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TRANSCRIPT OF  
MEETING  
of

STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

March 28, 1953

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)

I N D E X  
(In accordance with Calendar Summary)

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
1. Call to order			
2. Confirmation of minutes meeting of Jan. 24, 1963			
3 PERMITS, EASEMENTS, RIGHTS- OF-WAY, NO FEE			
(a) Div. of San Francisco Bay Toll Crossings	5	1	2
4 PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE			
(a) William & Edith Daley	8	2	2
(b) George W. Ladd	4	3	2
(c) Rancho Palos Verdes Corp. and Capital Company	1	4	2
(d) Trigood Oil Company	12	5	3
(e) Pacific Gas & Elec. Co.	6	8	3
(f) Standard Oil and Shell Oil	7	9	3
(g) Standard Oil of Calif. Western Operations Inc.	10	10	3
(h) Texaco Inc.	9	11	4
(i) Richfield Oil Corp.	11	13	4 (Deferred)
(j) Richfield Oil Corp.	13	15	4
MOTION ON CLASSIFICATION 4 except (i)		-----	4
5 CITY OF LONG BEACH			
(a) Add'n No. 9 Pier A	2	16	4
6 Authorization for issuance of supplemental patent Michael Kimerer, 20 ac. school lands El Dorado County	16	18	5

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I N D E X  
(In accordance with Calendar Summary)  
continued

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
7 Approval revised description Parcel 13, Santa Barb. Co.	15	20	5
8 Authorization to offer proposed oil & gas lease Orange County Parcel 14	14	21	5
9 Confirmation transactions of Executive Officer:	3		6
Calif., Dept Fish & Game		25	
Shell Oil Co.		24	
Standard Oil Co, of Calif.		25	
Texaco Inc.		24	
10 Informative only:			
(a) Major Litigation	17	26	6
Motion on Number 7 under litigation -----			7
(b) Report on legislation	18	29	7
11 Further review contracts Long Beach Unit, Wilmington Oil Field	19	34	Pages 1 thru 122, mimeographed form
12 Next meeting			8

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I N D E X  
(In accordance with calendar items)

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ITEM ON  
CALENDAR                      PAGE OF  
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Pages 1-122 incl.  
in mimeographed form

Next meeting                      8

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

4 GOV. ANDERSON: Move.

5 MR. CHAMPION: Second.

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

15 (Item 19 -- Unit Agreement, Unit Operating  
16 Agreement, Exhibits, and Field Contractor  
17 Agreement, Long Beach Unit, Wilmington Oil  
18 Field, Los Angeles County -- L.B.W.O.10,155 --  
19 was then taken up by the Commission and the  
20 proceedings in connection therewith have been  
21 reproduced in mimeographed form)

22 \*\*\*\*\*

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

26 Item 3 -- Permits, easements, and rights-of-way

1 to be granted to public and other agencies at no fee,  
2 pursuant to statute:

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

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

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

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

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

19 Applicant (a) William Daley and Edith Daley --  
20 10-year lease, Lot 17, Fish Canyon Cabin Site, Los Angeles  
21 County, annual rental \$65;

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

26 (c) Rancho Palos Verdes Corporation and Capital

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

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

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

17 Item (f) Standard Oil Company of California and  
 18 Shell Oil Company -- Deferment through October 13, 1963, of  
 19 drilling requirements, Oil and Gas Lease P.R.C. 2198.1,  
 20 3840 acres tide and submerged lands offshore Santa Barbara  
 21 County -- to permit further review and evaluation of geo-  
 22 logical and geophysical data;

23 Item (g) Standard Oil Company of California, Western  
 24 Operations, Inc. -- Deferment through Oct. 4, 1963 of drill-  
 25 ing requirements, Oil and Gas Lease P.R.C. 2199.1, 3840 acres  
 26 tide and submerged lands offshore Santa Barbara County;

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(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, 1st 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

1 proceed with issuance of a supplemental patent, in the name  
2 of the original applicant, Michael Kimerer, subject to  
3 reservation of all minerals, for purpose of perfecting title  
4 to twenty acres school lands, El Dorado County.

5 MR. CHAMPION: Move approval.

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

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

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

16 MR. CHAMPION: Moved.

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

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

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

24 MR. CHAMPION: Move approval.

25 MR. CRANSTON: Approval is moved and seconded, so  
26 ordered.

1 MR. CRANSTON: Item 9 -- Confirmation of trans-  
2 actions consummated by the Executive Officer pursuant to  
3 authority confirmed by the Commission at its meeting on  
4 October 5, 1959.

5 MR. CHAMPION: Move confirmation.

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

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

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

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

24 Therefore, in consideration of the action under-  
25 taken by the United States Solicitor General, I wish to have  
26 it recorded that it is the intent of the State Lands Commission

1 to proceed fully with the defense of the interests of the  
2 State in accordance with its statutory authority. The  
3 Executive Officer is authorized and directed to undertake  
4 full implementation of this defense of California's interests.

5 Would you like a motion to that effect?

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

8 MR. CHAMPION: I will move this.

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

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

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

22 MR. CRANSTON: Anything else on litigation or  
23 legislation?

24 MR. HORTIG: No.

25 MR. CRANSTON: Item 19 -- We have done that  
26 already.

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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.

ADJOURNED 2:48 P.M.

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CERTIFICATE OF REPORTER

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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.

Dated: April 10, 1963.

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,

1 Long Beach Unit. Forwarded March 25, 1963.

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

- 4 1. A legal memorandum prepared by the Office of the Attorney  
5 General dated March 22, 1963 relative to the seaward  
6 boundaries for Tracts Nos. 1 and 2 of the proposed Long  
7 Beach Unit. Forwarded March 25, 1963.
- 8 2. A review of the revenues and expenditures related to the  
9 City of Long Beach Tideland Trust operations for the  
10 period February 1, 1956 through December 31, 1962, in-  
11 cluding estimated costs for future projects. Forwarded  
12 March 25, 1963.

13 At the meeting of February 28, 1963, Mr. D. E. Clark, repre-  
14 senting Shell Oil Company, apprised the Commission of his  
15 company's opposition to, or questioning of, certain provi-  
16 sions of the Unit Agreement as follows:

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

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

25 "It is our opinion that under the present proposals, the  
26 State Lands Commission would retain the power to approve  
27 the terms of any such agreement for the joinder of addi-  
28 tional public lands in the Unit, and thus to prevent their  
29 inclusion upon terms unfavorable to the State. This  
30 would be true regardless of any finding by the City Coun-  
31 cil as to subsidence danger."

- 32 B. The question of the legality of Article 16 of the Unit  
33 Agreement relating to relief of Unit obligations and sur-  
34 render of Working Interests, in two respects:

35 1. As applied to the City, Mr. Clark questioned whether  
36 these provisions might not involve a violation of the  
37 prohibition against alienation contained in the legisla-  
38 tive grants.

39 2. Mr. Clark also questioned the validity of the option  
40 right contained in Article 16 (whereby continuing partici-  
41 pants may elect to acquire the interest of a withdrawing  
42 participant) under the rule against perpetuities.

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

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

1 and also that:

2 "It is our opinion that the 'option provision' in Section  
3 16.1 does not violate the rule against perpetuities, al-  
4 though it may be operable for a period in excess of a life  
5 in being plus twenty-one years."

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

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

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

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

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

46 That the Senate Rules Committee assign this resolution for  
47 study to the General Research Committee of the Senate, direct-  
48 ing such committee to make a thorough physical, legal and  
49 economic appraisal of the proposed oil, gas and hydrocarbon

1 "extractions, as expeditiously as possible, and to report  
2 its recommendations thereon to the Senate at this session  
of the Legislature."

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

7 " UNITED STATES DEPARTMENT OF JUSTICE  
8 WASHINGTON, D.C.

9 March 19, 1963

10 Mr. F. J. Hortig, Executive Officer  
11 State Lands Commission  
12 State Lands Division  
13 State of California  
14 State Building  
15 Los Angeles 12, California

16 Dear Mr. Hortig:

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

23 I understand that Messrs. Disney and Somerville have  
24 discussed this proposed lease with representatives of your  
25 office and that during said conference two matters were  
26 raised. First, can the Antitrust Division state whether  
27 there is any present or future danger that the operation  
28 of the lease in accordance with its terms, by the success-  
29 ful bidders, may involve any violation of the antitrust  
30 laws, and second, can any provision be made to insure that  
31 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 Anti-  
trust 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 independ-  
ent from the first problem and a solution to the one problem  
does not automatically solve the other. If a reasonable

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.



1 "amount of the crude were made available to the smaller  
2 independent companies, it would enable them to afford a  
3 greater degree of competition to the company or companies  
4 which were the successful bidders than otherwise. I under-  
5 stand that at the conference of Mr. Somerville and Mr. Disney  
6 with representatives of your office, they suggested that one-  
7 eigh<sup>th</sup> of the total recovery might be made available to re-  
8 finers or oil distributors who meet the definition of 'small  
9 businesses' and who were independent insofar as control by  
10 any major oil company is concerned. I believe that the sug-  
11 gession which they made merits your consideration and recom-  
12 mend that the proposal be adopted if possible.

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

20 Sincerely yours,

21 /s/ Lee Loevinger  
22 Assistant Attorney General  
23 Antitrust Division "

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

29 "Gentlemen:

30 I am in receipt of the transcript of the above cap-  
31 tioned hearing and would like to make two corrections  
32 thereto:

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

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

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

41 Yours very truly,

42 L. E. Scott "

43 From Signal Oil and Gas Company, addressed to the

44 Chairman:

1 "Dear Sir:

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

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

11 Very truly yours,

12 SIGNAL OIL AND GAS COMPANY

13 By James K. Wootan, Vice President"

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

16 "Dear Sir:

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

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

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

25 3. We find nothing in the proposed Field Contractor  
26 Agreement that would prevent this company from bidding if  
27 it is offered for bid in the form submitted to your Commis-  
28 sion.

29 Regarding these points we should like to add that:

30 1. Since our last letter we have made a commitment to  
31 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 "

1 Letter of March 27, 1963 from Richfield Oil Corporation  
2 addressed to the Commission, attention of the Chairman:

3 "Gentlemen:

4 Please refer to our letter to the Commission dated  
5 February 26, 1963 relating to "Unit Agreement, Unit Operat-  
6 ing Agreement, Exhibits, and Field Contractor Agreement,  
7 Long Beach Unit, Wilmington Oil Field, Los Angeles County --  
8 L.B.W.O. 10,155", which was Item 28 on the calendar for  
9 the meeting of the Commission held February 28th last.

10 In that letter we stated that we hold oil and gas  
11 leases on 1,015 acres, or approximately 53%, of the  
12 'Participating Townlot Area,' as defined in the Unit docu-  
13 ments above referred to; that we participated in the nego-  
14 tiation with the City and other parties holding leases in  
15 the Townlot Area of the drafts of unit agreement, unit  
16 operating agreement and exhibits thereto, in the forms  
17 thereof submitted to the Commission; and we stated without  
18 condition or equivocation that we are willing to commit all  
19 oil and gas leases that we hold in the 'Participating Town-  
20 lot Area' to a unit so constituted.

21 In spite of the commitment contained in our letter  
22 which was read into the record at the hearing on February  
23 28th one witness, Mr. L. E. Scott, representing Pauley  
24 Petroleum, Inc., subsequently raised the question: 'Does  
25 the onshore operator have a veto of bids on Tract Number 1  
26 by refusing to commit onshore parcels to the Unit....?'  
27 (Page 118 of the transcript of the February 28th hearing.)  
28 Another witness, Mr. Durland Clark, representing Shell Oil  
29 Company, subsequent to the reading of our letter into the  
30 record, said: 'We must have the advance written assurance  
31 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. Other-  
wise, they hold an absolute veto power on legitimate bidders,  
a matter we must assume escaped the attention of the draft-  
ers of this provision.' (Page 138 of the transcript of the  
February 28 hearing).

Mr. Scott's question and Mr. Clark's statement disre-  
gard 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 agree-  
ment, and exhibits in the form thereof, respectively, sub-  
mitted 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 be-  
lieve that it is implicit in the situation that it must be  
the position of every landowner or lessee in the Participat-  
ing Townlot Area. Far from having a 'veto power' of any  
kind, there is no way any owner or lessee in such area can

1 "develop his property for oil and gas except by joining a  
2 unit which also embraces the tide and submerged lands be-  
3 longing to the State and City.

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

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

30 We are willing to commit our oil and gas leases in the  
31 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 docu-  
ments 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

1 they oppose it? Who is of record at this point?

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

8 The letters of objection have been received, and state-  
9 ments of objection, from Shell Oil Company, from Pauley Petroleum,  
10 and Texaco Inc.

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

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

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

24 MR. SHAVELSON: Thank you, Mr. Chairman. Our office has  
25 put in many months of effort on this project, fully realizing its  
26 importance to the State and to the City of Long Beach. Through-  
27 out our participation, of course, I think it goes without saying  
28 that we have never attempted to influence policy decisions, but  
29 simply to see that the documentation that was presented to the  
30 Commission was legally sufficient -- whether it complied with  
31 applicable statutes and to the extent possible that it said what

1 it meant to say. Now, our efforts, as you know, culminated in a  
2 sixty-page legal memorandum that has been in the hands of the Com-  
3 mission since January 25, 1963, and in the course of that memoran-  
4 dum we could not, of course, deal with every possible legal ques-  
5 tion that might arise under these agreements. I think that would  
6 maybe take thousands of pages. But we did try to answer all the  
7 questions that had to our knowledge been raised by members of  
8 industry at that time and which were suggested by the State Lands  
9 Division staff, and which we ourselves thought were pertinent to  
10 the particular issues.

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

18 The first question that we discussed was a question  
19 raised by Senator Dolwig as to whether or not the seaward bound-  
20 aries of the original unit and participating areas might encroach  
21 upon the claims of the United States under the terms of the Sub-  
22 merged Lands Act and Outer Continental Shelf Lands Act of 1953.  
23 The original participating area is described in the exhibits to  
24 the Unit Agreement and its seaward boundary is a metes and bounds  
25 description that is well within the minimum claims of the State of  
26 California, even if all of the contentions of the United States  
27 were ultimately sustained -- which, incidentally, we hope they  
28 will not be. The seaward boundaries of the original unit area  
29 are in terms of the southerly boundary of the City of Long Beach  
30 and that line, again, is within the minimum claims of the State of  
31 California, with certain margins of safety provided by the fact

1 that the State's ownership and the City's ownership under the  
2 Submerged Lands Act are measured from the low tide line rather  
3 than the high tide line; and, furthermore, we fully anticipate  
4 that the Federal rule regarding artificial accretions will be  
5 applicable rather than the State law. So we don't think that  
6 raises a serious question concerning the Unit Agreement.

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

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

31 However, I have written a memorandum, in which I have

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

9 I think the important question to us is what do we want  
10 to do about it and what can we do about it. I think without chang-  
11 ing the essential character of the contract, if this contract is  
12 ultimately held by the courts to be subject to such taxation, it  
13 would be almost impossible to avoid such taxation without such a  
14 drastic alternative as the City operating the field itself through  
15 its own employees, or perhaps employing an oil company as an inde-  
16 pendent contractor, to be compensated by means other than from  
17 production from the tract.

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

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

27 MR. SHAVELSON: The problem, Mr. Champion, is that the  
28 property taxation provisions are incorporated in the State Consti-  
29 tution. I don't want to make a final answer to the question. I  
30 think we probably could evolve a legislative solution, but we  
31 might run into a problem conflicting with the State Constitution

1 because if this is a property interest and if it is to be valued  
2 at its full cost, as provided by the Constitution, it might be  
3 difficult to sustain a legislative modification.

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

5 MR. CRANSTON: Virgil.

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

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

16 If I do understand the question, that is the question,  
17 there is an analogous case involving the Los Angeles Flood Control  
18 District lease in Los Angeles and in our memorandum we have, with-  
19 out reaching any definite conclusion, shown both the similarities  
20 and differences from that case. We think we are in a slightly  
21 stronger position than was the company involved in that case.  
22 Does that answer the question?

23 SENATOR O'SULLIVAN: Yes.

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

29 These are very technical questions and I don't want to  
30 go into them in detail. However, I would like to say I think  
31 some clarification is required as to the purpose of Section 16.1

1 of the Unit Agreement. Its purpose is merely to require the  
2 owners of working interests within a tract who desire to surrend-  
3 er those interests to the persons entitled thereto, that is the  
4 landowner, to first make those interests available to the parti-  
5 cipants in the other tracts. It is not a prohibition against  
6 alienation to other persons who are willing and desirous of as-  
7 suming the obligations. So in that sense, it is what we would  
8 call a pre-emption option, a right of first refusal -- number  
9 one; and, number two, is not a restraint to alienability at all.

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

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

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

29 Now, for the very reason that general provisions such  
30 as this might affect the future powers of the State Lands Commis-  
31 sion to approve additional agreements, we drafted and the City has  
accepted in principle a bilateral agreement which specifically

1 states that the Commission approval does not constitute prior  
2 approval of other agreements that may be authorized by the Unit  
3 Agreement and that where approval of such agreements would other-  
4 wise be required, it will continue to be required. That is side  
5 agreement Number 3 that is set forth as an exhibit to the prior  
6 calendar item; and since the addition of public lands would re-  
7 quire joinder agreement or further State approval, we think this  
8 would not affect the Commission's jurisdiction in that regard.

9 I would like to refer briefly to some other matters that  
10 did come up in the course of the Commission meeting on February  
11 28th. The first is the statement in a letter from the Texaco  
12 Company, which is set forth in page 34 of the transcript, to the  
13 effect that the agreement would require the injection into the  
14 reservoir, concurrently with initial development, of water -- to  
15 the detriment of the reservoir.

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

23 Any such injection, furthermore, would be subject to  
24 sanctions by the Oil and Gas Supervisor under Section 3106 of the  
25 Public Resources Code, and we regarded that as an additional safe-  
26 guard; and, finally, the side agreement, the seventh bilateral  
27 agreement between the City and the State that is set forth in the  
28 calendar item, expressly requires that water injection not com-  
29 mence until there is sufficient analytical information from drill-  
30 ing operations and producing wells that injection can be done  
31 consistently with good oil field practice. We think, with all

1 these considerations, that there could not be injection into the  
2 field to the detriment of the reservoir.

3 Another question that came up in the Texaco letter,  
4 which is mentioned on page 34 of the transcript, is whether the  
5 indemnity and insurance provisions of the Field Contractor Agree-  
6 ment might make the contractor liable for subsidence damage. I  
7 believe that that letter was written prior to the time that we,  
8 in conjunction with the City Attorney's office, clarified Section  
9 30 of the Field Contractor's Agreement; and I think that it is  
10 completely clear now that the Field Contractor will be liable  
11 without entitlement to reimbursement for any loss occasioned by  
12 its own negligence, otherwise damages will be shared between the  
13 Field Contractor on the one side and the City and the State on  
14 the other, in proportion to the net profit bid.

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

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

27 The purpose of the section of the Field Contractor  
28 Agreement to which Mr. Scott referred is simply to set the terms  
29 upon which the oil will be valued. The accountability to the  
30 City is set forth in Section 5 of the Field Contractor Agreement  
31 and both during the production payment period and the subsequent

1 payment period, it is clear that the Field Contractor must account  
2 on the basis of all oil allocated to Tract Number 1. So, whether  
3 he takes it himself, sells it off, or drinks it, he must account  
4 for it on the same basis and pay for it on that basis.

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

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

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

24 Another question that I'd like to discuss very briefly  
25 is the provision in Sec.7.13, Unit Operating Agreement permitting  
26 the unit operator to settle claims up to \$250,000 without consult-  
27 ing with the other participants. I think it should be made clear  
28 that the purpose of this provision is not to give the City as unit  
29 operator and as trustee of the State, an additional unencumbered  
30 power. It does not give them this, since at this stage of the  
31 proceeding the State is not a participant in the Unit Agreement

1 and it is quite possible we never will be unless and until Tract  
2 Number 2 is committed.

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

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

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

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

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

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

24 MR. SHAVELSON: The interest of the State is affected,  
25 obviously, to the extent that the City administers the trust  
26 poorly or improperly. Now, that gets down, I think, to the very  
27 guts of the relationship here; and that is simply that the City,  
28 despite Chapter 29, remains the trustee. It has legal titles to  
29 these lands and certain limited powers are vested in the State  
30 under Chapter 29 to approve the terms of contracts. I do not  
31 think that Chapter 29 makes us a copartner in the operation, and

1 I think that the City still retains all of the powers that any  
2 legal trustee has. As you know, there are over a hundred grants  
3 up and down the State; and although our interest in this one is  
4 much greater, the essential relationship is much the same --  
5 except that we have to give prior approval to agreements.

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

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

12 MR. SHAVELSON: Yes, it does.

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

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

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

1 approval or disapproval?

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

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

12 MR. SHAVELSON: That is very true.

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

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

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

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

30 SENATOR O'SULLIVAN: Isn't it bilateral? Doesn't it  
31 bind both the City and State with the same provision?

1           MR. SHAVELSON: Yes. The State is the beneficiary of  
2 this trust and would be bound by it; and, as I say, the alterna-  
3 tive would be to require the City to come in for approval by the  
4 State Lands Commission -- and if the Commission should determine  
5 that that is a desirable provision, we can request it from the  
6 City. I think that is a matter of policy, as to whether they  
7 wish to do so.

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

10          MR. SHAVELSON: Yes, sir.

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

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

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

20          MR. SHAVELSON: It is not uncommon. A similar provi-  
21 sion is included in all of the unit agreements that have been  
22 executed, but in smaller amounts.

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

25          MR. HORTIG: That is correct.

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

28          MR. HORTIG: In many contracts.

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

31          MR. HORTIG: Well, an oil lease does not ordinarily

1 involve the landowner; but certain costs that might be a deduc-  
2 tion from the royalty payment or otherwise at the discretion of  
3 the lessee are not uncommon, no.

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

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

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

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

27 MR. SHAVELSON: I believe that is true. In other  
28 words, we had to deal with the law as it is, and we think the  
29 City remains the trustee -- with very broad powers; in fact,  
30 after the decision of Silver vs. the City of Los Angeles was  
31 brought down, they were broader than we thought.

1 MR. CHAMPION: Have you or the staff discussed the  
2 possibility of any change in this relationship -- legislatively  
3 or otherwise, or by agreement -- to provide some further State  
4 participation in the decisions of the trustee, or approval of  
5 the decisions of the trustee?

6 MR. SHAVELSON: One step towards that, Mr. Champion,  
7 are the seven bilateral agreements that were entered into.  
8 That is something that is not contemplated by Chapter 29, but  
9 yet we were faced with the problem that there were provisions  
10 that were beneficial as far as the City and the other partici-  
11 pants are concerned and yet could be administered to the detri-  
12 ment of the State.

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

18 MR. CHAMPION: And it is because of the legislative  
19 situation that you had recourse to this growing series of bi-  
20 lateral agreements on these subjects....

21 MR. SHAVELSON: Yes, sir.

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

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

31 Now, I didn't mean to take quite this long, and this

1 will be the last point I want to go into.

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

4 MR. CRANSTON: Yes, Virgil.

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

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

22 May I turn the microphone over to Mr. Hortig?

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

29 MR. SHAVELSON: That is very close to the situation.  
30 In other words, before we could establish an actual legal breach  
31 of the City's duties as trustee, it would have to go very far;

1 So for practical purposes, if it is just a difference of opin-  
2 ion between people in good faith on two sides, we have no  
3 recourse. That is correct.

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

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

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

27 MR. HORTIG: The accounting ultimately becomes a com-  
28 posite of a series of accountings from separate funds, which  
29 funds in general are accumulated from the oil and gas operation  
30 and then are distributed and utilized in connection with vari-  
31 ous operations and project expenditures -- both for projects

1 which require advance State Lands Commission approval and the  
2 balance for projects which do not require under the statute the  
3 advance approval of the State Lands Commission.

4 In other words, the Commission has approval responsi-  
5 bility and authority only as to a portion of the operations by  
6 the City of Long Beach on the tide and submerged lands.

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

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

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

30 SENATOR O'SULLIVAN: You have not yet faced the  
31 problem in the Commission?

1 MR. HORTIG: No, sir.

2 SENATOR O'SULLIVAN: It occurs to me it might be help-  
3 ful to have the Commission explore what would be apparently a  
4 reasonable system of accounting in both of these fields --  
5 reasonable in several ways; reasonable in the way of the exposi-  
6 tion, and reasonable in the way of control, and also reasonable  
7 in the way of releasing the trustee from liability for actions  
8 at the end of the annual accounting period, whatever it was.

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

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

26 However, since the question was raised again at the  
27 last meeting, we were contacted, as Mr. Hortig mentioned, by  
28 the Antitrust Division in Los Angeles of the United States De-  
29 partment of Justice and we arranged a meeting in the Attorney  
30 General's Office with Mr. Disney and Mr. Somerville from that  
31 office. They suggested the desirability of a sell-off provision

1 under which the Field Contractor would be compelled to sell off  
2 about twelve and one-half per cent or one-eighth of the produc-  
3 tion to qualified independent refiners, who would have a certain  
4 limited number of employees and refinery capacity.

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

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

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

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

29 One suggestion Mr. Scott made, which perhaps may be  
30 desirable in light of what I think are misunderstandings that  
31 have arisen, is that members of the industry and we sit down

1 and go over this, provision by provision, to explain the meaning  
2 so that everyone has the thought of what it is; and if we have  
3 said it ambiguously or if we said something we didn't mean to  
4 say, I think that would come out in the course of such a  
5 discussion.

6 MR. CRANSTON: Frank?

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

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

28 MR. CRANSTON: Since the last hearing wound up with  
29 the testimony by Mr. Clark of Shell and Mr. Scott of the Pauley  
30 Company, I think it might be appropriate to hear from Long  
31 Beach representatives, to say whatever they wish in regard to

1 the criticisms that have been voiced by those two witnesses and  
2 by others, and to comment on any other questions that have risen  
3 up to this stage of the game.

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

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

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

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

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

1 Agreement and Field Contractor Agreement.

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

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

13           Then, in 1953, Congress passed and President Eisenhower  
14 signed the bill which quitclaimed the tidelands back to the  
15 State of California and that was the grant to Long Beach. Then  
16 in June 1953, the Harbor Industries Oil Committee, of which I  
17 am Chairman, requested the Long Beach Harbor Department, Petro-  
18 leum Division, for a report on the oil development and the alle-  
19 viation of subsidence in the offshore area. This report was  
20 submitted and it was recommended that the City conduct a geo-  
21 physical exploration, drilling core holes in the offshore area,  
22 taking necessary steps for the unitization of the subject lands.  
23 Part of the reason for requesting that was that there had been  
24 a preliminary study and it indicated it would be favorable in  
25 very general terms.

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

31           Not satisfied with all the reports at the time, the

1 City in 1955 again engaged Stanley and Stolz, and they made cer-  
2 tain recommendations, which are consonant with the things incor-  
3 porated in our Unit Agreement.

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

8 Then the City was afraid if it was to turn the thing  
9 loose, it would have oil derricks uptown in the town area and it  
10 would affect the subsidence, because by that time the subsidence  
11 had become very bad in the Harbor area, including the Naval ship-  
12 yard, so the electorate voted on an ordinance which precluded  
13 any drilling in the downtown area and which included the sub-  
14 merged lands.

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

23 In 1957, the City of Long Beach, which had been conduct-  
24 ing a waterflooding program, a pilot flood, in the Harbor, formu-  
25 lated a plan to extend this waterflooding to other properties.  
26 In 1958, large waterflooding operations were started in the Long  
27 Beach Harbor area; at the same time, operations were undertaken  
28 to include non-City zones not under City operation. To insure  
29 cooperation of the operators of the Wilmington Oil Field, the  
30 State Legislature passed a bill establishing boundaries of a  
31 subsidence district. These boundaries were established by the

1 State Oil and Gas Supervisor after a series of public hearings.

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

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

13 In '60, Fault Blocks II and III were formally estab-  
14 lished under unit and unit operating agreements, and in 1961  
15 Fault Block IV was formally established under a unit and unit  
16 operating agreement. In the meantime, the success of the water  
17 injection program in the subsidence area as a means of stopping  
18 subsidence became much more evident. Subsidence was stopped in  
19 all of the downtown area and a large part of the Harbor district.  
20 The rate of subsidence at the center of the bowl had very appre-  
21 ciably decreased.

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

28 From April through September 1962, under the leadership  
29 of the City, a Unit Agreement and the Unit Operating Agreement  
30 were formulated in cooperation with oil operators holding the  
31 leases in the Townlot area. Members of the staff of the State

1 Lands Commission and the Attorney General's Office were present  
2 during the formulation of these agreements.

3 During this period, the City also prepared the Contrac-  
4 tor's Agreement for development of the property.

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

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

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

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

21 ADJOURNED 12:00 NOON

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1 AFTERNOON SESSION - MARCH 28, 1963 - 12:50 P.M.

2  
3 MR. CRANSTON: The meeting will please come to order.  
4 Mr. Desmond was about to proceed. Before you do so, Jerry, I'd  
5 like to make a few comments for just a moment. I wonder if we  
6 might, in order to save time today and to speed toward an ulti-  
7 mate decision, consider how we are going to proceed and what  
8 should be presented to us at this time.

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

18 At the same time, there have been all sorts of hints  
19 and suggestions about what occurred in the drafting of this  
20 original contract as presented to us and the Unit Agreement.  
21 There were remarks by Mr. Scott when he testified, vague refer-  
22 ences to oil and gas companies that participated in the drafting  
23 and those that did not; and in the material presented by Long  
24 Beach, responding to remarks by Mr. Clark of Shell, the intro-  
25 ductory remarks state that Shell personnel received copies of  
26 the agreements in 1962. I don't know what form they were in,  
27 whether they were final or not, but there is some reference  
28 that the field operating contract was given to Shell, and I do  
29 not know how far along it had been or whatever part Shell had  
30 in the conferences on the drafting of the contract under con-  
31 sideration here.

1           Regardless of what may have happened or not happened  
2 or whatever anybody feels might or might not have, I think we  
3 show by our procedure that we intend to have everybody comment  
4 on all phases of the contracts and they have not been acted  
5 upon, and we will not act until everyone who wishes to be heard  
6 has been heard; and we will not act until the very best possible  
7 agreements are available to us under all circumstances, and cir-  
8 cumstances permit us to take whatever time is necessary. At this  
9 time, of course, we wish as early a conclusion as possible on  
10 the development of this matter, for very obvious reasons.

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

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

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

1 like to have the staff explore with us.

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

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

14 Unless anyone wishes to comment upon that general state-  
15 ment at this point, we will turn to Mr. Desmond.

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

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

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

31 Jerry?

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

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

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

13 The matter of Federal tax comes up first, perhaps, in  
14 relation to the fifty-one million dollar advance payment. Now,  
15 if this were a bonus, it would have certain impact; if it is  
16 treated as a production payment, then a different impact from a  
17 tax standpoint -- because the first must be capitalized. Now,  
18 what is important here is to stress and to realize that we are  
19 trying for the State and the City to obtain the best bid pos-  
20 sible and if those companies desiring to bid feel that in the  
21 way the matter is presented to you it is a production payment  
22 and they will bid higher, this is a matter for the bidders to  
23 determine. The only reason that we have prepared the advance  
24 payment in the manner we did is to improve the bid. There would  
25 be no reason not to prepare it as a bonus and have the fifty-  
26 one million dollars paid over the same period of time, strictly  
27 as a bonus -- if it is done that way, that would be much simpler  
28 than what is proposed here -- except then capitalization is cer-  
29 tain and, therefore, the bids of all people would be less than  
30 the higher bid of at least those few who, with a production  
31 payment, would have tax gains.

1 Referring to the ad valorem tax matter which Mr. Shavel-  
2 son has already touched upon, we are not here to solve the prob-  
3 lem of whether or not there might not be new taxes of this nature  
4 or others that the County or someone else might assess. We are  
5 not trying to solve this and, by doing so, saying this is ex-  
6 cluded -- that this will not be considered a chargeable expense.  
7 If we shift the risk to the bidders, then we believe that there  
8 would be a poorer bid from the standpoint of the State and the  
9 City.

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

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

29 If I may pass this back and forth a little in the  
30 interest of saving time, I wanted Mr Lingle to comment upon  
31 the question, also in part touched upon by Mr. Shavelson, of

1 the liabilities as between the Contractor, the City, and the  
2 State -- the matter of the \$250,000 allowance for settlement.

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

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

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

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

29 Then, number seven, also to be covered by Doctor  
30 Mayuga -- the question of subsidence abatement and methods.  
31 Incidentally, of course, the methods used have stopped

1 subsidence and the methods used have produced such a fine  
2 secondary recovery that those figures have already been submit-  
3 ted to you; and I believe Mr. Hortig reported last month in  
4 detail upon the economic analysis which he had requested and  
5 which he was furnished, which covers that.

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

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

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

30           We made a comparison since 1950 and found the variance  
31 on the average posted price and the highest posted price on the

1 oils the City sells on existing contracts amounts to 16/100ths  
2 of one cent; and traditionally, all posted prices may vary a day  
3 or two and then they are all the same anyway.

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

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

10 MR. DESMOND: Number ten -- the matter of the interest  
11 rate. Our City Manager, Mr. John Mansell, is here today, and  
12 will explain to you the manner in which this rate was established  
13 and I would like to stress that whatever the interest rate, it  
14 is in the bid. It is part of the bid itself; so long as it is  
15 less than the company would expect to earn on its own money.  
16 This has been used again as part of the creation of the produc-  
17 tion payment concept. So whoever is successful will have at  
18 least a chance for a better tax position and he would, therefore,  
19 bid higher and a greater return would come to the State and the  
20 City. But, again, we hope that the Lands Commission will ap-  
21 prove this group of documents before you and let the Commission  
22 set whatever that rate may be, and do so on the basis that the  
23 contracts, when this particular contract is approved, provide  
24 that the interest rate is changed to "X" rate satisfactory to  
25 the Commission.

26 Number eleven -- the matter of specific tract inclu-  
27 sions in a Unit Operating Agreement. May I say, before I ask  
28 Mr. Lingle to touch upon this, that I agree with what the  
29 Chairman said earlier. Evidently, there was considerable mis-  
30 understanding about, perhaps, the use of the word "participating."  
31 Now Mr. Lingle will explain the procedure followed in the forma-  
tion of the Long Beach Unit and he will explain that the people

1 with working interests were called upon to participate -- because  
2 after all, if I have an agreement with my neighbor for a commun-  
3 ity fence, I don't speak to the man up the street and tell him I  
4 am talking about this; I don't call in the outsider. In no unit  
5 is that done.

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

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

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

31 These are some pictures of Huntington Beach and similar

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

8 This was because oil operators secured leases and devel-  
9 oped them to the maximum. There was no concern over the most  
10 efficient way to develop the oil reserves or the ultimate maxi-  
11 mum return. The concern was how much immediate profit could be  
12 gotten from each lease.

13 The industry came to realize that much of the develop-  
14 ment was duplication and waste, and one well could do the work  
15 of several.

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

25 Customarily, to achieve unitization, two contracts are  
26 drawn. In the Unit Agreement, the property owners -- in other  
27 words, the lessors -- who usually receive a gross royalty on all  
28 products produced, under this gross royalty do not participate  
29 in the expenses. Under the old type leases, the operator had to  
30 account for the oil produced from this lot and from this well.  
31 So, if you are going to avoid duplication and not have a well on

1 each lot, you had to find some way to have fewer wells and to  
2 give the property owners an undivided interest in the entire  
3 field, and this is the point: When you have property owners  
4 either actually assigning or by powers of attorney in their  
5 leases permitting their working interest owner to join other  
6 working interest owners, you obliterate the necessity of account-  
7 ing for how much oil is produced from this particular piece of  
8 property and get away from having oil wells on the uplands.

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

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

21           Long Beach entered into unit agreements in the Harbor  
22 area when the Fault Block II and III agreements were executed in  
23 1959. In 1961, a unit agreement was executed in Fault Block IV.  
24 As you know, the major point was to repressurize the area, curb  
25 subsidence, and produce greater income to the City. Fault  
26 Blocks II, III and IV are among the largest oil producers in the  
27 United States and the largest water flood projects in the world.

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

1 before us.

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

15 In all unit agreements, it is essential that all work-  
16 ing interest owners approve the terms of the agreements; other-  
17 wise, we would be wasting our time. This requires cooperation  
18 from all companies. The City had one advantage in negotiating  
19 this agreement -- the only way that oil could be produced was  
20 from an offshore drilling island, and thus the City was demand-  
21 ing the safeguards it felt necessary. The City was designated  
22 Unit Operator in the agreements. In other words, the City has  
23 the responsibility to see to the actual development; and as  
24 Unit Operator, the City has responsibility to build the off-  
25 shore drilling islands, drill the wells, build all the needed  
26 facilities, and develop the fields.

27 It has been said we don't really need a Field Contrac-  
28 tor Agreement. There is no other alternative, a permissible  
29 route that we could go. However, it was decided the most satis-  
30 factory method would be to hire a Field Contractor to do the  
31 work under the supervision of the City. So the City drafted

1 the Field Contractor Agreement to set forth the terms under  
2 which the Field Contractor will operate on behalf of the City as  
3 Unit Operator; and, in addition, the Field Contractor also has  
4 the responsibility to take and pay the City for oil and wet gas  
5 products from this tract in the next thirty-five years.

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

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

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

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

29 Now, thirteen, the last one ....

30 MR. CRANSTON: On that point, Jerry, are you unable to  
31 act presently, as was discussed in our last meeting, until the

1 Commission has approved the agreement by the City in writing?

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

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

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

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

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

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

30 MR. DESMOND: The last of the points before presenting  
31 others to cover those which we skipped over, is the matter of

1 the time schedule. The Long Beach Oil Development has an operat-  
2 ing contract with the City of Long Beach which expires in March  
3 of next year. You members of the Commission, I am sure, will re-  
4 call that there were previously several contracts, all of which  
5 were consolidated for the purpose of allowing the City properties  
6 to enter the units that we have been speaking of earlier; but at  
7 the same time, there was not and there could not be under the  
8 law any extension. The fact is that for some of those contracts  
9 there was some shortening of the existing contracts in this com-  
10 bination.

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

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

27 If we can take some arbitrary figures as we go along,  
28 talking about the Harbor parcels we know that in March 1964, less  
29 than a year from now, there must be an operator ready to operate.  
30 We want the best bid possible. We do not want to set this up  
31 for any company such as the one in existence. We want this to

1 be full and competitive bidding, and we want the best bid for  
2 the State and the City. There is no provision for extending the  
3 contract -- that would be violative of law.

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

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

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

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

26 Then, how long should this bid be out? How long should  
27 this notice inviting bids give the people to work on a very  
28 large and substantial area for development? Should we say a  
29 three-month period, ninety days? Then we are back in August,  
30 and that means that in August we must advertise for bids on  
31 this contract. Prior to that time, prior to the advertising,

1 there must be approval by the State Lands Commission, as well as  
2 the City Council of the contract itself; and we are now talking  
3 about August. This means advertising for bids.

4 There must be, then, the period of time for considera-  
5 tion and approval, the work that would be necessary with the  
6 State Lands Division, the Attorney General's Office, again look-  
7 ing toward the approval of this Commission; and we are just  
8 about at that point right now where this should be at least pre-  
9 sented to you. So we are back in March, the end of March, or  
10 the first part of April.

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

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

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

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

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

30 I'd like at this time to call Doctor Mayuga to cover  
31 the two items I spoke of earlier; I remind you -- of the matter

1 of the geological aspects, capacity of the pool, and then the  
2 question of subsidence methods, subsidence abatement. Doctor  
3 Mayuga will be assisted - - it probably would be easier, Mr.  
4 Chairman -- whatever you believe is best -- if he were there and  
5 perhaps Mr. Brock would assist him if we have the explanation of  
6 the charts which he has.

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

11 Doctor Mayuga is also a petroleum engineer with a  
12 Bachelor of Science in Mining Engineering in '38 - - I am intro-  
13 ducing Doctor Mayuga because I know he has not previously spoken  
14 to you and I know you heard from Mr. Brock last month. Doctor  
15 Mayuga -- Bachelor of Science in '38, Master of Science in Geolo-  
16 gy in 1940, Ph.D. in 1942. He has been with the City since  
17 1948. Prior to that he worked for two years in the same Wil-  
18 mington Oil Field. He is a registered petroleum engineer since  
19 1948 and in his spare time that we don't take from him, he is  
20 very active as a retired Air Force Colonel.

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

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

29 I believe it is important to know the complexity of  
30 the field which is to be developed and to hear some reference  
31 to the problems that do already come up.

1 DOCTOR MAYUGA: Mr. Chairman, Mr. Champion, I am glad  
2 for the opportunity to explain to you the complex nature of our  
3 oil field. I think a little understanding of the actual geology  
4 aspects would explain the reasons behind why you have such a  
5 proposal before you.

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

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

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

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

27 In 1958, because of the problem of subsidence -- Mr.  
28 Kealer earlier referred to it in his testimony and again it was  
29 referred to by Mr. Lingle -- in 1958, by an act of the Legisla-  
30 ture, later on by the determination of the Division of Oil and  
31 Gas, a subsidence district of this configuration was declared

1 or embodied as a determination of the Division of Oil and Gas.  
2 The entire area we are discussing now is in this subsidence  
3 division. I would like to point out the subsidence contour,  
4 which shows currently about twenty-seven feet at the center of  
5 the subsidence; but definitely from 1959 to the present time we  
6 have practically stopped subsidence with our repressuring opera-  
7 tions; and, as Mr. Desmond pointed out, we have roughly increased  
8 production in tidelands areas alone about two and one-half times  
9 what we would ordinarily have obtained by ordinary methods.  
10 Therefore, we have accomplished two things -- we have stopped  
11 subsidence in the area and have increased our production in a  
12 large proportion.

13           Just by relative areas, or in acres, we are talking  
14 about in what is referred to as Parcel 1 approximately 4400 to  
15 4500 acres, the Alamitos State Park is roughly 400 acres, and  
16 the Townlot area may exceed 1700 acres at the present time.

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

28           Briefly, this represents the top of the contour of  
29 one of the horizons some two thousand feet above sea level.

30           Based on this map, the seismologists refined it and  
31 came up with a structural configuration which I think a simple

1 way to explain is that we removed two thousand feet of over-  
2 burden in this area. We actually have a buried hill some fif-  
3 teen hundred feet high -- this is the top of that hill, and  
4 here would be about the bottom of the valley.

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

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

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

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

31 Now, drawing a cross-section in a north-south direction

1 we have a configuration that looks like this. This is the anti-  
2 cline of the hill I am referring to, part of the hill. This  
3 red line indicates the approximate boundary of the Townlot area,  
4 the onshore area. With respect to the offshore area, I think  
5 this diagram will show very clearly the connection of the reser-  
6 voir and also many of the sands and water limits.

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

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

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

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

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

28 Here is another zone, the Ford zone, just a little bit  
29 narrower; the Lower Terminal zone; the Union Pacific zone. In  
30 other words, what I am developing here is different zones of  
31 water limits in the area. Here is our known deepest zone in the

1 offshore area.

2 We propose to drill some wells for this offshore devel-  
3 opment from our Pier J, which is now under construction, and we  
4 have made plans for a drill site. At the same time, this Pier J  
5 will be the site of wells that we are trying to drill on the  
6 presently developed area, on the L.B.O.D. parcel in particular,  
7 so that Pier J will play a major part in our oil development.

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

15 You can readily see that we can reach all of the forma-  
16 tions here within our estimates. We can develop every portion  
17 of this formation from these four islands.

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

27 Gentlemen, when we made a proposal in 1961 to develop  
28 this offshore field and wrote this report to the City Council,  
29 we were guided by certain obligations which we felt the City  
30 has in the administration of its trust that we have in Long  
31 Beach. First, we feel that if we have to propose a program of

1 development, it should be a program that should fulfill the  
2 terms of the trust; it should be a program where we can conduct  
3 the producing operations according to law with maximum safe-  
4 guards against subsidence damage, noise, contamination, waste,  
5 and the detriment to the beauty of our shoreline; and, third,  
6 which we think is important to us and the State, we must secure  
7 contracts and agreements with maximum returns to the City and  
8 State.

9 I think, gentlemen, the proposals before you have been  
10 designed in this manner. We feel that a single unit operation  
11 in the area, that will enable us to apply our engineering tech-  
12 niques and geological techniques without regard to parcel boun-  
13 daries, would be in the best interests and allow us to fulfill  
14 our obligations.

15 Another important feature before you is the City con-  
16 trol of these operations, in order to protect the City from  
17 these items under (b) in my chart. We feel that any deviation  
18 from that will prevent the City from fulfilling all its obliga-  
19 tions.

20 Thank you very much.

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

29 Mr. Brock.

30 MR. BROCK: Actually, I was going to compare the con-  
31 tracts themselves but I believe Mr. Cranston has done that with

1 the members of the staff. However, this operating profit is  
2 very pertinent to any method that you use to develop it. Actu-  
3 ally this shows the money that is there and I think that is  
4 what we want a contract for. This actually shows the cash flow  
5 under the proposal that we now have before the Lands Commission.

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

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

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

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

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

26 Now, there are some other points to this. Certainly,  
27 there are many assumptions that go into this. Part of them are  
28 that we have eight exploratory holes drilled in sixty-five  
29 hundred acres. That isn't very conducive to accurate estimates  
30 on the oil. We have, however, with the knowledge we have from  
31 the Wilmington Field, compared the activity of the Wilmington

1 Field with the logs we have obtained from these holes, and I do  
2 believe this estimate is fairly realistic.

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

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

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

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

29 MR. BROCK: The net operating profit. Now, in the  
30 case of Tract 1, you will have to deduct from that the amount  
31 of bid that the Field Contractor will have; in the case of the

1 State Park, we don't know what is going to be done, but there  
2 will be one hundred thirty-eight million dollars that will be  
3 divided in some manner between the State and whatever arrangement  
4 they have with the operator.

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

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

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

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

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

31 The people arguing against us last week made the best

1 argument they could against bonus bidding. Mr. Clark said --  
2 and whether you need to capitalize this money or not, this is  
3 only fifty-one million dollars - - that this will amount to two  
4 digit million dollars. That means something between ten and  
5 one hundred million dollars. If this is on only fifty-one mil-  
6 lion, and you were to submit this to straight bonus bidding you  
7 might get two or three hundred million dollars -- under his  
8 terms that means that out of the net operating profit this  
9 contractor would have to pick up a like two or three hundred  
10 million dollars just to cover the tax advantage that he would  
11 lose because of the bonus.

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

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

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

29 We do ask that these be read -- there are copies  
30 available. We are very anxious that they be made a part of  
31 the record. Both of the statements have been taken, paragraph

1 by paragraph, and answered and commented upon by the City. We  
2 would like to deliver the copies at this time. Others are  
3 available if they are needed.

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

7 MR. DESMOND: Yes, sir.  
8 \*\*\*\*\*

9 The documents referred to above are reproduced at this  
10 point:

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

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

20 " STATEMENT OF L. E. SCOTT, Assistant to the President  
21 of Pauley Petroleum Inc. objecting to the adoption  
22 by this Commission of the City of Long Beach Tidelands  
23 Development Program as submitted this date.

24 Pauley Petroleum Inc., Los Angeles, California, is  
25 presently engaged in offshore tideland operations in the  
26 State of California, Louisiana, and Mexico. This company,  
27 along with its partners, has in the past few years paid to  
28 the State of California an excess of 24.7 million dollars  
29 for tidelands leases. We are presently engaged in the  
30 development and production of these leases; therefore, we  
31 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 1½ billion barrels of oil, and  
worth somewhere between 4½ 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.

1 "At the present time there are approximately 3.6 billion  
2 barrels of oil known to be producible in the State of Cali-  
3 fornia. The daily production in California is approxi-  
4 mately 815,000 barrels a day, which is about 300,000,000  
5 barrels a year. At this rate, in a little more than three  
6 years, California will have depleted its oil reserves by  
7 more than a billion barrels. All of the oil producers in  
8 California, particularly the majors, are frantically drill-  
9 ing their fee lands, inside locations which ordinarily  
10 would not be drilled, in order to keep California's produc-  
11 tion up. This is being done for many reasons which we will  
12 go into later in this statement."

13 COMMENT:

14 The State has much more information on this reservoir than  
15 they do on most of their own tideland leases at the time they  
16 are put out for bid. On many State tideland leases there is no  
17 reservoir information whatsoever when leased. In the Long Beach  
18 tidelands area information from eight exploratory core holes, a  
19 seismic survey, and production and geologic data on each end of  
20 the area is available. The Conservation Committee estimated  
21 California proven reserves of 3.3 billion barrels in 1941 and  
22 3.6 billion barrels in 1962, even though 7 billion barrels were  
23 produced in the interval between 1941-1963. Mr. Scott's esti-  
24 mate of California reserves apparently is based on the falla-  
25 cious assumption that no additional oil discoveries ever will be  
26 made in California and that California oil producers will not  
27 take advantage of secondary oil production techniques constantly  
28 being developed and improved. In addition it has been reported  
29 that ownership of a potential of many billion barrels of oil is  
30 involved in the current legal dispute between California and the  
31 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 mono-  
polistic 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

1 strenuously to the implication that they were planned to be.  
2 The expressed purposes, and we believe these documents achieve  
3 this end, were to obtain the maximum economic return to the City  
4 and State while protecting Long Beach from subsidence and de-  
5 spoilment of the beaches and tideland area.

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

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

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

28 "A review of the documents submitted by the City of Long  
29 Beach indicates that it is the desire of the City of Long  
30 Beach, as well as some favored operators, to call for bids  
31 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

1 "recoverable bonus money, plus build up to four ten-acre  
2 islands, plus drill at least forty wells in the first year  
3 after completion of the first island. Reliable engineers  
4 have stated it will cost a company between 90 and 100 mil-  
lion dollars in initial investment to carry out the devel-  
opment of Tract #1 as proposed by the City of Long Beach.

5 "It is our feeling that this tremendous investment require-  
6 ment is fully intended to eliminate competition and to  
7 chill the bidding for the average offshore operator. I  
8 ask this Commission how many companies in the United States  
9 can commit themselves to spend 100 million dollars on any  
10 one project? Your attention is directed to Paragraph 23,  
11 page 21, of the Field Contractor Agreement, wherein the  
12 Field Contractor is not permitted to pledge or hypothecate  
13 this contract without first receiving the consent of the  
14 City Manager of Long Beach. Here, again, is an obvious  
15 effort to eliminate reasonable size offshore operators from  
16 bidding. In other words, the bidder cannot go to its bank  
17 or financial institution and secure adequate capital to  
18 carry on this development program without first receiving  
19 the consent of the City Manager."

20 COMMENT:

21 Mr. Scott states that Pauley Petroleum with its partners  
22 has given the State \$24,000,000 for offshore leases. It would  
23 seem reasonable that Pauley Petroleum could organize a bidding  
24 group and bid on this project and we hope the company does. Mr.  
25 Scott states that the provision to require prior approval from  
26 the City before allowing any assignment or hypothecation of this  
27 agreement is designed to eliminate competition. This is not true.  
28 This provision is a standard part of City contracts and is par-  
29 ticularly necessary in a net profits contract. In the past the  
30 City has approved all legitimate assignments of oil contracts,  
31 production payments, etc. Never before has any company ques-  
tioned such procedure. It is important to know the financial  
background and operational competency of contractor. Informa-  
tion 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 right-  
fully 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.

1 "Reference is also made to Paragraph 32, Page 32, entitled  
2 FORCE MAJEURE. Pursuant to said paragraph, an operator  
3 must continue to pay the 51 million dollars over the three  
4 year period, even though he is shut down by court order or  
5 by injunction. Requiring an operator to make such sub-  
6 stantial payments when ordered to cease production or op-  
7 erations is unfair. This is another effort to make it  
8 difficult for a reasonable size company to bid. How many  
9 companies can continue to pay out 51 million dollars while  
10 they are not permitted to drill, operate, or produce be-  
11 cause of the provisions of the FORCE MAJEURE clause? To  
12 make this requirement and not excuse payment while in liti-  
13 gation is unthinkable. This is just another method used to  
14 eliminate competition and to allow certain companies to  
15 gain control of a fabulous oil reserve at a non-competitive  
16 price."

17 COMMENT:

18 The purpose of the production payments was to provide  
19 income to the City and State during the period when no net  
20 profits are available. It is expected that under a reasonable  
21 development program, net profits for payment to the City and  
22 State will be available in 3 to 3½ years. If a fixed payment of  
23 \$51,000,000 were required at the time of bidding, these funds  
24 would be available to the City and State, without any possibil-  
25 ity of avoiding capitalization of these funds for income tax  
26 purposes. Pauley Petroleum Inc. is in no better position in  
27 respect to any of the leases they acquired from the State if  
28 litigated to a standstill, or if no oil were discovered. The  
29 State still would have its \$24,000,000 bonus, and Pauley Petrol-  
30 eum would be unable to operate or recover their investment. The  
31 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 competi-  
tion 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 pro-  
duction, oil prices and oil imports on the West Coast for  
years to come.

1 "Let's look at the daily production for October 1962 of  
2 many of the California operators. These figures are taken  
3 from the Conservation Committee of California Oil Produc-  
4 ers - Company Records of California Oil and Gas Production -  
5 October 1962.

6 SUMMARY FOR OCTOBER 1962

7	<u>Major Companies</u>	<u>Actual Production B/D</u>
8	Richfield Oil Corp.	69,551
9	Shell Oil Company	61,513
10	Socony Mobil Oil Company	46,680
11	Standard Oil Company	143,016
12	Texaco, Inc.	48,818
13	Tidewater Oil Company	53,617
14	Union Oil Company	68,308
15	Signal Oil and Gas Co.	40,310

16 "It will be argued that the award of Tract #1 to any one  
17 Operator, or group of operators, will not create a monopoly  
18 of the crude oil market in the State of California. We  
19 wish to point out that at the present time Richfield Oil  
20 Company produces approximately 69,000 barrels of oil a day;  
21 Union, 68,000; Signal, 40,000; Standard of California,  
22 143,000; Texaco, 48,000; Tidewater, 53,000 barrels. If  
23 any one of these companies are awarded Tract #1 under the  
24 bidding procedure recommended by the City of Long Beach,  
25 it would more than double their present daily production  
26 in California. With the exception of Standard of Cali-  
27 fornia, it would be necessary to add together the daily  
28 production of several of these companies to obtain the  
29 amount of oil equal to the anticipated daily production  
30 from the Long Beach Harbor Tract #1, which is estimated to  
31 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 viola-  
tion 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

1 with or without this Long Beach tract. The competition is as  
2 keen between these major companies as it is with the smaller  
3 independents involved.

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

9 If a major refiner were to get this contract and not pur-  
10 chase crude from other California producers, such crude then  
11 would be available for the smaller refiners.

12 "Last week a statement appeared in the Trade Journals that  
13 oil and gas exploration in the United States is at a nine-  
14 teen year low. If one company, or group of major refiners  
15 control this oil, a great detriment is being done to the  
16 State of California and to the oil producers who operate  
17 in this State. Do you think for one minute that any one of  
18 these companies are going forward with aggressive explora-  
19 tion and development program onshore in Northern or South-  
20 ern California and look for oil when they have, by one  
21 stroke of the pen, and by one preconceived contract, more  
22 than doubled, tripled, or quadrupled their daily production  
23 in the State of California? Why should any company continue  
24 to search for oil where risks are high when they can buy it  
25 from Long Beach and, at the same time gain control of pro-  
26 duction, prices, and imports in this State?

27 "We must insist, Mr. Chairman, that this proposal be  
28 rejected in its entirety and that the staff of the State  
29 Lands Commission, the Attorney General of the State of  
30 California, and representatives of the City of Long Beach,  
31 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."

32 COMMENT:

33 It is understandable that, prior to the bidding on these  
34 large offshore reserves, the interested companies are looking  
35 forward to this program and are not particularly active in  
36 exploratory programs at the present. We believe the unsuccess-  
37 ful bidders will redouble their efforts to keep pace after the  
38 contract is let. The Pauley Statement suggests that a reasonable

1 basis should be worked out to allow all operators to participate.  
2 This would be impossible because there are 1344 independent  
3 operators listed by the 1961 Conservation Committee report.

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

12 COMMENT:

13  
14  
15 The pricing provisions of the proposed contract will result  
16 in a higher over-all return to the City and State. The pricing  
17 procedure for all the crude oil assigned to Tract #1 is fixed by  
18 the terms of the Field Contractor Agreement. The requirement of  
19 City Manager approval of oil purchase contracts is to insure the  
20 financial responsibility of the purchasers. Although the State  
21 Lands Commission does not have the right to force the oil to be  
22 sold to anyone other than the Field Contractor, neither does  
23 the Commission have the obligation to find a purchaser for the  
24 oil in times when an oversupply of oil exists.

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

32 'Except as otherwise herein provided, oil allocated to  
33 Tract No. 1 shall be valued on the basis of a price equal  
34 to the average of the prices posted and paid by continuing  
35 purchasers of substantial quantities of crude oil in the  
36 Field for oil of like gravity on the day such oil is run  
37 into Field Contractor's or purchaser's tanks and/or  
38 pipelines. "Continuing purchasers of substantial quantities

1        "of crude oil" as used in this section, shall mean pur-  
2        chasers who have, during the preceding twelve (12) calendar  
3        months, purchased an average of at least three thousand  
4        (3,000) barrels of crude oil per day. If no such purchaser  
5        posts and pays a price in the Field on said day for oil of  
6        like gravity, or if the only purchaser or purchasers who so  
7        post and pay a price are the Field Contractor or one or  
8        more of the Persons comprising the Field Contractor, then  
9        the price hereunder shall be the arithmetic average of such  
10       prices as may be posted on said day for oil of like gravity  
11       by Standard Oil Company of California, Union Oil Company of  
12       California and Socony Mobil Oil Company, Inc., or their  
13       respective successors, in the following fields: Wilmington,  
14       Huntington Beach, Signal Hill and Inglewood. The above  
15       price shall be computed to the closest tenth of each degree  
16       of gravity and the closest tenth of a cent per barrel for  
17       the pricing of each delivery of crude oil by applying the  
18       price for each full degree of gravity to the even gravity  
19       and interpolating upward for each tenth degree of gravity.  
20       If Field Contractor, or one of the persons comprising the  
21       Field Contractor, purchases oil from others in the Field,  
22       the price of the oil taken by such person shall not be  
23       less than the price paid by such person to others for oil  
24       of like gravity in the Field."

25        COMMENT:

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

35        Both existing Long Beach tidelands oil contracts provide  
36        for oil payment on the average posted price. These contracts  
37        are generally regarded as providing the greatest financial re-  
38        turn to the landowner of any contract in the history of the U.S.  
39        oil industry.

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

43        "This company has recently acquired an oil and gas lease  
44        known as Parcel 9A, and referred to as State Lease 2933.1,

1 "in the Santa Barbara area. The State Lands Commission,  
2 in its lease form, provides as follows: (Paragraph 3, Line  
3 7, Page 3)

3 'The Lessee agrees to account for and pay to the State  
4 in money as royalty on oil a percentage, determined in  
5 accordance with the schedule attached hereto, marked  
6 Exhibit B, and by reference made a part hereof, of the  
7 current market price at the well of, and of any premium  
8 or bonus paid on, all oil production removed or sold from  
9 the leased lands. The current market price at the well  
10 shall be determined by the State and shall not be less than  
11 the highest price in the nearest field in the State of  
12 California at which oil of like gravity and quality is be-  
13 ing sold in substantial quantities, subject to an appro-  
14 priate allowance for the cost of delivery of such oil to  
15 onshore storage and transportation facilities. Said money  
16 royalty on oil shall be due and payable not later than the  
17 twenty-fifth day of the calendar month following the  
18 calendar month in which the oil is produced.'

11 "Under the Long Beach contract the Operator is going to  
12 bid net profits on Tract #1 and will receive the average  
13 posted price paid by certain companies. The companies that  
14 acquire other oil and gas leases offshore throughout the  
15 State of California (such as we did under Parcel 9A in the  
16 Santa Barbara Channel area), must pay the State of Cali-  
17 fornia the highest price paid for oil. This creates an  
18 unfair competitive situation since the operators who own  
19 other tideland oil and gas leases are required to sell oil  
20 on parcels of tidelands lying outside of the Long Beach  
21 area at the highest price. It means that the companies  
22 who control the oil in the Long Beach area are going to  
23 buy their oil cheaper than operators of other State-owned  
24 leases. How can an independent producer compete with this  
25 sort of discriminatory pricing? It seems to me that we  
26 must have one pricing formula for all of California Tide-  
27 lands. If we do not, we will have a situation where oil  
28 from Tracts #1 and #2 are being sold cheaper and making  
29 less profit for the State of California and the City of  
30 Long Beach than the State is making from other tideland  
31 parcels under their present pricing formula."

32  
33 COMMENT:

34 The State lease form differs from the proposed Field Con-  
35 tractor Agreement and thus one cannot compare the pricing pro-  
36 visions of the two without taking into consideration all aspects  
37 of each form of agreement. For example, State leases can be  
38 quitclaimed at any time thus relieving the operator of the  
39 effect of any unrealistic high oil price. In addition, only  
40 the State royalty share of the oil is subject to the pricing  
41 provision. This is normally a relatively small percentage of

1 the oil.

2 The State Leasing provision requires the crude oil price to  
3 be the current market price, defined as "not less than the high-  
4 est price in the nearest field in the State of California at  
5 which oil of like gravity and quality is being sold in substan-  
6 tial quantities, subject to an appropriate allowance for the  
7 cost of delivery of such oil to onshore storage and transporta-  
8 tion facilities." This does not mean the "highest posted" price  
9 at the well. The use of such qualifying terms could cause con-  
10 siderable misunderstanding and lead to possible law suits.

11 "We are all aware of the situation which existed in Cali-  
12 fornia a short time ago where one company posted a price  
13 for oil of 40¢ a barrel less than one of the other big  
14 producers. If there is a 40¢ differential in the price of  
15 crude oil, then the average price received by Long Beach  
16 would be 20¢ a barrel less than the highest price paid for  
17 the crude by one of the major purchasers. What does this  
18 really mean, gentlemen? Let's take a look at it. It  
19 means that any company posting prices in any one of the  
20 fields set forth in the Long Beach contract can either  
21 lower or raise the price, like a window shade in a house,  
22 in those areas; or raise or lower the posted price for  
23 crude under Tract #1, and thereby manipulate the price and  
24 the profit the State of California and the City of Long  
25 Beach and the Field Contractor (if it happens to be an  
26 independent producer), are receiving from Tract #1."

27 COMMENT:

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

32 A tabulation of every posted price for 20 degree API crude  
33 in the Wilmington Oil Field during the past 12 years by the  
34 three companies currently posting indicates that the difference  
35 between using the average posted price and using the highest  
36 posted price for the production in the L.B.O.D. parcels would  
37 have been approximately 16 hundredths of a cent per barrel.  
38 Compare this figure with the 3 cents per barrel gain referred  
39 to below.

1 "What does a company have to lose that happens to be the  
2 Field Contractor and also the purchaser and the refiner?  
3 The City of Long Beach and the State of California will  
4 have a lower price for their crude and will be receiving  
5 less money than they would ordinarily. The City of Long  
6 Beach and the State of California will receive less net  
7 profits from Tract #1, but, at the same time, if the Field  
8 Contractor happens to be the purchaser AND the refiner, it  
9 will pick up that additional profit in his manufacturing  
10 profits and would actually be given a windfall by manipula-  
11 tion of the posted price."

12 COMMENT:

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

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

29 "This Agreement, as now submitted by Long Beach to this  
30 Commission, gives the exclusive control of this 1.6 billion  
31 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 con-  
tract 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 Septem-  
ber 1962 had a firm obligation on the part of the contrac-  
tor to buy the oil or to dispose of it. That language has  
now been changed insofar as oil is concerned. It is re-  
quested 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

1 "provision in this contract for the disposal of crude in  
2 the event the Field Contractor cannot find a market. The  
3 Field Contractor is required to buy all natural gasoline  
4 extracted from wet gas. We think this provision is unfair  
5 because it places an impossible burden on the contractor  
6 when he doesn't have a market. This is just another device  
7 to eliminate competition by placing an onerous market pro-  
8 vision upon operators who cannot market large quantities  
9 of natural gasoline."

6 COMMENT:

7 The proposed Field Contractor Agreement requires the suc-  
8 cessful bidder to pay the working interest account for all oil  
9 assigned to Tract No. 1; thus, the City and State have no worries  
10 about disposing of the oil outside of the contract. The contract  
11 which was drafted by the City and not by any company or compan-  
12 ies, still contains this obligation on the contractor to pay for  
13 all of such oil. The present language is the result of a sug-  
14 gession by the Attorney General's Office.

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

21 "No one company can agree to buy all of this oil unless  
22 there is a market. How many companies can actually absorb  
23 75,000 to 150,000 barrels of oil a day in their refinery?  
24 To my knowledge, none of them. The only way this could be  
25 done is to cut off purchases and stop buying oil from the  
26 balance of the producers in the State of California. We  
27 submit to this Commission this is exactly the plan of ac-  
28 tion to be taken by certain companies in the event they  
29 can monopolize the Long Beach Oil Field.

26 "It is submitted to this Commission this is exactly what  
27 will happen in the event you permit this complete parcel  
28 of land to be put into the hands of one group of companies  
29 having control of the pricing and the refining processes in  
30 this State. They plan to reduce their purchases from  
31 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.

31 "Once you have created a soft market for crude oil in  
California, then the posted price will be lowered through

1 "manipulation by the refiners and thereby the State of Cali-  
2 fornia, the City of Long Beach, and the independent produc-  
3 ers throughout the State will receive less money for their  
4 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  
crueſt form."

5 COMMENT:

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

13 "Since the preparation of my presentation, the staff has  
14 suggested that small refiners be permitted to purchase a  
15 portion of the crude under competitive bidding every six  
16 months. What this means is that 'hard-put' small refiners  
17 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."

18 COMMENT:

19 This procedure of putting up a portion of the crude for  
20 competitive bids each six months was suggested by the small re-  
21 finers themselves. The pricing procedures under long term con-  
22 tracts by necessity vary from prices paid by short term  
23 purchasers.

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

26 COMMENT:

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

30 "If the small refiners are required to bid for crude, then  
31 we recommend that all of the crude under Tract #1 be put  
out for bid on an annual basis. In this manner all

1 "companies - large and small - would be treated alike.  
2 Some may argue that the State and City should not take the  
3 risk and gamble on the oil market. The City and State are  
4 actually assuming all of the risks under a 'net profits'  
arrangement so a little more risk should not matter. The  
only people who can lose would be the citizens of California"

5 COMMENT:

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

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

26 "5. Mr. Chairman, the State Lands Commission has, since  
27 1955, taken the position and adopted a policy of putting up  
28 alternate, or every third, parcel in even the most risky  
29 wildcat areas. Also, this Commission has limited the size  
30 of parcels depending upon their potential productivity.  
31 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

1 "the Tideland parcels to 5760 acres. It reads as follows:

2 SIZE OF PARCELS TO BE LEASED:

3 The Commission may divide the lands within the area  
4 proposed to be leased into parcels of convenient size and  
5 shape and shall prepare a form of lease or leases therefor  
6 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)

7 "The Federal regulations for federally-owned tidelands are  
8 similar.

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

17 COMMENT:

18 Neither the State Lands Commission nor the Federal Govern-  
19 ment has leased tidelands in an area that has been damaged by  
20 subsidence. It is imperative that the City maintain full con-  
21 trol of these operations as a safeguard against further subsid-  
22 ence damage in this area. The only realistic way to accomplish  
23 this is to develop this offshore area as a single tract. This  
24 was realized by the electorate of the City of Long Beach when  
25 they passed the drilling ordinance that required this area to be  
26 developed as a single tract.

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

30 "6. We would also like to call the attention of this Com-  
31 mission 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 inter-  
est 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 Cali-  
fornia, and certainly the City of Long Beach, can borrow

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

3 COMMENT:

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

14 "7. It is also our feeling that the money payments set  
15 forth in the Field Contract Agreement are bonus payments  
16 and should be made payable 25% at the time the Operator  
17 bids and 25% on the anniversary date for the next three  
18 succeeding years. We do not think the City Manager of Long  
19 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 hard-  
ship on industry members in that it will permit them to  
arrange their financial payments pursuant to contract.

20 "A question has been raised as to what kind of payments  
21 these are. Are they advance royalty payments or are they,  
22 in fact, recoverable bonus payments which must be capital-  
23 ized. If they are advance royalty payments, then they can  
24 be written off in the year payment is made. I understand  
25 that some competent tax authorities state that these are  
26 bonus payments and must be capitalized. If this is the  
27 case, it could be disastrous. This is one of the most im-  
portant and vital points that must be resolved and results  
made known to all bidders prior to the call for bid.

28 "The question of whether or not these payments are expense  
29 items or capital items will materially affect the amount of  
30 the bid of any company -- regardless of whether or not it  
31 be net profit, bonus, royalty, or otherwise.

32 "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

1 "secured a ruling from the Internal Revenue Service. If  
2 this is the case, I suggest that they come forward and  
3 advise the Commission in open hearing as to the results  
4 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."

5 COMMENT:

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

17 "8. It should be pointed out to the Commission that if  
18 Tract #1 is permitted to be controlled, as one parcel,  
19 by major domestic refiners, it will vest control in these  
20 domestic refiners of the import of foreign oil into the  
21 State of California and to the West Coast. WHY IS THIS  
22 THE CASE? It is easily understood since the foreign im-  
23 port quotas are determined by the amount of domestic oil  
24 put through domestic refineries. For example: If a com-  
25 pany has a refinery with an input of 150,000 barrels of oil  
26 a day, it will be permitted to bring in foreign import of  
27 10.5% of the domestic refined input. Therefore, if a  
28 company, or group of companies, should control this esti-  
29 mated 150,000 barrels a day production from Long Beach,  
30 regardless of whether or not they can make a nickel out of  
31 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 Com-  
mission 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."

32 COMMENT:

33 Our understanding is that the import quota from District V  
34 is based on the historic refinery through-put of domestic crude.  
35 Additional production does not give a refining company additional

1 imports. The effect on the import quota of a refining company  
2 will be the same regardless of whether or not it produces this  
3 oil.

4 "9. We understand it is anticipated that the operators  
5 will have to bid on this Long Beach proposal within a  
6 very short time after the Commission approves same. I  
7 have not gone into the many questions we have regarding  
8 this contract as submitted today. It would take hours to  
9 set forth the various and sundry problems that must be  
10 resolved before any company can bid on these parcels.  
11 Regardless of what this Commission does today, or some  
12 time in the future, it is strongly recommended that you  
13 allow at least 270 days between the call for bids and the  
14 date bids are filed. It is also recommended that you  
15 instruct the staff to hold public hearings on the form of  
16 the proposed contract (as was done in May 1958) in order  
17 that all members of the oil industry may make a critique  
18 and learn what the contract really says and means. The  
19 present contract is difficult to understand interpret."

13 COMMENT:

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

22 "A representative of one of the companies involved in the  
23 preparation of this contract summed up the contract pro-  
24 posal as follows: 'It is a hodge-podge of ideas to be  
25 submitted to the State Lands Commission for approval.' I  
26 think no one could possibly describe this contract any  
27 better.

28 "Mr. Chairman, in conclusion, we would like to state that  
29 we do not wish to oppose a program unless we are able to  
30 offer a constructive way of doing it better. We believe  
31 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.

1           COMMENT:

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

11           "(a) It is our recommendation that the State Lands Commis-  
12 sion put Tract #2 up for bid immediately, using the old  
13 form of lease and either calling for a cash bonus bid with  
14 a fixed royalty formula; OR, if the Commission prefers,  
15 put up Tract #2 for bid on the basis of a fixed cash bonus  
16 payment and let the operators bid on a royalty basis.

17           "On February 25, 1963, this company formally requested that  
18 Tract #2 be leased pursuant to present existing laws; a  
19 copy of our request is hereby introduced as evidence as  
20 part of this presentation.

21           "Under the present statutes, the State Lands Commission  
22 cannot put Tract #2 under the Long Beach formula because  
23 it is not permitted by the statutes. We think ample  
24 language can be written into the lease contract which  
25 would require the successful operator to enter into a  
26 reasonable and equitable unit agreement with the Long Beach  
27 people pursuant to presently existing statutory authority.

28           "We have just reviewed the recently introduced Senate Bill  
29 #298 which permits the State of California, as Oil Opera-  
30 tor, to unitize Tract #2 with the Tidelands in Long Beach.  
31 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.'"

32           COMMENT:

33           The Alamitos Beach State Park Tract #2 is not now under  
34 consideration. However, the Unit Agreement does allow the State  
35 to bring Tract #2 in as a working interest owner or to lease  
36 Tract #2 as in any other area.

(b)

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

9 "It is also recommended that the City of Long Beach and the  
10 State of California seriously consider fixing the royalty  
11 and/or net profits which they want to secure and let the  
12 companies bid on a cash payment, payable over a three-year  
13 period, with 25% of the cash payment accompanying the bid.  
14 Cash bidding has been used by the State Lands Commission for  
15 the past seven years and has been eminently successful.  
16 One condition of the bid could be that one of the parcels  
17 carved out of Tract #1 would be designated as Operator-Field  
18 Contractor parcel and the other parcels could be designated  
19 as Non-Operating Field Contractor, or the Operator could be  
20 chosen by lot upon award of contract on all parcels. I am  
21 fully aware of the provision intentionally placed in the  
22 City ordinance which was passed by the voters of Long Beach  
23 last year requiring the operation to be in a single tract.  
24 We believe this problem can be taken care of very easily in  
25 a properly drawn document. If it cannot, then the State  
26 Lands Commission should, if its sovereignty is subordinate  
27 to the City of Long Beach, reject this proposal until it is  
28 resubmitted to the voters which would permit more than one  
29 company, or more than one group of companies, to participate  
30 in Tract #1."

31 COMMENT:

32 Physically splitting the offshore area into several opera-  
33 tional parcels is completely unacceptable from the standpoint of  
34 subsidence control. The continual supervision, coordination and  
35 arbitration between operators that would be required to insure  
36 adequate protection against subsidence in this very complex geo-  
37 logic area would be extremely costly. The duplication of opera-  
38 tions and personnel required by the several contractors also  
39 would add greatly to the cost of operations. It probably would  
40 require a change in the City drilling ordinance. Furthermore,  
41 it offers no advantages that cannot be obtained by other means.

42 It is suggested by Pauley that Tract #1 could be split into  
43 parcels but operated by one contractor under the terms of the  
44 unit agreement. Although less objectionable from the standpoint  
45 of subsidence control, and possible under the City drilling

1 ordinance, this plan also has disadvantages. It seriously com-  
2 plicates the determination of equities. Additional City person-  
3 nel would be required for the coordination of the probably  
4 divergent interests of the various contractors. The bid would  
5 suffer because of the uncertainty involved in dealing with un-  
6 known partners and because of the fact that no bidder would have  
7 advance knowledge of the operational and technical ability of  
8 the Field Contractor. Again this plan offers no advantages  
9 which are not available under the alternate proposals discussed  
10 later.

11 Earlier in his statement, Mr. Scott stated that under the  
12 Long Beach proposal a successful bidder would be required to  
13 commit \$100 million, to which he objected vigorously. Now he  
14 suggests that it would be entirely feasible to split Tract #1  
15 in parcels and offer it for bonus bidding, for which he thinks  
16 the bonus bids might be from \$350 to \$450 million (Transcript,  
17 State Lands Commission meeting, February 28, 1963, Page 117,  
18 line 16). In addition to the bonus, of course, his estimated  
19 \$50 million in initial investment would be required of the suc-  
20 cessful bidders. We submit that if no company can risk \$100  
21 million on our proposal, companies cannot risk \$400 million to  
22 \$500 million under Mr. Scott's proposal.

23 Without in any way attempting to evaluate the many factors  
24 that must be considered to properly equate the monetary return  
25 from different leases, there are no major State leases that have  
26 a return equivalent to 67% straight royalty. Long Beach has one.  
27 In considering Mr. Scott's request that the State exercise its  
28 sovereignty to require the area to be split into parcels, it  
29 should be realized that the people of Long Beach voted to re-  
30 quire this area to be developed as a single tract as a reason-  
31 able safeguard in the program to prevent subsidence.

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

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

13 COMMENT:

14 Our objectives are to produce the highest economic return  
15 for the City and the State and to protect the City against sub-  
16 sidence. Neither of these objectives can be achieved if we  
17 endeavor to split the area into parcels small enough to allow  
18 all 1,344 California operators to participate. It is impossible  
19 to satisfy all operators and at the same time best protect the  
20 interests of the City and State.

21 "(c) In the event the Commission does not want to split  
22 these parcels up into separate divided tracts, then it is  
23 suggested that they be split into undivided interests and  
24 put out to bid, one interest at a time. We suggest that one  
25 interest be for 30%; one interest for 20%; three interests  
26 of 10% each; and four interests of 5% each. The contract  
27 should designate the company winning the 30% bid as operat-  
28 ing Field Contractor. All other undivided participants in  
29 Tract #1 would be designated as Non-Operating Field Con-  
30 tractors. This would permit the smallest to the largest  
31 company to participate on an undivided basis, assume their  
proportionate share of the risk, cost and expense, and re-  
ceive 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."

32 COMMENT:

33 The suggestion of splitting Tract No. 1 into biddable un-  
34 divided interests is operationally similar to the proposal by  
35 the City. The main operational disadvantages would be the added  
36 City staff and State personnel required to coordinate the opera-  
37 tions and the loss occasioned by the inevitable compromises

1 among the large number of divergent interests. All indications  
2 are that no single company will bid on this project alone. The  
3 charge of monopoly is not satisfied by the letting of the bid  
4 area in parcels, because a company or group could win all parcels.  
5 It should be noted that where the Pauley Statement refers to a  
6 5% interest, there are only 18 of the aforementioned 1344 pro-  
7 ducers who produce such quantities as would amount to 5% of the  
8 estimated daily production from Tract No. 1.

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

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

18 1. Advance knowledge and confidence in the technical abil-  
19 ity and operational know-how of the field operator by the part-  
20 ners in the combine will result in a better bid.

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

30 3. An advance voluntary agreement prescribing operational  
31 procedures among partners and presenting a unified plan to the

1 City and State will be more assuring to bidders than being at  
2 the mercy of unknown partners and operators.

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

5 5. The advantage of operating the property, including the  
6 3% overhead allowance, would be reflected in only one segment  
7 under the undivided interest bid, while it would be favorably  
8 reflected in the whole bid as proposed by the City.

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

15 "It is suggested that the State set the net profits and/or  
16 royalties and receive bids on a cash bonus payment, payable  
17 over the three year period with 25% paid at the time of bid.  
18 The bonus payment should be free and clear of any interest  
19 charges but would be recoverable, by the successful bidder,  
20 out of their proportionate share of their oil in the same  
21 way they would recover their proportionate share of the  
22 cost in the event it were a net profits bid. Here, again,  
23 I see no reason why undivided interest owners should not  
24 bid on a net profits formula if the State so desires. The  
25 State and City could fix the amount of cash bonus they want  
26 and let each bidder bid on a net profit or royalty basis."

27 COMMENT:

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

"(d) It is strongly recommended that the Commission con-  
sider 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

1 "net profits and have the companies bid on the cash bonus  
2 basis. The bonus would be recovered the same as set forth  
3 above; or if the State and City prefers, they could set the  
4 amount of bonus desired and the amount of net profits de-  
sired and let each operator bid on the free royalty, or any  
combination, under this formula."

5 COMMENT:

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

14 "In conclusion, Mr. Chairman, we recommend that the State  
15 of California reject the proposal as submitted and remand  
16 it to the staff of the State Lands Commission and to the  
17 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 opportu-  
nity to win a bid under a free, competitive situation.

18 "In the event the State of California and the City of Long  
19 Beach cannot reach an equitable agreement permitting free,  
20 competitive bidding by more than one company or group of  
21 companies, then it is recommended that the State Lands Com-  
22 mission 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.

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

- 25 1. Ad valorem and other taxes;"

26 COMMENT:

27 Although we appreciate the industry's concern over taxes,  
28 we submit that consideration of the tax question is not relevant  
29 to consideration of this contract. A net profits type of con-  
30 tract minimizes the risk to bidders on the tax issue and there-  
31 fore their bids should bring greater financial return to the  
State and City.

1 "2. Question of why City of Long Beach should reimburse  
2 pre-unit expenses of onshore operators;"

3 COMMENT:

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

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

12 COMMENT:

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

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

20 COMMENT:

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

28 "5. Legality and advisability of including the Long  
29 Beach Oil and Development Company lands in the Unit  
30 by consent of operators rather than through competitive  
31 sealed bids."

COMMENT:

Since the Long Beach Oil Development Company lands are not  
contiguous with this area, they cannot be included in this unit..

1 The Unit Agreement in no way would allow the City to extend the  
2 term of any existing contract or enter into another contract  
3 without competitive bids. Competitive bidding is a requirement  
4 of both the City Charter and State Law.

5 \*\*\*\*\*

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

12 \*\*\*\*\*

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

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

- |    |                                |                                     |
|----|--------------------------------|-------------------------------------|
| 17 | 1. C. C. Albright              | 34. Leibroch, Landreth, Campbell &  |
| 18 | 2. Amerada Petroleum Company   | Calloway                            |
| 19 | 3. Robert E. Anderson          | 35. James A. Lewis, Engineers       |
| 20 | 4. Atlantic Oil Company        | 36. Marathon Oil Company            |
| 21 | 5. J. F. Austin                | 37. Mobil Oil Company               |
| 22 | 6. British Petroleum Expl. Co. | 38. Morgan Guar. Trust Co. of N. Y. |
| 23 | 7. Burnside and Fischer        | 39. W. A. Moncrief                  |
| 24 | 8. John Carr                   | 40. The Ohio Oil Company            |
| 25 | 9. A. J. Burnside              | 41. Orion Oil Company               |
| 26 | 10. Byron Oil Industries       | 42. Pauley Petroleum                |
| 27 | 11. Citizens National Bank     | 43. Producing Properties, Inc.      |
| 28 | 12. City of Los Angeles        | 44. Richfield Oil Corporation       |
| 29 | 13. Henry Clock                | 45. R. N. Richey                    |
| 30 | 14. Conservation Committee of  | 46. John R. Rumbaugh                |
| 31 | Calif. Oil Producers           | 47. Security First National Bank    |
| 32 | 15. Continental Eastern Corp.  | 48. Shell Oil Company               |
| 33 | 16. Continental-Emsco Company  | 49. Signal Oil & Gas Company        |
| 34 | 17. Continental Oil Company    | 50. Southern Calif. Edison Co.      |
| 35 | 18. Core Laboratories          | 51. Standard Oil Company            |
| 36 | 19. County Assessor's Office   | 52. Stanley and Stolz               |
| 37 | 20. DeGolyer and MacNaughton   | 53. State Lands Commission          |
| 38 | 21. Douglas Oil Company        | 54. Albert Stevenson                |
| 39 | 22. Franwin Oil & Gas Company  | 55. Sunray Mid-Continent Oil Co.    |
| 40 | 23. General American Oil Corp. | 56. Superior Oil Company            |
| 41 | 24. Golden Eagle Refining Co.  | 57. Texaco, Inc.                    |
| 42 | 25. Gulf Oil Corporation       | 58. Tidewater Oil Company           |
| 43 | 26. E. B. Hall Company         | 59. Union Bank Petroleum Dept.      |
| 44 | 27. Lynn O. Hosson             | 60. Union Oil Company               |
| 45 | 28. Humble Oil and Refin. Co.  | 61. C.R. Dodson, United Calif. Bank |
| 46 | 29. Humble Oil Company         | 62. Westates Petroleum              |
| 47 | 30. Harry Kues                 | 63. Read Winterburn                 |
| 48 | 31. Jade Oil & Gas Company     | 64. Phillips Petroleum              |
| 49 | 32. Jan Law, Consultant        | 65. Western Oil & Refining          |
| 50 | 33. Long Beach Oil Devel. Co.  |                                     |

1 COPY OF LETTER

December 7 1962

2 Pauley Petroleum  
3 10000 Santa Monica Blvd.  
4 Beverly Hills, California

5 Gentlemen:

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

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

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

18 The only charges for the structure and isopachous maps  
19 will be the Long Beach Blueprint Company charges. The core hole  
20 well histories are available in sets and may be purchased for  
21 \$3.00 per set, including tax, from the Long Beach City Clerk,  
22 101 City Hall, 205 West Broadway, Long Beach2, California.

Very truly yours,  
LEONARD W. BROCK  
PETROLEUM PROPERTIES ADMINISTRATOR  
by J. W. Parkin  
Petroleum Engineer

LWB:JWP:d1

\*\*\*\*

19 COPY OF LETTER

December 27, 1962

20 Shell Oil Company  
21 1008 West Sixth Street  
22 Los Angeles 54, California

23 Attention: Mr. Earl A. Armbruster

24 Gentlemen:

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

Very truly yours,

LEONARD W. BROCK  
PETROLEUM PROPERTIES ADMINISTRATOR

LWB:d1

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COPY OF LETTER

September 4, 1962

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

LWB:ls

\*\*\*\*

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

LWB:ls

(End of comments on Statement of L. E. Scott)



COMMENT:

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

7 "

THE STATE

8 These comments are directed to the interest of the State of  
9 California in adopting the proposed contracts. You appreciate  
10 that under a net-profits format the items covered  
11 under this heading are of only indirect concern to an operator  
12 who merely charges them off against the value of produced oil.  
13 They can, however, be of substantial monetary significance to the State."

COMMENT:

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

24 "1. FEDERAL TAX

25 "The proposed field contract provides that the so-called  
26 production payments constitute installments which must be  
27 paid by the contractor in all events and cannot be avoided.  
28 This will require the contractor to advance approximately  
29 \$51,000,000 to the City over the first three years.

30 "The Internal Revenue Service has informally advised us and  
31 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:

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

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

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

16 While any acceptable proposal certainly would be considered,  
17 it should be pointed out that this is but one factor in the bid-  
18 ding. If some companies feel that this is a bonus, they should  
19 bid on that basis. However, there are others who regard it as a  
20 production payment and will bid in accordance with that opinion.  
21 This element of risk is one of the features of competitive pub-  
22 lic bidding in a true democratic society.

23 We feel that there are many factors of a far greater magni-  
24 tude that all prospective bidders must consider. Such is the  
25 cost per barrel for the extraction of oil. Some might feel that  
26 75¢ per barrel is adequate while others might feel \$1.00 is more  
27 realistic. We have had various opinions from tax consultants  
28 relative to the advanced royalty payments, and from engineers on  
29 costs and production. We feel that the contractor must take all  
30 of these items into consideration, and the one who is willing to  
31 bid the most after studying all factors will be the successful

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

5 "2. AD VALOREM OR PROPERTY TAXES

6 "In considering the influence of property taxes it had been  
7 indicated to us by the Los Angeles County Assessor's Office  
8 that an assessment might be made against 'Undeveloped Oil  
9 Reserves.' The Los Angeles County Assessor held a confer-  
10 ence with representatives of the oil industry on February  
11 20, presumably to discuss this possibility. Actually, the  
12 specific question was never answered, as an issue of much  
13 greater significance developed.

14 "The Assessor indicated that he is now giving consideration  
15 under the De Luz Homes case to assessing the entire 100%  
16 interest in the tidelands property rather than only the net  
17 profits interest of the contractor. The De Luz case (Calif.  
18 Sup. Ct. 1955) held that in determining full cash value of  
19 a lease for property tax purposes by the capitalization of  
20 income method, the rent specified in the lease could not be  
21 deducted from gross income from the property. It is the  
22 Assessor's view that there is no difference between rental  
23 and the retained interest of the City; therefore, no deduc-  
24 tion should be made from gross income with respect to the  
25 governmental interest.

26 "If assessments are to be made against 'Undeveloped Oil  
27 Reserves' and would be applicable to the full cash value of  
28 future net operating income, then the impact of property  
29 taxes would substantially increase the cash expenditures of  
30 the contractor and the time of his payout. Consequently,  
31 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."

32 COMMENT:

33 In reviewing various State leases throughout California,  
34 we find that the taxing jurisdictions tax the company's inter-  
35 ests in the operation. We have discussed this matter with Mr.  
36 Watson, the County Assessor, and as of now, no definite conclu-  
37 sion has been reached in regard to the proposed tax to the  
38 contractor on the entire leasehold and the undeveloped oil

1 reserves. However, we in no way believe that the contract as  
2 submitted by the City in any way strengthens the possibility of  
3 this tax. Certainly by the net profit method contract as pro-  
4 posed by the City, the ultimate bid factor would be only a frac-  
5 tion as compared to any other type contract. This would also  
6 eliminate the possibility of a windfall for the company in the  
7 event that the assessment was not made in the manner indicated  
8 by Shell.

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

12 "3. INDUSTRY AT LARGE

13 "Without attempting to categorize the following comments,  
14 we list a number of observations resulting from the con-  
tract format.

15 ")1) The successful bidder must advance \$51,000,000 over  
16 the first three years as an absolute obligation even in the  
17 face of litigation striking at the very validity of the  
18 field contract. This is an open invitation to specious  
19 law suits by taxpayers -- essentially blackmail in nature.  
20 One needs but a cursory glance at the considerable history  
21 of Long Beach tidelands litigation to conclude that our  
22 concern is hardly illusory. This inflexible demand for  
23 advances suggests motives for employment of such funds  
24 foreign to the subject at hand and is a cynical disregard  
25 of common business practice, where the seller is presumed  
26 to produce the thing bargained for as consideration for  
27 payment. Clearly these payments should be impounded in  
28 the event litigation arises. Failure to so provide will  
29 reduce bid offers by some measurable degree dependent upon  
30 the risk assessment of the individual bidder."

31 COMMENT:

32 The purpose of advance payments is to provide income to  
33 the City and State during the period of development when no net  
34 profits are available. It is expected that under a reasonable  
35 development program net profits for payment to the City and  
36 State will be available in three to three and a half years.  
37 Under bonus type bidding as advocated by some, and practiced  
38 elsewhere, the entire amount would be paid in advance with no  
39 thought of impoundment.

1           "(2) The contract contains three elements providing for its  
2           own nullification.

3           "First, we refer to the requirement of the commitment of  
4           60% or more of the town lot tracts to the unit for it to  
5           become effective. We must have the advance written assur-  
6           ance from those companies holding town lot leases that they  
7           will commit their lands to the unit irrespective of whether  
8           any one or more of them qualifies as a successful bidder.  
9           Otherwise, they hold an absolute veto power on legitimate  
10          bidders, a matter we must assume escaped the attention of  
11          the drafters of this provision."

12          COMMENT:

13          On this point, Mr. Clark is referring to companies who had  
14          previously submitted into the record letters stating their de-  
15          sire to sign the Unit Agreement. The City representatives have  
16          been assured to their own satisfaction that the companies in-  
17          volved in drafting the Unit Agreement were prepared to sign  
18          these agreements when asked.

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

23          At the Unit meetings when the execution of the Unit Agree-  
24          ments was discussed, it was the City's contention that no point  
25          would be served in signing prior to State Lands Commission ap-  
26          proval. Conversely, the impact of bringing a signed document  
27          to the Commission for approval might be interpreted to mean  
28          that a rubber stamp approval was indicated.

29          "Secondly, we have serious reservations as to the provi-  
30          sions in Article 16 of the Unit Agreement relating to  
31          relief from Unit obligations. As applied to the City, we  
32          question whether these provisions may not involve a viola-  
33          tion of the prohibition against alienation contained in  
34          the Trust under which its tide and submerged lands are  
35          held.

36          "Lastly, what of the rule against perpetuities which in  
37          effect directs that 21 years shall be the maximum permis-  
38          sible period for the vesting of future property rights?  
39          The option rights contained in the Unit Agreement (whereby  
40          continuing participants may elect to acquire the working  
41          interest of a withdrawing participant) must become suspect  
42          under the perpetuities rule, since there is no express  
43          limitation on the period within which such options become  
44          exercisable."

1           COMMENT:

2           Similar provisions are found in the Fault Block II, Fault  
3 Block III and Fault Block IV unit agreements now in effect in  
4 the Long Beach Harbor area which the Attorney General and the  
5 State Lands Commission previously approved. The Fault Block II  
6 contract, which was the forerunner of these units, was approved  
7 by the California Supreme Court in the case of Vickers v City of  
8 Long Beach. Such agreements have been approved by attorneys rep-  
9 resenting each of the companies owning working interests in the  
10 units including Socony Mobil, Union Pacific, Ford Motor Company,  
11 Signal Oil and Gas, Southern California Edison, Humble Oil Com-  
12 pany, Richfield Oil Company, Termo Oil Company, Superior Oil  
13 Company, and Universal Consolidated Oil Company.

14           In addition, attorneys for Standard, Union, Signal, Rich-  
15 field, Jade, and Continental Eastern together with the Attorney  
16 General and the Long Beach City Attorney, have approved the Long  
17 Beach Unit.

18           "(3) We are opposed to such provisions of Article 6.3 of  
19 the Unit Agreement as provide for the addition of public  
20 lands to the Unit by resolution of the City Council of the  
21 City of Long Beach. Such a procedure is in reality an  
22 amendment of the term of existing contracts covering lands  
23 that would otherwise be subject to future competitive bid-  
24 ding and substitutes the closed negotiation process for the  
25 independent bidding evaluation of the entire industry. This  
26 clause, if left unchanged, could deprive the City and State  
27 of substantial future income and favors certain operators  
28 over others. Again, the drafters of these papers must be  
29 presumed to have overlooked this potential windfall."

30           COMMENT:

31           The Unit Agreement states the addition of lands by resolu-  
tion 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 design-  
ed to allow the City Council to extend the Unit to the east or

1 to the west without obtaining the approval of other companies in  
2 the Unit in the event it is necessary to do so to prevent sub-  
3 sidence.

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

13 "(4) The crude oil pricing provisions are most interesting.  
14 Unlike competitive State of California oil and gas leases,  
15 the price of crude oil is tied to the average of posted  
16 prices rather than the highest posted price. This usually  
17 results in the State receiving less for its oil and has an  
18 unusual side effect."

19 COMMENT:

20 The State leasing provision requires the crude oil price  
21 to be the current market price defined as "not less than the  
22 highest price in the nearest field in the State of California  
23 at which oil of like gravity and quality is being sold in  
24 substantial quantities, subject to an appropriate allowance for  
25 the cost of delivering of such oil to onshore storage and trans-  
26 portation facilities." This does not necessarily mean the  
27 "highest posted" price at the well. The State leases obviously  
28 deal with a different pricing policy than the one before us now.

29 It must be remembered that the contractor on a State lease  
30 can quit claim the lease at any time and avoid all further obli-  
31 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.

1           The precedent of using the average posted price for deter-  
2 mining the market value of oil was established in the other Wil-  
3 mington units. All these other units approved by the State Lands  
4 Commission provide that the market value of oil will be "estab-  
5 lished by the average of the prices posted by Standard Oil Com-  
6 pany of California, Socony Mobil Oil Company Inc., Texaco Inc.  
7 and Union Oil Company of California ....."

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

20           A tabulation of the "posted" price of 20° crude for the  
21 past ten years is attached.

22           The City feels that the antitrust laws concerning "posting"  
23 and regulation of prices are adequate to protect the City and  
24 State in this instance. The purchaser if he posts will have  
25 only one of the prices used in the average. His motives would  
26 be fully understood if his price were always low. An adverse  
27 effect on the over-all bid would result if the purchaser were  
28 to be put at the mercy of any small operator who for short peri-  
29 ods of time were paying an unrealistic price for oil to insure  
30 immediate refinery needs. The short term purchaser takes advan-  
31 tage of depressed prices when the market is oversupplied and

1 pays a premium when oil is in demand. A long term contract  
2 should give a true value to the oil without these short term  
3 fluctuations caused by the immediate needs of any purchaser.  
4 Several years ago a large percentage of producers in Wilmington  
5 that did not have long term contracts were either curtailed or  
6 selling oil at 50¢ per barrel under "posted" price.

7 "Consider the case of the three companies presently post-  
8 ing prices in the Wilmington Field. Could all or any two  
9 safely become joint bidders without incurring the accusa-  
10 tion of price collusion irrespective of whether the prices  
11 posted by them are identical or dissimilar? Further, does  
12 not a similar risk attach to any field contractor who  
13 attempts to post prices in the Wilmington Field?"

14 COMMENT:

15 If this is a problem, it would be a problem which would  
16 exist regardless of what price standards are used. The pattern  
17 of using average posted prices has been used in existing units  
18 in the Long Beach Harbor area of the Wilmington oil field and no  
19 problems have been encountered. Further, we feel that there  
20 are ample laws in existence which protect against price fixing.  
21 If ever found to be a problem, the companies involved can easily  
22 take care of it by simply stopping their practice of "posting."

23 "(5) Time permits just the briefest mention of certain col-  
24 lateral effects growing out of the contracts. The situa-  
25 tion at hand is far removed from the casual offering of a  
26 relatively small piece of land under competitive conditions.  
27 You are being asked to place under development the largest  
28 uncommitted oil reserve in the world. The development of  
29 this reserve will trigger a series of complex events which  
30 will have regional, national and international force. This  
31 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 Depart-  
ment 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

1 "antitrust investigation by the Department of Justice or  
2 even the State itself. We should note that demands for  
3 such an investigation could emanate from this or any of  
4 forty-nine other jurisdictions far beyond the control of  
5 forces within this State."

6 COMMENT:

7 It hardly seems possible that a 1½-billion barrels reserve  
8 will materially affect the world reserve of in excess of 300  
9 billion barrels. What is the real effect of the estimated 150  
10 thousand barrels per day production on the national demand of  
11 10 million barrels per day? The Shell import quota is now  
12 47,000 barrels per day of cheap foreign oil which would equal  
13 600 million barrels over the term of this contract.

14 It is interesting to note that on the basis of the Royal  
15 Dutch Shell Group current production of 2,900,000 barrels per  
16 day (statement of President of Royal Dutch Petroleum Company)  
17 that during the lease period of the proposed contract that they  
18 would produce 35 billion barrels or in excess of 21½ times the  
19 total production of the area under discussion. Considering the  
20 Shell Group production above, one must stretch his imagination  
21 to remotely envision the "complex international" problems that  
22 this contract would create.

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

27 We understand the antitrust section of the Attorney Gener-  
28 al's Office reviewed this aspect of the contract before the  
29 Attorney General approved the form of the agreement.

30 "It seems to us almost elementary that this Commission  
31 after full investigation must make a finding to the effect  
that the ultimate format will encourage maximum partici-  
pation in a free and open bidding competition thereby  
minimizing any suggestion that it is designed to effect  
a concentration of economic power.

1 "To avoid any aspect of the above problem, to offer wider  
2 participation to the industry in the offered oil reserve  
3 and to afford the City and State the opportunity for great-  
4 er return, we strongly recommend that the offshore tract  
5 be subdivided into several parcels. Such an approach was  
6 recommended by the Harbor Department of the City of Long  
7 Beach and appears to have been endorsed by your own staff.  
8 This in no way would interfere with the Unit plan of opera-  
9 tion as such offerings could be made fully subject thereto."

10 COMMENT:

11 The Shell Oil Company statement offers no substantiation  
12 that letting the contract in parcels will afford a greater re-  
13 turn.

14 Physically splitting the offshore area into several opera-  
15 tional parcels is completely unacceptable from the standpoint  
16 of subsidence control. The continual supervision, coordination  
17 and arbitration between operators that would be required to in-  
18 sure adequate protection against subsidence in this very complex  
19 geologic area would be extremely costly. The duplication of  
20 operations and personnel required by the several contractors  
21 also would add greatly to the cost of operations. It probably  
22 would require a change in the City drilling ordinance. Further-  
23 more it offers no advantages that cannot be obtained by other  
24 means.

25 It has been suggested that Tract 1 could be split into  
26 parcels but operated by one contractor under the terms of the  
27 Unit Agreement. Although less objectionable from the standpoint  
28 of subsidence control, and possible under the City drilling  
29 ordinance, this plan also has disadvantages. It seriously com-  
30 plicates the determinations of equities. Additional City per-  
31 sonnel 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 no bidder would have ad-  
vance knowledge of the operational and technical ability of

1 the Field Contractor. Again this plan offers no advantages not  
2 obtainable in the following proposals.

3 The suggestion of splitting Tract 1 into biddable undivided  
4 interests is operationally very similar to the proposal by the  
5 City. The main operational disadvantage would be the added City  
6 staff required to coordinate the operations and the loss occa-  
7 sioned by the inevitable compromises of a large number of diverg-  
8 ent interests. All indications are that no single company will  
9 bid on this project alone. This means that this undivided inter-  
10 est proposal and the City proposal under consideration are in  
11 reality very similar. The main difference is that the plan as  
12 proposed by the City would allow the companies to follow the  
13 processes of free enterprise and select their partners and the  
14 terms of the agreement that bind them together. The undivided  
15 interest proposal would force companies together with unknown  
16 partners under a contract formed by governmental bidding pro-  
17 cedures. For the following reasons, the City proposal is super-  
18 ior and will result in a greater income to the City and State.

19 1. Advance knowledge and confidence in the technical abil-  
20 ity and operational know-how of the field operator by the part-  
21 ners in the combine will result in a better bid.

22 2. The flexibility in forming a combine to meet the particu-  
23 lar needs of the various partners will result in a more favor-  
24 able bid. As an example, a combine could be set up whereby one  
25 partner conducted the operations, took 20% of the oil, put up  
26 10% of the capital and obtained X per cent of the operational  
27 profit. Another variation could allow one partner to take 5%  
28 of the oil in the initial stages and 40% after 10 years. The  
29 option to change these percentages as operations proceed could  
30 also be extremely valuable.

31 3. An advance voluntary agreement prescribing operational

1 procedures among partners and presenting a unified plan to the  
2 City and State will be more assuring to bidders than being at the  
3 mercy of unknown partners and operators.

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

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

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

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

29 "We further recommend that prior to any offering, the so-  
30 called pre-unit expense agreement, which Article 9.1 of  
31 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

1 "provisions we have ever encountered for it clearly implies  
2 that prior private investments offering economic advantage  
3 in this bidding situation are to be charged against the  
4 efforts of the successful bidder with consequent reimburse-  
5 ments out of public funds. Even if this almost ludicrous  
6 provision is allowed to remain, the State and all potential  
7 bidders should be fully informed as to the extent to which  
8 their own efforts and public funds are being committed to  
9 reimbursement of private risk. This provision suggests a  
10 pork barrel of potentially significant proportions and dis-  
11 torts the equality of opportunity that is inherent in a  
12 truly competitive offering."

13  
14  
15  
16  
17  
18 COMMENT:

19 Although termed an administrative expense agreement rather  
20 than a pre-unit expense agreement, in each of the other Wilming-  
21 ton units a similar arrangement was used and proved to be satis-  
22 factory to the working interest owners to handle unit expenses  
23 incurred prior to unitization. Although such pre-unit expense  
24 agreement was never executed, its purpose was to cover the cost  
25 of printing the unit documents estimated at \$20,000 if the Long  
26 Beach Unit did not become effective. The City would have sup-  
27 plied the Shell Oil Company with this information at any time.

28 "SUMMARY:

29 "In summary, we can state our opinion as to the contracts  
30 very briefly. First, we find them acceptable as to operat-  
31 ing features. Secondly, we find them unpalatable as to the  
32 number of features related to equality of bidding opportuni-  
33 ty and exposure to excessive legal risks. And finally,  
34 while actually not of direct concern to us, we would sug-  
35 gest that this Commission must necessarily consider whether  
36 the present posture of the proposed offering is such as to  
37 reasonably assure the maximum economic return to the State.

38 "We will make no decision as to whether we will even offer  
39 a bid until we have had a chance to evaluate further action  
40 by the State Lands Commission. We can say without any  
41 equivocation that the contract in its present form prevents  
42 our offering the maximum bid that we might otherwise make.

43 "We urge the Commission to hold further hearings on the  
44 contracts with a view toward offering these lands on a more  
45 advantageous basis to all concerned. Once this is accom-  
46 plished, we would expect to be a highly competitive bidder  
47 for the operating contract."

48 COMMENT:

49 We believe the contract as presented will obtain the

1 maximum economic return to the City and State while protecting  
 2 the City of Long Beach from subsidence and despoilment of the  
 3 beaches and tideland area. Mr. Clark has not presented any facts  
 4 or specific proposals to alter this thinking.

5 \*\*\*\*\*

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

Company	Effective Date	A.P.I. 20 <sup>0</sup>	Company	Effective Date	A.P.I. 20 <sup>0</sup>
Standard	Dec.12,1950	2.13	Standard	Jan.26,1959	2.44
Mobil	"	2.13	Mobil	Oct. 2,1958	2.44
Union	"	2.13	Union	Oct. 1,1958	2.44
	Average	2.13		Average	2.44
Standard	Feb.16,1953	2.34	Standard	Jan.26,1959	2.44
Mobil	"	2.34	Mobil	Oct. 2,1958	2.44
Union	"	2.34	Union	Oct. 1,1958	2.30
	Average	2.34		Average	2.3933
Standard	Oct.17,1955	2.42	Standard	Jan.26,1959	2.44
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
Standard	Apr.14,1958	2.88	Standard	Sept.24,1960	2.30
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
Standard	June 24,1958	2.70	Standard	Jan.22,1962	2.35
Mobil	June 9 "	2.67	Mobil	"	2.35
Union	June 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			

31 \*\*\*\*\*

END OF LONG BEACH COMMENTS ON STATEMENT OF D.E.CLARK

1 MR. CRANSTON: I believe now would be the appropriate  
2 time for us to hear from representatives of industry if there  
3 are those who would like to speak at this time. The other day,  
4 at the outset there were three representatives who indicated  
5 they would like to speak and one vanished by the end of the day.  
6 Is that person here now, and would he like to speak? We did not  
7 get him identified the other day. (No response) If not, is  
8 there anyone else who wishes at this point to speak?

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

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

17 (Statement follows):

18 "STATEMENT BY W. A. FORAKER, President, Orion Oil Company,  
19 to State Lands Commission hearing in Sacramento March 28,  
20 1963, requesting change in the Equity Committee membership  
21 requirement for upland working interest owners, Long  
22 Beach Unit.

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

28 "As one of the independent owners of working interests in  
29 the upland, we request that equity committee membership  
30 be available based on one per cent (1%) or more of upland  
31 surface acreage, or three-fourths of one per cent (¾ of  
32 1%) of unit participation at any given time.

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

37 "We have one per cent (1%) of the townlot under lease.  
38 Our participation will require capital investments and  
39 future operating costs approaching one million dollars  
40 (\$1,000,000).  
41

1 "To insure fair representation in future operations, it is  
2 mandatory that pertinent sections of the agreements, includ-  
3 ing Exhibit D of the Unit Agreement, be modified. We also  
4 call this request to the attention of the City of Long  
5 Beach and the other companies holding upland working  
6 interests."

7 \*\*\*\*\*

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

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

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

18 MR. CRANSTON: Anyone from the public or from oil  
19 companies will be welcome to submit their ideas on this contract.  
20 Following this, the staff will also throw into the hopper its  
21 own thoughts and any thoughts expressed by this Commission to  
22 the staff. Following that process, there will be further hear-  
23 ing by this body to resolve any differences, and as soon as pos-  
24 sible consistent with our own findings that we have before us,  
25 we will decide on the contract.

26 MR. MITCHELL: You mean another hearing here?

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

30 MR. MITCHELL: It seems to me - - these delays kind  
31 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 foot-  
ball. I mean, these opposing companies have had ample time to

1 discuss, to read, to translate, to leave the pressure off the  
2 State. I mean I don't approve of the tactics or the procedure  
3 this thing has gone through. Am I at liberty to express my  
4 views?

5 MR. CRANSTON: Of course you are.

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

7 MR. CRANSTON: Anything you want to say - -

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

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

27 I mean, I don't speak just for the sake of speaking.  
28 I am president of Texas Independent Producers and Royalty Owners  
29 Association in Texas, which is composed of six thousand members.  
30 I was supposed to be in Washington yesterday testifying. I am  
31 a member of the National Petroleum Council, was supposed to be

1 there last Friday but came here because I thought surely I would  
2 be accorded a fair representation in this State. I am very  
3 proud of my ancestors and very proud to be a part of California  
4 producing.

5 I believe we ought not to deprive the people of Cali-  
6 fornia by continuing delay and I don't think the State Legisla-  
7 tors or the Assembly here is qualified to govern the production  
8 of the unit plan. I think it is purposely done for a particular  
9 reason.

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

12 "Mr. F. J. Hortig  
13 Executive Officer  
14 State Land Commission  
15 State Capitol  
16 Sacramento, California

17 Dear Sir:

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

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

26 My name is Johnny Mitchell. I have been the President of  
27 Jade Oil and Gas Co., a California corporation, chartered  
28 in 1908, since 1960. Our company is listed on the Pacific  
29 Stock Exchange and has been producing in California since  
30 1908. Aside from being President of Jade Oil Co., I am a  
31 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, con-  
sisting of 6,000 members. This is the largest oil associ-  
ation 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

1 "the Taft Field, Kern County, California. We now own approxi-  
2 mately 50,000 acres of leased land in California, and are  
3 producing approximately 600 barrels of oil a day in the Salt  
4 Lake Field, Los Angeles. In addition, we own joint interest  
5 in several gas wells in northern California. A large part  
6 of our holdings are in Texas and Louisiana.

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

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

31 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 ques-  
tion 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 ridicu-  
lous for anyone to offer a protest.

In these unit agreement meetings, Jade's smallness was  
respected and great concern was shown to protect my com-  
pany'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 produc-  
ing capacities of California are decreasing each year.

1 "As a technical man, I find it impossible to even consider  
2 dividing the offshore into separate parcels to satisfy the  
3 individual tastes of a few objecting operators. Certainly,  
4 these objecting operators have had ample time to be a part  
5 of the unit by acquiring onshore leases. Through their  
6 negligence, and for other reasons unknown to me, these com-  
7 panies that are objecting today simply missed the boat. I  
8 can safely assume, knowing the policies of the objecting  
9 companies, that the search for new oil for these objectors  
10 in the past few years has carried them to foreign countries  
11 where they thought the search for oil could be more profit-  
12 able. They awakened too late to discover that one of the  
13 greatest oil fields in America was in their back yard. To  
14 criticize the prudent ability of the companies who believed  
15 in California production, who invested in the Long Beach  
16 area and finally concluded a logical unit operating agree-  
17 ment, should be complimented, not criticized.

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

23 Supposing that we could even consider the case of the object-  
24 ing companies and were to divide Tract #1 into many parcels,  
25 it would require several more operators, joining small units,  
26 but it would require not only the drilling of many unnecess-  
27 ary wells, but cause uncontrollable production from each  
28 operating unit. It would greatly complicate pressure main-  
29 tenance and proper injection control, but worst of all, it  
30 would create law suit after law suit between unit operators  
31 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 drill-  
ing program under one unit agreement can such a complex opera-  
tion 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 pur-  
poses, completely forgetting that the State and the taxpay-  
ers will be losing millions of dollars in revenue unless it  
is kept in one unit and under one operation.

26 There was also the objection that the cost of bidding in  
27 this offshore parcel was too costly to any one company.  
28 Reference was made that the objecting companies were part-  
29 ners in other offshore parcels in California and had served  
30 the State in bidding, drilling, and producing oil in other  
31 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.

1 "It has been the practice of this industry for years that  
2 what a producer can afford, he tackles, and what he cannot  
3 afford, he watches. This is my first experience to see  
4 major companies object on the grounds of monopoly when their  
5 resources are equal to or superior to the operators who are  
6 successfully working out the Long Beach unit. I have come  
7 to the conclusion that these producers who are objecting to  
8 the Long Beach unit have no objections to the offshore  
9 parcels they control along coastal California. It seems  
10 that these objectors only cry monopoly when they, through  
11 their own negligence, failed to take care of the golden  
12 opportunity in Long Beach.

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

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

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

44 It would certainly seem that these objectors can combine  
45 their talent and resources if they want to, to bid and oper-  
46 ate the Long Beach unit. From the objections I have read  
47 it is evident that the objectors are not concerned with  
48 uniting as a team, but are only anxious to divide and per-  
49 sonally gain from this division.

50 I am concluding my opinions with the request that this Long  
51 Beach reservoir in all its greatness be properly developed  
52 into one unit and be preserved as a model field of today  
53 and the future. To tear this great field apart for the whim  
54 of those that missed the boat would not only be tragic to  
55 the State of California, but an insult to nature itself."

1 MR. MITCHELL (continuing) I have one more page, if I  
2 may. This was written last night and it may be rough, but my  
3 feelings are given:

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

12 This Long Beach Plan was not born from immaturity. The  
13 present producing Wilmington field has produced over  
14 900,000,000 barrels since 1936, ably administered by compet-  
15 ent supervision, ably staffed by technical men as well as  
16 practical men. The personnel and experience of many of the  
17 objecting major oil companies, as well as those of the com-  
18 panies that are in favor of the Long Beach Unit Plan, are  
19 perfectly capable and responsible to operate the One Unit  
20 Plan. In fact, the experience gained in drilling and pro-  
21 ducing the present Wilmington Field will offer the success-  
22 ful bidder years of added experience that will enable this  
23 unit operation to be a model field operation.

24 I find it strange that within this group of opposing com-  
25 panies and included in the opposition are State Legislators  
26 who are for some reason favoring postponement. They do not  
27 realize that this giant field should not become a political  
28 football, matching giant against giant and the outcome of  
29 such fierce opposition will ultimately mean that the State,  
30 the City of Long Beach, and most of all, the people of  
31 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 responsibil-  
ity of the State Lands Commission to see that their inter-  
ests 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 Cali-  
fornia and the City of Long Beach. I could safely estimate

1 "that over 85 percent of the oil reserves offshore, being  
2 approximately one billion barrels, will be produced solely  
3 for the benefit of this great State as well as for the  
4 City of Long Beach, both being custodians for the people  
5 of this State.

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

17 I wish to make one further statement about the opposing com-  
18 bine's statement that they objected to the advance royalty  
19 payments being paid by the successful bidder to the State  
20 and to the City of Long Beach. I believe I can truthfully  
21 state that most of these opposing companies have spent  
22 more money, either alone or in joint operations, on foreign  
23 shores for foreign oil than the advance bid requested on  
24 Long Beach. In addition, the foreign operation of these  
25 opposing companies has done far greater damage to the price  
26 of our domestic crude here in California than the additional  
27 production to be produced in Long Beach will ever accom-  
28 plish. Even though they are aware that their foreign opera-  
29 tions are greatly responsible for the depressing of domes-  
30 tic crude prices, the opposition comes before this Commis-  
31 sion to publicly state that to produce oil in the new Long  
32 Beach unit by certain combines will seriously handicap the  
33 future oil prices in this State and the nation.

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

40 I trust in the wisdom of this Commission to go forward with  
41 the Long Beach Unit Agreement immediately so that the  
42 benefits of this important operation will lessen the seri-  
43 ous tax burdens that our State is facing.

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

48 MR. MITCHELL: Thank you.

49 MR. CRANSTON: Thank you very much.

50 MR. CHAMPION: Mr. Mitchell, would you wait a minute,  
51 because I think we can straighten out a few things.

1 I understand your impatience in this situation, but I  
2 think in part there is some allusion about the role of this Com-  
3 mission in considering this matter. We are not concerned as be-  
4 tween bidding oil companies. You are quite right when you said  
5 our concern is the major return to the people of the State of  
6 California.

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

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

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

29 If you feel in some way we are not representing the  
30 true interests of the people of the State, I'd appreciate  
31 further comment from you.

1           MR. MITCHELL: You know, I read about the bidding on  
2 a contract of 20%, 30, 10, and so forth and so forth and the  
3 companies bidding on a net profit on each portion. Say Rich-  
4 field wanted to bid 30% at 85%; I may bid 5% on 90%. Then I  
5 would be on Richfield's back because they are operating on 90%  
6 and I want to produce on my 85% plan. "If they caint toe the  
7 mark, they should get out." They don't belong. This business  
8 is tough; we go busted week after week. You never hear an oil  
9 man cry. This is the first time in my life I have heard major  
10 oil companies cry because they are in competition. I think it  
11 is an insult to the industry.

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

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

29           MR. CHAMPION: You are not fighting telephone calls,  
30 but you are imputing motives -- and I don't think that is  
31 proper testimony before this Commission.

1 MR. MITCHELL: Last meeting they were fighting like  
2 hell; this week they haven't said a word. They knew the meet-  
3 ing was going to be postponed. This thing here - - I postponed  
4 a Washington trip because I believed in this hearing. Mr.  
5 Pauley isn't here -- he is a nice guy; Shell has a vice presi-  
6 dent -- there aint a one of them here. Where the hell are they?  
7 I am lost. When I saw O'Sullivan walk out at eleven o'clock,  
8 I knew I was dead. I made my approach and I am sorry I offended  
9 you gentlemen because what I want to say to you -- I don't be-  
10 lieve that something as big as this couldn't be produced  
11 immediately.

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

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

26 You spent much of your time talking about monopoly.  
27 We have a letter from the Antitrust Division of the United  
28 States Department of Justice in which they say how we may find  
29 out whether this contract is subject to the antitrust laws and  
30 offer a significant suggestion to make sure there is proper  
31 distribution. These are things we cannot ignore.

1 MR. MITCHELL: But I say even before you had the  
2 hearing, he wanted to propose a bill for a two-year delay.

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

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

5 MR. CHAMPION: I think your information is  
6 fragmentary.

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

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

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

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

23 MR. HORTIG: Mr. Chairman, to complete the record  
24 today, and particularly with reference to the list of support-  
25 ers and opponents of the proposed contract now before the Com-  
26 mission, we have previously received and did have at the time  
27 of the last meeting a telegram of support from Continental  
28 Eastern Corporation, which was not previously noted on your  
29 list.

30 MR. CRANSTON: At the next meeting of the Lands Com-  
31 mission this presumably will again be on the agenda and we will

1 reserve whatever time is necessary for its consideration, al-  
2 though I do not want to predict whether we will be able to act  
3 at that time.

4 MR. HORTIG: Mr. Chairman, finally, the Lieutenant  
5 Governor has asked that the record show explicitly that he has  
6 asked for complete evaluation and industry and Long Beach testi-  
7 mony at the appropriate time at the Commission's proceedings on  
8 the following factors:

9 The first factor concerns a provision of sell-off of  
10 12½% of production which has been suggested. First, there  
11 should be a complete evaluation of the pricing bases for the  
12 production to be sold; and, secondly, optimum bases for con-  
13 tracts for this oil -- five years having been suggested.

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

16 The third factor concerns the advantages and disad-  
17 vantages of unitization of Tract 2, the Alamitos Beach State  
18 Park, with Tract 1 now under consideration for development.

19 The fourth factor is evaluation of necessary specifi-  
20 cations in any contract bid as to disclosure of production allo-  
21 cation between joint bidders, and the desirability of retention  
22 of control through approval for any future adjustments of such  
23 allocations.

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

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