arbitration between operators that would be required to insure adequate protection against subsidence in this very complex geologic area would be extremely costly. The duplication of operations and personnel required by the several contractors also would add greatly to the cost of operations. It probably would require a change in the City drilling ordinance. Furthermore it offers no advantages that cannot be obtained by other means.

It has been suggested that Tract 1 could be split into parcels but operated by one contractor under the terms of the Unit Agreement. Although less objectionable from the standpoint of subsidence control, and possible under the City drilling ordinance, this plan also has disadvantages. It seriously complicates the determinations of equities. Additional City personnel would be required for the coordination of the probably divergent interests of the various contractors. The bid would suffer because of the uncertainty involved in dealing with unknown partners and because of the fact no bidder would have advance knowledge of the operational and technical ability of
the Field Contractor. Again this plan offers no advantages not obtainable in the following proposals.

The suggestion of splitting Tract 1 into biddable undivided interests is operationally very similar to the proposal by the City. The main operational disadvantage would be the added City staff required to coordinate the operations and the loss occasioned by the inevitable compromises of a large number of divergent interests. All indications are that no single company will bid on this project alone. This means that this undivided interest proposal and the City proposal under consideration are in reality very similar. The main difference is that the plan as proposed by the City would allow the companies to follow the processes of free enterprise and select their partners and the terms of the agreement that bind them together. The undivided interest proposal would force companies together with unknown partners under a contract formed by governmental bidding procedures. For the following reasons, the City proposal is superior and will result in a greater income to the City and State.

1. Advance knowledge and confidence in the technical ability and operational know-how of the field operator by the partners in the combine will result in a better bid.

2. The flexibility in forming a combine to meet the particular needs of the various partners will result in a more favorable bid. As an example, a combine could be set up whereby one partner conducted the operations, took 20% of the oil, put up 10% of the capital and obtained X per cent of the operational profit. Another variation could allow one partner to take 5% of the oil in the initial stages and 40% after 10 years. The option to change these percentages as operations proceed could also be extremely valuable.

3. An advance voluntary agreement prescribing operational
procedures among partners and presenting a unified plan to the
City and State will be more assuring to bidders than being at the
mercy of unknown partners and operators.

4. It will be far more economic for the City and State to
deal with one identity rather than several.

5. The advantage of operating the property, including 3%
overhead allowance, would be reflected in only one segment under
the undivided interests bid, while it would influence the whole
bid as proposed by the City.

6. A bid on the whole by a group of companies formed under
their own terms will be superior to that of individual companies
bidding on undivided interests. Since the various combines have
but one chance they will exert more effort to produce the best
bid. This method will eliminate the possibility of collusion in-
volved in multiple parcel or undivided interest bidding. The
letting of the bid in parcels will not necessarily eliminate the
possible "concentration of economic power" in "a single company
or even a combination thereof." This same single company or com-
bination thereof could win all parcels. It is highly improbable
that any one company can bid alone and no one has suggested that
this is a probability.

It should be pointed out that the Harbor Department report
did not recommend the development of this area in parcels as
such. Division into parcels was only one of several alternatives
outlined in the Harbor Department Report. The reference to en-
dorsement of this policy by the State Lands Commission staff
appears to be in conflict with the statement given at the
2-28-63 meeting.

"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 reimbursements 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."

COMMENT:

Although termed an administrative expense agreement rather than a pre-unit expense agreement, in each of the other Wilmington units a similar arrangement was used and proved to be satisfactory to the working interest owners to handle unit expenses incurred prior to unitization. Although such pre-unit expense agreement was never executed, its purpose was to cover the cost of printing the unit documents estimated at $20,000 if the Long Beach Unit did not become effective. The City would have supplied the Shell Oil Company with this information at any time.

"SUMMARY:

"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 the 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."

COMMENT:

We believe the contract as presented will obtain the
maximum economic return to the City and State while protecting
the City of Long Beach from subsidence and despoilment of the
beaches and tideland area. Mr. Clark has not presented any facts
or specific proposals to alter this thinking.

******

A COMPARISON OF WILMINGTON POSTED PRICE BY
STANDARD, MOBIL & UNION OIL COMPANIES

<table>
<thead>
<tr>
<th>Company</th>
<th>Effective Date</th>
<th>A.P.I.</th>
<th>Company</th>
<th>Effective Date</th>
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<td>&quot;</td>
<td>2.13</td>
<td>Mobil</td>
<td>Oct. 2, 1958</td>
<td>2.44</td>
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<tr>
<td>Union</td>
<td>&quot;</td>
<td>2.13</td>
<td>Union</td>
<td>Oct. 1, 1958</td>
<td>2.44</td>
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<tr>
<td>Average</td>
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<td>2.13</td>
<td>Average</td>
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</tbody>
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| Mobil    | "             | 2.34  | Mobil    | Oct. 2, 1958  | 2.44  |
| Union    | "             | 2.34  | Union    | Oct. 1, 1958  | 2.30  |
| Average  |               | 2.34  | Average  |               | 2.3933|

| Mobil    | "             | 2.42  | Mobil    | Oct. 2, 1958  | 2.44  |
| Union    | "             | 2.42  | Union    | Apr. 1, 1959  | 2.44  |
| Average  |               | 2.42  | Average  |               | 2.44  |

| Standard | Feb. 7, 1956 | 2.44  | Standard | Sept. 11, 1959 | 2.28  |
| Mobil    | "             | 2.44  | Mobil    | Sept. 2, 1959  | 2.15  |
| Union    | "             | 2.44  | Union    | Sept. 1, 1959  | 2.15  |
| Average  |               | 2.44  | Average  |               | 2.1933|

| Standard | Nov. 19, 1956 | 2.73  | Standard | Sept. 11, 1959 | 2.28  |
| Mobil    | "             | 2.73  | Mobil    | Sept. 18, 1959 | 2.28  |
| Union    | "             | 2.73  | Union    | Sept. 1, 1959  | 2.15  |
| Average  |               | 2.73  | Average  |               | 2.2366|

| Standard | Jan. 17, 1957 | 2.98  | Standard | Sept. 11, 1959 | 2.28  |
| Mobil    | "             | 2.98  | Mobil    | Dec. 17, 1959  | 2.28  |
| Union    | "             | 2.98  | Union    | Jan. 1, 1960   | 2.28  |
| Average  |               | 2.98  | Average  |               | 2.28  |

| Mobil    | "             | 2.88  | Mobil    | Sept. 28, 1960 | 2.30  |
| Union    | Apr. 16, 1958 | 2.88  | Union    | Sept. 24, 1960 | 2.30  |
| Average  |               | 2.88  | Average  |               | 2.30  |

| Mobil    | "             | 2.67  | Mobil    | "             | 2.35  |
| Union    | Jun. 10, "    | 2.67  | Union    | "             | 2.35  |
| Average  |               | 2.68  | Average  |               | 2.35  |

| Standard | Sep. 30, 1958 | 2.44  |
| Mobil    | Oct. 2, 1958  | 2.44  |
| Union    | Oct. 1, 1958  | 2.44  |
| Average  |               | 2.44  |

END OF LONG BEACH COMMENTS ON STATEMENT OF D.E. CLARK
MR. CRANSTON: I believe now would be the appropriate
time for us to hear from representatives of industry if there
are those who would like to speak at this time. The other day,
at the outset there were three representatives who indicated
they would like to speak and one vanished by the end of the day.
Is that person here now, and would he like to speak? We did not
get him identified the other day. (No response) If not, is
there anyone else who wishes at this point to speak?

MR. FORAKER: My name is W. A. Foraker, President,
Orion Oil Company. We have acquired approximately one per cent
of the upland leases and have a statement that does not have to
be read into the record. It relates to participation of the
Equity Committee. I would like to have it clear in the record
but won't take your time to read it.

MR. CRANSTON: Thank you very much. It will be
included in the record.

(Statement follows):

"STATEMENT BY W. A. FORAKER, President, Orion Oil Company,
to State Lands Commission hearing in Sacramento March 28,
1963, requesting change in the Equity Committee membership
requirement for upland working interest owners, Long
Beach Unit.

"In the upland tracts 3 through 91 of the Long Beach Unit,
equity committee membership is now arbitrarily limited to
participants owning two per cent (2%) or more of the sur-
face acreage, or one and one-half per cent (1½%) of unit
participation at any given time.

"As one of the independent owners of working interests in
the upland, we request that equity committee membership
be available based on one per cent (1%) or more of upland
surface acreage, or three-fourths of one per cent (3/4 of
1%) of unit participation at any given time.

"This change will protect the interests of upland opera-
tors and royalty interest owners who otherwise would
receive payments based on allocations determined solely
by the major working interest owners.

"We have one per cent (1%) of the townlot under lease.
Our participation will require capital investments and
future operating costs approaching one million dollars
($1,000,000)."
"To insure fair representation in future operations, it is mandatory that pertinent sections of the agreements, including Exhibit D of the Unit Agreement, be modified. We also call this request to the attention of the City of Long Beach and the other companies holding upland working interests."

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MR. MITCHELL: My name is Johnny Mitchell and I am president of Jade Oil Company. May I ask the Commission -- I don't quite follow your position as to how this thing will proceed. Will you be making a decision today?

MR. CRANSTON: No. The staff will seek to work out a mutually convenient date with the City of Long Beach and with representatives of industry to examine the contract in as much detail as anyone feels is necessary, and I think that is considerable detail.

MR. MITCHELL: What do you call "industry"?

MR. CRANSTON: Anyone from the public or from oil companies will be welcome to submit their ideas on this contract. Following this, the staff will also throw into the hopper its own thoughts and any thoughts expressed by this Commission to the staff. Following that process, there will be further hearing by this body to resolve any differences, and as soon as possible consistent with our own findings that we have before us, we will decide on the contract.

MR. MITCHELL: You mean another hearing here?

MR. CRANSTON: Yes -- after much of the detail can be hammered out in this staff meeting and brought to us in some form.

MR. MITCHELL: It seems to me -- these delays kind of surprise me because you have had it since September. I don't know where O'Sullivan is -- but he has had it, the industry has had it and the State has it. This has become a political football. I mean, these opposing companies have had ample time to
discuss, to read, to translate, to leave the pressure off the
State. I mean I don't approve of the tactics or the procedure
this thing has gone through. Am I at liberty to express my
views?

MR. CRANSTON: Of course you are.

MR. MITCHELL: I don't want to be out of order.

MR. CRANSTON: Anything you want to say --

MR. MITCHELL: I am an independent and I fight for my
rights, and I believe in my rights, and I believe this industry
here is great enough and it is competitive enough that it has no
room for political influence; and I say here that this thing has
been postponed purposely -- because no greater contract can be
written. I don't think there is a qualified Senator that can
understand anything about a contract. Who this contract was
adopted by, I don't know; but I object seriously that people have
had it since May; I have been in meetings with my representatives
with Standard and major companies and I have been treated with
utmost courtesy, respect. There was some question in O'Sullivan's
paper in Butte County -- (Unintelligible to reporter).

I want it in the record here that from May until
September, Jade owned fifteen hundred leases in the Long Beach
area, and Jade is actually the smallest interest owner of the
opposition, or those that are in favor of the Long Beach plan;
and it wasn't until November of last year that I decided to sell
half of my interest to Standard and I have sold half subject to
certain conditions.

I mean, I don't speak just for the sake of speaking.
I am president of Texas Independent Producers and Royalty Owners
Association in Texas, which is composed of six thousand members.
I was supposed to be in Washington yesterday testifying. I am
a member of the National Petroleum Council, was supposed to be
there last Friday but came here because I thought surely I would be accorded a fair representation in this State. I am very proud of my ancestors and very proud to be a part of California producing.

I believe we ought not to deprive the people of California by continuing delay and I don't think the State Legislators or the Assembly here is qualified to govern the production of the unit plan. I think it is purposely done for a particular reason.

For the record, I think I will re-read both my letters, if you don't mind:

"Mr. F. J. Hortig
Executive Officer
State Land Commission
State Capitol
Sacramento, California

Dear Sir:

I am taking the liberty of answering some of the points brought forth at the hearing last week involving the City of Long Beach tideland development.

The objections were presented by Pauley Petroleum, Shell Oil Co., and Texaco. There were several objections presented by this group and with your permission, I would like to answer a few of the objections with the following statements.

My name is Johnny Mitchell. I have been the President of Jade Oil & Gas Co., a California corporation, chartered in 1908, since 1960. Our company is listed on the Pacific Stock Exchange and has been producing in California since 1908. Aside from being President of Jade Oil Co., I am a partner in the independent producing firm of Christie, Mitchell & Mitchell, operating out of Houston, Texas, operating approximately 1,100 producing wells in Texas, Louisiana, Oklahoma and Canada.

Our firm has been operating as a partnership since 1946 and we are recognized as one of the leading independents in the midcontinent area. I am presently President of the Texas Independent Producers and Royalty Owners Association, consisting of 6,000 members. This is the largest oil association of its kind in America. I am also a member of the National Petroleum Council, appointed by the Secretary of the Interior.

Jade is a relatively small producing company. The only production that this company owned prior to my becoming President, was fee-producing royalties in a few wells in
"the Taft Field, Kern County, California. We now own approximately 50,000 acres of leased land in California, and are producing approximately 600 barrels of oil a day in the Salt Lake Field, Los Angeles. In addition, we own joint interest in several gas wells in northern California. A large part of our holdings are in Texas and Louisiana.

We take exception to the statement issued at the State Land Commission hearing regarding Long Beach, in which these companies stated that the proposal submitted by the City of Long Beach was monopolistic. We should like to be on record that of all the companies present at this hearing, both for the Long Beach proposal and those against it, Jade Oil and Gas Co. is by far the smallest company in assets and income. If anyone should use the term monopoly due to assets and size, it should be Jade.

It is strange that an oil company presenting testimony would think that the advantage of alertness of his competitor is a part of a monopoly plan. I am a newcomer to the State of California, having been in California for the past three years. I was aware and have known that the Wilmington area in Long Beach, both onshore and offshore, has been a proven oil reserve. I was aware that some of the smarter major companies that believed in the new Wilmington area were investing their capital in leases onshore. From an onshore advantage, they planned ahead for the future unit and specifically for the day when such a proposal could be presented to the State Land Commission for the approval for the development of this vast reserve of oil. Without a doubt, the objectors were equally aware of this one-billion barrel of oil reserve.

Never in my career as an independent oil man have I ever heard competitive producing companies of such magnitude make such excuse of the word monopoly when the fault of not being oil-minded was entirely their own. There is no question in my mind that these companies that are objecting to the City of Long Beach's proposal had the same opportunities to lease the onshore leases and the same opportunity to form a combine to bid the offshore. If a company as small as Jade Oil and Gas Co. was able to enter the Long Beach area and successfully lease over 1500 town lots since last February, comprising of 300 acres, then I find it ridiculous for anyone to offer a protest.

In these unit agreement meetings, Jade's smallness was respected and great concern was shown to protect my company's interests by these major companies. To be a part of this unit agreement, to be able to vote yes or object for the many problems that arose, to be able to present our engineering analysis and opinions at these meetings certainly proves that there was not any intention of the companies and the City of Long Beach to write a unit agreement in favor of these larger companies.

The Long Beach onshore-offshore area, as we have all been told, comprises one of this nation's largest known oil reserves and will in time be a major supplier of crude oil in this state, especially at a time when the other producing capacities of California are decreasing each year.
"As a technical man, I find it impossible to even consider dividing the offshore into separate parcels to satisfy the individual tastes of a few objecting operators. Certainly, these objecting operators have had ample time to be a part of the unit by acquiring onshore leases. Through their negligence, and for other reasons unknown to me, these companies that are objecting today simply missed the boat. I can safely assume, knowing the policies of the objecting companies, that the search for new oil for these objectors in the past few years has carried them to foreign countries where they thought the search for oil could be more profitable. They awakened too late to discover that one of the greatest oil fields in America was in their back yard. To criticize the prudent ability of the companies who believed in California production, who invested in the Long Beach area and finally concluded a logical unit operating agreement, should be complimented, not criticized.

All companies are aware that an oil field of such magnitude as Long Beach requires unit planning, controlled drilling, pressure maintenance, water injection to prevent subsidence, and most of all, properly drilled wells on a well by well basis to insure maximum economic recovery.

Supposing that we could even consider the case of the objecting companies and were to divide Tract #1 into many parcels, it would require several more operators, joining small units, but it would require not only the drilling of many unnecessary wells, but cause uncontrollable production from each operating unit. It would greatly complicate pressure maintenance and proper injection control, but worst of all, it would create law suit after law suit between unit operators attempting to find a fair equity formula between each unit. I believe that any logical engineer or capable oil man would testify that it is impossible to determine the water levels of the different sands, foresee the fault patterns of this giant reservoir, place the locations for the 1,000 producing and injection wells to be drilled. Only on a planned drilling program under one unit agreement can such a complex operation be carefully carried out. Every well drilled could cause a change of location for the next one. Fault patterns were placed by nature millions of years ago, water levels were also formed by nature and only by drilling can they be truthfully determined. It is impossible to even think that the objectors, all of whom are qualified, could even have the courage to ask that this potentially great reservoir be divided into different units purely for their selfish purposes, completely forgetting that the State and the taxpayers will be losing millions of dollars in revenue unless it is kept in one unit and under one operation.

There was also the objection that the cost of bidding in this offshore parcel was too costly to any one company. Reference was made that the objecting companies were partners in other offshore parcels in California and had served the State in bidding, drilling, and producing oil in other parts of the coastal waters of California. It could be asked, why not join hands here. May I add this thought also, since we are a smaller company and unable to participate in the bidding on other offshore parcels, we find it possible to join the Long Beach unit.
"It has been the practice of this industry for years that what a producer can afford, he tackles, and what he cannot afford, he watches. This is my first experience to see major companies object on the grounds of monopoly when their resources are equal to or superior to the operators who are successfully working out the Long Beach unit. I have come to the conclusion that these producers who are objecting to the Long Beach unit have no objections to the offshore parcels they control along coastal California. It seems that these objectors only cry monopoly when they, through their own negligence, failed to take care of the golden opportunity in Long Beach.

I differ with the statement that the increase of domestic production by one company will increase its import allowable. This is not a true statement. Imports are based primarily on refinery runs and there is no present indication that anyone is increasing their refinery capacity and even if they do, the import allowable is primarily based on historic imports. The objectors failed to point out that the combined bidding on Tract #1 is not one company, but is composed of a group of companies. The oil produced will be delivered to the tanks in kind for each company to take their respective portion. As small as Jade is, I will have the privilege of collecting my share of oil from this unit. This again dispels monopoly.

If I had unlimited resources, I would like to join one of these combines in bidding this offshore. Even so, I do not hold any personal grudges against those that are able to bid, and above all, wish them success.

There are serious problems in the distribution of oil from this unit and I anticipate that these major producers who are able to bid this unit in will have to be fair and just with the over-all State production. With Long Beach, this State can become self-sufficient in its own domestic production, eventually eliminating imports from Canada and certainly from abroad. I am sure that eliminating imports will be very hard for some of the objectors to accept, as they have spent most of their time in Washington at the Appeal Board trying to import more oil into California rather than find it. What surprises me the most was to hear these objectors even state that they are interested in California production with their past history of living in Washington, asking for additional imported oil.

It would certainly seem that these objectors can combine their talent and resources if they want to, to bid and operate the Long Beach unit. From the objections I have read it is evident that the objectors are not concerned with uniting as a team, but are only anxious to divide and personally gain from this division.

I am concluding my opinions with the request that this Long Beach reservoir in all its greatness be properly developed into one unit and be preserved as a model field of today and the future. To tear this great field apart for the whim of those that missed the boat would not only be tragic to the State of California, but an insult to nature itself."
MR. MITCHELL (continuing) I have one more page, if I may. This was written last night and it may be rough, but my feelings are given:

"Mr. F. J. Hortig, Mr. Champion, Mr. Cranston, Mr. Anderson, for the second time I object to the statement of Shell Oil Company, Pauley Petroleum Company and Texaco. I feel sure there are other companies of the same stature hiding behind the statement of Pauley Petroleum Company. In my opinion, these objections are being presented to confuse the State Land Commission and other responsible members of the State Legislature.

This Long Beach Plan was not born from immaturity. The present producing Wilmington field has produced over 900,000,000 barrels since 1936, ably administered by competent supervision, ably staffed by technical men as well as practical men. The personnel and experience of many of the objecting major oil companies, as well as those of the companies that are in favor of the Long Beach Unit Plan, are perfectly capable and responsible to operate the One Unit Plan. In fact, the experience gained in drilling and producing the present Wilmington Field will offer the successful bidder years of added experience that will enable this unit operation to be a model field operation.

I find it strange that within this group of opposing companies and included in the opposition are State Legislators who are for some reason favoring postponement. They do not realize that this giant field should not become a political football, matching giant against giant and the outcome of such fierce opposition will ultimately mean that the State, the City of Long Beach, and most of all, the people of California will be the only real losers.

The oil and gas in place belong to two groups of people. The first group are the fortunate onshore royalty owners and there are 10,000 of them, who are able to participate in such a fair operating plan. Their interest in the unit is small inasmuch as the onshore parcel has less oil than the offshore parcel in the Long Beach unit. The second group to benefit is the taxpayers of the State of California and they number into the millions and it is the responsibility of the State Lands Commission to see that their interests are protected by an efficient unit operation. Any other operation will automatically mean a loss of millions of dollars of revenue to the State and out of the pockets of the taxpayers.

It is significant to note that 90 percent of the oil in place belongs to the State of California and to the City of Long Beach. The opposition continues to mention that this oil belongs to Standard of California, Richfield and other companies that favor this unit agreement. This is as far removed from the truth as any statement that could be presented at any public gathering for misrepresentation. This oil belongs to the people of California. Income from this production will be divided between the State of California and the City of Long Beach. I could safely estimate
"that over 85 percent of the oil reserves offshore, being approximately one billion barrels, will be produced solely for the benefit of this great State as well as for the City of Long Beach, both being custodians for the people of this State.

The winning bidder of this offshore unit is only the field contractor who makes sure that the State and the City of Long Beach's oil interests are protected by being properly drilled, produced and marketed. All of the benefits of good unit management will be passed on to benefit the people of this State. Only a small fraction of this total amount of oil in place, and I think the percentage will be between ten and fifteen percent, will be rightfully earned by the successful bidding combine. Poor, inefficient operation automatically means losses of millions of dollars to the people of California.

I wish to make one further statement about the opposing combine's statement that they objected to the advance royalty payments being paid by the successful bidder to the State and to the City of Long Beach. I believe I can truthfully state that most of these opposing companies have spent more money, either alone or in joint operations, on foreign shores for foreign oil than the advance bid requested on Long Beach. In addition, the foreign operation of these opposing companies has done far greater damage to the price of our domestic crude here in California than the additional production to be produced in Long Beach will ever accomplish. Even though they are aware that their foreign operations are greatly responsible for the depressing of domestic crude prices, the opposition comes before this Commission to publicly state that to produce oil in the new Long Beach unit by certain combines will seriously handicap the future oil prices in this State and the nation.

Gentlemen, again I stand confused for I find it hard to believe that companies supposedly with such large assets as Texaco, Shell Oil Company, Pauley Petroleum Company and their partners can misrepresent facts so broadly, confusing an issue that is so vital to California and to the millions of taxpayers of this great State.

I trust in the wisdom of this Commission to go forward with the Long Beach Unit Agreement immediately so that the benefits of this important operation will lessen the serious tax burdens that our State is facing.

In closing, I wish to offer the group that presents the best bid my company's congratulations for I have no fear that any combination of companies could not operate efficiently, provided the One Unit Plan is adopted."

MR. MITCHELL: Thank you.

MR. CRANSTON: Thank you very much.

MR. CHAMPION: Mr. Mitchell, would you wait a minute, because I think we can straighten out a few things.
I understand your impatience in this situation, but I think in part there is some allusion about the role of this Commission in considering this matter. We are not concerned as between bidding oil companies. You are quite right when you said our concern is the major return to the people of the State of California.

It is possible that the Long Beach plan as presented is the best plan. It is, however, our obligation to listen to any other proposals, to consider any other proposals. There has been no political approach to me, and I doubt there has been to any other member of this Commission. We are not concerned with a political football here; we are concerned with a maximum return to the people of the State of California.

Now, there are two relationships involved in this. One is our relationship to the City of Long Beach as operator and the other is our relationship in attempting to get a proper working operation so that we, as major beneficiary of this trust, have the proper control over what we are going to benefit from; and the other major concern is one we have already stated, that method of leasing which produces the maximum public return.

Now, I happen to agree with you on the one-unit plan. Anything else I have seen, I am not sympathetic to. There might be additional evidence that might persuade me. There are, however, many ways to operate the one-unit plan and they ought to be considered -- again, to get the greatest possible return. While we want to make haste -- we do want the money as soon as possible -- in the end we wish the greatest return, not the fastest return.

If you feel in some way we are not representing the true interests of the people of the State, I'd appreciate further comment from you.
MR. MITCHELL: You know, I read about the bidding on a contract of 20%, 30, 10, and so forth and so forth and the companies bidding on a net profit on each portion. Say Richfield wanted to bid 30% at 85%; I may bid 5% on 90%. Then I would be on Richfield's back because they are operating on 90% and I want to produce on my 85% plan. "If they caint toe the mark, they should get out." They don't belong. This business is tough; we go busted week after week. You never hear an oil man cry. This is the first time in my life I have heard major oil companies cry because they are in competition. I think it is an insult to the industry.

MR. CHAMPION: Anybody can say what they want before us, though we may not agree with them, as we have listened to you. My concern is that we be understood -- that we have the right to examine these alternatives which you say will not produce the greatest returns. We may agree. We have a competent staff to analyze this, and I think we should take whatever time we need to examine the alternatives. It may prove you are right, but we have the right to make sure you are right on independent evidence.

MR. MITCHELL: I object, Mr. Champion, that here you had it in September; it should have come up in December. Brown wanted to get it postponed until he was in office, until January. This fellow O'Sullivan had it wrapped up -- he knew it would be postponed; he went home. He knew there would be no competition. I can't fight invisible shadows. I will fight competition when I can see it face to face. I won't fight telephone calls.

MR. CHAMPION: You are not fighting telephone calls, but you are imputing motives -- and I don't think that is proper testimony before this Commission.
MR. MITCHELL: Last meeting they were fighting like hell; this week they haven't said a word. They knew the meeting was going to be postponed. This thing here -- I postponed a Washington trip because I believed in this hearing. Mr. Pauley isn't here -- he is a nice guy; Shell has a vice president -- there aint a one of them here. Where the hell are they? I am lost. When I saw O'Sullivan walk out at eleven o'clock, I knew I was dead. I made my approach and I am sorry I offended you gentlemen because what I want to say to you -- I don't believe that something as big as this couldn't be produced immediately.

MR. CRANSTON: Mr. Mitchell, I think you will grant that something as big as this, with as much money involved, with as many pages in the contract, deserves and merits serious study by the members of this Commission. We were only given the entire documentation one month ago. The staff was unable to bring anything in to us until one month ago, and I think you should recognize that the three of us want to be sure of what we are doing, so that we act properly.

At the meeting a month ago we had comments that there were serious things wrong with this contract. No member of this Commission and I believe no member of the Legislature has taken a general position that he is opposed to this contract publicly; I don't know if anyone has said it privately. We have to be certain we are acting properly.

You spent much of your time talking about monopoly. We have a letter from the Antitrust Division of the United States Department of Justice in which they say how we may find out whether this contract is subject to the antitrust laws and offer a significant suggestion to make sure there is proper distribution. These are things we cannot ignore.
MR. MITCHELL: But I say even before you had the hearing, I wanted to propose a bill for a two-year delay.

MR. CRANSTON: There is no bill for a two-year delay.

MR. MITCHELL: There was a discussion ....

MR. CHAMPION: I think your information is fragmentary.

MR. MITCHELL: I have a paper right here from Willows by this editor. It is disturbing to me because it is my industry. I have never been faced with this type of thing. They bid offshore parcels in Santa Barbara. I don't say "Give me one block of Pauley's block because I am small." No; I wish him luck -- I wish Shell luck. I wish....

MR. CRANSTON: Mr. Mitchell, the Lands Commission wishes to act as quickly as we can, but I think we should wish to be judged not by our speed, but by the soundness of our action.

MR. MITCHELL: I hope so. I am with you.

MR. CRANSTON: Is there anyone else who wishes to testify at this time? (No response) I presume there are others who will wish to meet on some of the problems with Mr. Hortig when the meeting we have discussed is set up, and you will all be hearing from him in that regard.

MR. HORTIG: Mr. Chairman, to complete the record today, and particularly with reference to the list of supporters and opponents of the proposed contract now before the Commission, we have previously received and did have at the time of the last meeting a telegram of support from Continental Eastern Corporation, which was not previously noted on your list.

MR. CRANSTON: At the next meeting of the Lands Commission this presumably will again be on the agenda and we will
reserve whatever time is necessary for its consideration, although I do not want to predict whether we will be able to act at that time.

MR. HORTIG: Mr. Chairman, finally, the Lieutenant Governor has asked that the record show explicitly that he has asked for complete evaluation and industry and Long Beach testimony at the appropriate time at the Commission's proceedings on the following factors:

The first factor concerns a provision of sell-off of 12 1/2% of production which has been suggested. First, there should be a complete evaluation of the pricing bases for the production to be sold; and, secondly, optimum bases for contracts for this oil -- five years having been suggested.

The second factor to be considered is possible market control as it could develop from contracts under consideration.

The third factor concerns the advantages and disadvantages of unitization of Tract 2, the Alamitos Beach State Park, with Tract 1 now under consideration for development.

The fourth factor is evaluation of necessary specifications in any contract bid as to disclosure of production allocation between joint bidders, and the desirability of retention of control through approval for any future adjustments of such allocations.

MR. CRANSTON: If that completes this item on the agenda, we will now revert to the regular agenda.

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