TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION
LOS ANGELES, CALIFORNIA
June 27, 1963

(NOTE: Supplemental Calendar Item No. 41, which is Item 16 on the Calendar Summary -- 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 -- has been reproduced in mimeographed form, pages 1 through 52)

PARTICIPANTS:

THE COMMISSION:

Hon. Alan Cranston, Controller, Chairman
Hon. Glenn M. Anderson, Lieutenant Governor
Hon. Hale Champion, Director of Finance

Mr. F. J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL

Mr. Jay L. Shavelson, Deputy Attorney General

APPEARANCES:

(In the order of their appearance -- all in connection with Long Beach item above referred to and which is reproduced separately in mimeographed form, with the exception of Mr. Desmond who appeared in both portions of the transcript)

James L. Wanvig, Attorney, representing
Standard Oil Company of California,
Richfield Oil Corporation, and Signal
Oil and Gas Company

L. E. Scott, Assistant to President,
Pauley Petroleum, Inc.

Johnny Mitchell, President, Jade Oil & Gas Co.

Gerald Desmond, City Attorney, City of Long Beach

George R. Goggin, Executive Vice President of
Douglas Oil Company
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NEXT MEETING 21
10:18 a.m.

MR. CRANSTON: The meeting will please come to order. Item Number 2 on the agenda is confirmation of minutes of meetings of March 28, 1963 and of April 25, 1963. If there is no objection or amendments, the minutes stand approved as submitted.

Since a great many of you are here with interest in the Long Beach Unit Wilmington Oil Field, if there is no objection, we will now go to Supplemental Item Number 16, which is relative to that matter. Frank, do you wish to start?

MR. HORTIG: Yes, Mr. Chairman.

(SUPPLEMENTAL CALENDAR ITEM -- 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:)

THE PROCEEDINGS IN CONNECTION WITH THIS ITEM HAVE BEEN REPRODUCED SEPARATELY IN MIMEOGRAPHED FORM.)

At the completion of discussion on the Long Beach Unit, Wilmington Oil Field, item a recess was called.

(Recess 12:30-12:37 p.m.)

MR. CRANSTON: The meeting will please come to order. There are several items on the calendar which relate to Long Beach, and since a number of people are here from Long Beach we will take those up at this time.

GOV. ANDERSON: Could I ask a question first? In our discussion of this new field, I seem to get lost on the Long Beach Harbor District contract. Where are we on that? This expires this coming year. Are negotiations being made
MR. HORTIG: Governor Anderson, these are the discussions and considerations underway in the City of Long Beach, of which City Attorney Desmond spoke briefly the last time he was at the speakers' table; and apparently he desires to respond to that.

MR. DESMOND: I do, if I may, Governor, and particularly to eliminate any question that might exist. There is not a possibility, of course, for any negotiation of a contract. Under State law and under our City law, under our City Charter, we may only let contracts on the basis of competitive bidding. As I explained, I believe, in detail in March -- just slightly touching upon it at the February 28th meeting -- we do have a time problem.

Now, the area that I speak of, what we refer to as our Harbor area parcels -- although it would be intended to let the entire area out -- they are parcels, because of the manner in which they were developed over a period of time -- the portion of the developed area, the major part of which is in the Harbor area, is now under a single contract but a group of contracts with Long Beach Oil Development Company. This expires in March of next year and we must have sufficient time in advance of the letting of the contract, sufficient time to move in.

GOV. ANDERSON: That would be about three months?

MR. DESMOND: We do not know. I think at the
March 28th meeting I suggested a ninety-day period, at which time the award would actually be confirmed, the successful bidder would know he would move in.

GOV. ANDERSON: It would mean the bid would have to be the latest in December?

MR. DESMOND: Earlier than that.

GOV. ANDERSON: I felt that December would be the latest -- October the bid offering and prior to that we should be getting the proposals; we are getting awfully close to the deadline.

MR. DESMOND: We have been getting closer all the time and going backwards -- I don't recall all of the steps, but in addition to making the award, which must be confirmed, which is made by the City but requires also confirmation by the Commission -- so that going backwards from the actual award of the contract, there must be approval of the award by the Lands Commission after a recommendation is made of the award by the City Council; pardon me -- by the Harbor Commission of the City of Long Beach; no award can actually be made until that recommendation from the Harbor Commission has been on the desk of the Long Beach City Council for a period of thirty days (that is our Charter position).

Now, some of these things we may be able to group together, there may possibly be some overlapping; but we have almost no time left now, and we have been working. We had started in a very limited way even before I called this to
the attention of the Commission in February; we had gone into
it somewhat more in March; and although I know you realize
there have been many demands on our time, we have been work-
ing on it since. We have gone through a considerable bit of
discussion with our Harbor people, with our Petroleum Admini-
strator staff, which is separate in the City of Long Beach
under our City Manager; and we know that Mr. Hortig is aware
of this and the fact that we are at work; and we do plan, as
soon as we feel that we have something really to start on,
to get in touch with him immediately because I know the time
is very limited and many of us felt that one would be out of
the way first -- but obviously that is not possible.

GOV. ANDERSON: At least, I would like to have
time, to have it come to us so we can look at it and discuss
it. It seems to me if in July you propose it, so we can see
it, we might want to have some hearings -- so there probably
would be thirty, sixty days there and then you are through
August or September. Then if we like it at that time and
your City Council likes it, October would be the bid offer-
ing -- December the latest time you award it. It seems to
me next month we would have to have it, or sooner.

MR. DESMOND: I believe, Governor, I said the
latest we should have it before the Commission was July. I
would have to check back, and although it was sort of off-
hand, it had a lot of intangibles in it. I agree with you,
I think that is true. I think for that reason we are con-
centrating now. That was my answer earlier when Mr. Cranston
inquired -- pardon me, Mr. Champion, perhaps it was. We are at work. We realize the very limited time available, because we want this to have the best returns to the City and State.

There is no opportunity, again, for an extension of the contract -- because that itself would be a violation of the competitive bidding law. So we have at no time ever talked about an extension, negotiations for an extension, or anything like that. We are talking only about the preparation of an offering for competitive bidding.

MR. CRANSTON: We will now proceed with Item Classification 5, City of Long Beach: Project (a) -- Pier "A," Back Area Ramp, Berth 4 to Berth 5, Addition Number 10, second phase ....

GOV. ANDERSON: Where are we now?

MR. CRANSTON: Page IV, Item Classification 5. .... estimated subproject expenditures, June 27, 1963 to termination of $26,000, all 100% estimated as subsidence costs; (b) Pier "A" Berth 11, Landing, Addition Number 11, second phase -- estimated subproject expenditures June 27, 1963 to termination of $40,000, with $13,600 or 34% estimated as subsidence costs; (c) Pier 2, Water Line Reconnection to Pier 2, first phase -- estimated subproject expenditures June 27, 1963 to termination of $8,000, with $4,800 or 60% estimated as subsidence costs; (d) Roads and Streets, Water Line, Pico Avenue between 9th Street and Third Street, second
phase -- estimated subproject expenditures, June 27, 1963 to termination of $236,000 with $113,280 or 48% estimated as subsidence costs; (e) Town Lot, Storm Drain, Pico Avenue at Seaside Boulevard, second phase -- estimated subproject expenditures June 27, 1963 to termination of $11,000, with $6,930 or 63% estimated as subsidence costs; (f) Subsidence Studies, 1963-64 fiscal year, second phase -- estimated project expenditures July 1, 1963 to June 30, 1964 of $150,000, all (100%) estimated as subsidence costs; (g) Subsidence Maintenance, 1963-64 fiscal year, including repairs, second phase -- estimated project expenditures July 1, 1963 to June 30, 1964 of $130,000 all (100%) estimated as subsidence costs; (h) Port Sewer System, Town Lot Portion, first phase -- estimated subproject expenditures June 26, 1963 to termination of $30,000, with $18,900 or 63% estimated as subsidence costs; (i) Protection of City Oil Wells, Terminal Island, second phase -- estimated subproject expenditures June 27, 1963 to termination of $31,800, all (100%) estimated as subsidence costs;

(j) Authorization for Executive Officer to certify approval of "Fourth Supplemental Agreement for Processing and Sale of Natural Gas," between Board of Harbor Commissioners of the City of Long Beach, as First Party; Humble Oil & Refining Company, as Second Party; and Lomita Gasoline Company, as Third Party;

(k) Authorization for Executive Officer to certify
approval of "Agreement Amending Certain Contracts for Sale of Natural Gas," between the Board of Harbor Commissioners of the City of Long Beach, as First Party; Socony Mobil Oil Company, Inc., as Second Party; and The Termo Company, et al., as Third Party;

(1) Prior approval of costs to be disbursed by the City of Long Beach for operation and maintenance of tideland beach areas and facilities in the 1963-64 Fiscal Year ending June 30, 1964, from the City's Share of tideland oil revenues, in the total aggregate of $1,148,731, with costs of arena operation and maintenance to be conditioned upon the furnishing by Long Beach of proposed accounting and other procedures.

Motion is in order.

GOV. ANDERSON: I want to ask about (1), I guess it is. All the rest of them are all right.

MR. HORTIG: I did wish to comment on item (1) also, Governor, so if you will ask your question --- or I can respond directly.

GOV. ANDERSON: Well, this is prior approval of costs and I haven't got the Attorney General's opinion here but on page 2, I think it is on calendar item 33, page 2, they are not a special charge related to tideland beaches. Does your staff check those before submission to us, and when we vote on something like this are we then assured that these are not a general municipal service and they are related to the maintenance of tideland beaches?
MR. HORTIG: The answer, Governor, is yes -- because, as reflected in the recommendation on page 44, all costs concerned herein are approved (paraphrasing) subject to the condition that the amounts, if any, to be allowed as expenditures from tideland trust funds will be determined by the Commission upon review and final audit subsequent to completion of such work during the 1963-64 fiscal year.

GOV. ANDERSON: Who does that review and final audit?

MR. HORTIG: The staff of the State Lands Division and the Office of the Attorney General. Now, this is a standard reservation which is applicable to the recommendation as to the items (a) through (i) appearing on page IV.

I would call the Commission's attention to the additional recommendation on page 44 and the additional condition relating to the item on which Governor Anderson just raised a specific question. We are including: "It is also recommended that in view of the preliminary and incomplete answer to the requests for additional necessary information, the approval of the Commission for costs of arena operation and maintenance be conditioned upon the furnishing by Long Beach, on or before August 1, 1963, of proposed accounting and other procedures, as previously set forth in the minutes of the Commission dated June 28, 1962, and as set forth in Exhibit B attached hereto, which procedures shall conform to the outlines as reviewed by the Attorney General as being legally acceptable.
and in accordance with the provisions of Chapter 29, Statutes of 1956, First Extra Session."

By way of summary explanation, the necessity for detailed procedures and information was reviewed and made part of the minute record of the approval for the last fiscal year by the State Lands Commission. It is not felt that we have adequate presentation for full final recommendation to the Commission for the next fiscal year. Therefore, this is again reported here as a condition of the approval by the State Lands Commission, that the City comply with these procedures -- in which event, then, there will be full advance approval in respect to the items in connection with arena operation and maintenance, subject in any event to the standard condition, as I discussed previously, that the total amount finally allowed is still to be reviewed and finally audited after the fiscal year expenditures have actually been made.

GOV. ANDERSON: The reason I ask the question -- in looking over the lists under Exhibit A, for the most part there doesn't seem to be any question in them but some of them -- I just wondered if we were doing something where we were liable. I have no objection to them; I just want to be sure we are in the clear. For example, the traffic control of these facilities -- this is one that bothered me a little bit when I saw it.

MR. HORTIG: If I may comment on that as an example?
To the extent this is a utilization and a service in connection with beach operation, the Commission does have a record of the Attorney General's opinion as to its legal qualification. Therefore, the extent of its actual applicability is subject to audit review, which audit review is made before the final allowance to Long Beach to expend these amounts.

GOV. ANDERSON: Going back to this, isn't that a municipal service?

MR. HORTIG: To the extent it is a municipal service any amounts then found to be a municipal service are not allowed by the Lands Commission and would have to be operation by the City out of general municipal funds.

GOV. ANDERSON: You are satisfied, then...

MR. HORTIG: All the controls are there.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

MR. CRANSTON: Approval of Item Classification 5 is moved, seconded, and made unanimously.

Classification 6 -- Port of Long Beach approvals required pursuant to law: (a) Authorization for Executive Officer to certify approval of Injection Interval of Well FRA-209 (formerly A-209) to be perforated by the Richfield Oil Corporation.

MR. HORTIG: This is an example, Mr. Chairman, where we have so many controls that even changing the status of a well in connection with prior contracts entered into by the
City of Long Beach requires Commission approval. In this instance a former producing well will be converted to a water injection well to aid the water repressuring program; and this has been reviewed and is recommended as to engineering feasibility by the State Lands Division.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

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

There is one other item relating to oil, which we might take up -- Item 10: Authorization for Executive Officer to proceed with publication of a notice that the Commission intends to consider offering leases for the extraction of oil and gas from all that area of tide and submerged lands not included in existing State oil and gas leases or excluded under Section 6871.2(b) of the Public Resources Code lying between the eastern boundary of State Oil and Gas Lease P.R.C. 208.1 in the Elwood Field and the east boundary of Santa Barbara County, and extending seaward three nautical miles -- total of approximately 16,503 acres.

MR. HORTIG: If the Commissioners will refer to the map following page 59 of the agenda, on the far left of the map is an area designated across the center as "W. 0. 4770," and also, almost to the extreme right, is a similar area identified with the same number, "W. 0. 4770." These areas as outlined are areas which have not heretofore been considered
for offer for oil and gas lease by the State Lands Commission. They are a potential for lease offer and under the existing Cunningham-Shell Tidelands Act, prior to Commission consideration for offering the areas for oil and gas lease a public hearing must be held in the county in which the lands are situated. Both of these areas are located in Santa Barbara County, have not been the subject specifically of any prior public hearing; and, therefore, authorization is requested to publish the notice of intention for the holding of the public hearing, as a condition precedent to the Commission's determination whether or not to offer oil and gas leases in these areas.

MR. CHAMPION: So move.

GOV. ANDERSON: Second.

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

Now, reverting to the head of the order, Item Number 3 -- Permits, easements, and rights-of-way to be granted to public and other agencies at no fee:

Applicant (a) State of California, Division of Highways -- Right-of-way easement, 0.41 acre submerged lands of Cache Slough, Solano County, to provide additional area for a ferry landing on State Highway Route X-Sol-99-A;

(b) State of California, Division of Highways -- Right-of-way easement over sovereign lands of Calaveras River, San Joaquin County, for State Highway Route as shown on Map X-SJ-238-B.
(c) State of California, Department of Water Resources -- Extension to June 30, 1964 of Permit P.R.C. 2585.9, tide and submerged lands of Sacramento River, Contra Costa and Solano counties, for installation of current meters to obtain record of current velocities, and to measure outflow of water from the Sacramento-San Joaquin Delta;

(d) County of Stanislaus -- 49-year bridge easement, 0.48 acre sovereign lands of the Tuolumne River, Stanislaus County, part of joint Federal-County project to re-align Shiloh Road.

GOV. ANDERSON: Move.

MR. CRANSTON: Item is moved . . .

MR. CHAMPION: Second.

MR. CRANSTON: . . seconded, unanimously approved.

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

(a) Diamond National Corporation -- 49-year easement for outfall line, 0.03 acre sovereign lands of the Sacramento River at Red Bluff, Tehama County, for discharge of treated industrial wastes into the Sacramento River -- total rental $150.00;

(b) Federal Aviation Agency -- One-year renewal of Lease P.R.C. 2891.2, 40 acres school lands in Riverside County, to allow time for disposing of decommissioned instrument landing field, total rental $100;
(c) Charles I. Joens -- 15-year lease, with two 10-year renewal periods, 0.045 acre tide and submerged lands of Napa River at City of Napa, Napa County, for float pier for small boat service, annual rental $150;

(d) Pacific Gas and Electric Company -- 15-year submarine cable crossing easement, 0.06 acre tide and submerged lands of Spoonbill Creek, Solano County, for transmission of power service for commercial use, total rental $150;

(e) Pacific Gas and Electric Company -- 10-year renewal of Easement P.R.C. 362.1, sovereign lands of Mokelumne River, San Joaquin County, for submerged gas line, total rental $150;

(f) Kenneth E. and Marjorie A. Edmiston -- Assignment to Bill Cleverly and June W. Cleverly of Grazing Lease P.R.C. 2985.2, 3,840 acres school lands San Bernardino County;

(g) Marie A. Hansen -- 5-year grazing lease, 644.32 acres school lands Kern County, annual rental $12.89;

(h) Mary B. Kent -- 5-year grazing lease, 400 acres school land Mendocino County, annual rental $40;

(i) Donald T. Sawyer -- 5-year grazing lease, 640 acres school land, San Bernardino County, annual Rental $10;

(j) Leonard Elsbree -- Dredging permit, 1.04 acres tide and submerged lands included in Lease P.R.C. 2442.1 at Mile 60.0, Sacramento River, Yolo County, for not to exceed 50,000 cubic yards of material at royalty of three cents per cubic yard;
(k) Texaco Inc. -- Construction of a production platform, Oil and Gas Lease P.R.C. 2725.1, Conception Field, Santa Barbara County;

(l) Phillips Petroleum -- Deferment through Feb. 10, 1964 of drilling requirements, Oil and Gas Lease P.R.C. 2205.1, Santa Barbara County, to study and analyze geological information and reservoir performance data;

(m) Richfield Oil Corporation -- Deferment through December 31, 1963 of drilling requirements, Oil and Gas Lease P.R.C. 1466.1, Rincon Field, Ventura County. Completed development program could have been extended over period of approximately eight years without resulting in a default.

(n) Richfield Oil Corporation -- Geological survey permit for period June 27, 1963 through December 26, 1963, on tide and submerged lands lying between a line drawn due west from Point Sal, Santa Barbara County, and the northern boundary of the State.

(o) United Geophysical Corporation -- Permit to conduct experimental seismic operations offshore Ventura County for period June 27, 1963 through August 25, 1963.

GOV. ANDERSON: On item one, the forty-nine year easement for a pole line, was that cleared through all the local agencies -- Water Pollution ....

MR. HORTIG: I am sorry, Governor, I am not with you.

GOV. ANDERSON: 4(a).
MR. HORTIG: Yes, it has. Department of Fish and
Game and the Central Valley Water Pollution Control Board
have both authorized it.

MR. CHAMPION: That's all done as a matter of
regular procedure?

MR. HORTIG: Right.

GOV. ANDERSON: And then will you just briefly
tell me about item (m), the deferment?

MR. HORTIG: Well, as you may recall, Governor,
this item (m) relates to that lease, the Richfield island at
Rincon, Ventura County, which you have visited on a field
trip -- on which forty-six wells have been drilled from the
island and an additional well has been drilled offshore from
the island, which is an ocean floor completion.

The operator is evaluating the data from both the
development and additional exploration data and feels they
are not in a position to determine whether or not drilling of
additional wells would be justified -- making a conclusion
as to the economic justification of drilling additional wells
at this time.

Under the terms of the lease, had the maximum time
been taken by the operator between drilling wells as permitted
under the lease, the operations could have been spread out
over a period of approximately an additional eight years; so
they have actually completed, timewise, the drilling require-
ments well ahead of the time required by the lease.
Technically, however, not having commenced an additional well after the last well, they would be in default unless they received an extension of time.

GOV. ANDERSON: Is this their first extension?

MR. HORTIG: No, sir; it is not. On the other hand, for that reason the recommendation, as you will see on page 21, does set a time limit -- that during the period of this deferment now recommended, the operator will either initiate a renewed development program or will quitclaim the undeveloped lease area as provided for in the lease; or, if additional adequate bases for a further deferment should be developed other than what have been presented heretofore in connection with deferments, these could be considered. But there is now, in effect, a notice of deadline that one of these three actions will have to be undertaken by December 31, 1963.

GOV. ANDERSON: This is the second deferment?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: I think I asked the same question on the original deferment.

MR. HORTIG: As a matter of fact, the prior one was granted on December 6, 1962 to June 30, 1963.

GOV. ANDERSON: I'll move them.

MR. CHAMPION: Second.

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

Item 7 -- Selection on behalf of the State of forty acres Federal land, San Bernardino County; authorization
to cancel application of Harold J. Hansen and to refund deposits less expenses incurred to date of cancellation.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

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

ITEM 8 -- Approval of maps and plats: (a) "Map of the Grant to the City of Albany," dated April 1962; (b) "Map of the Grant to the City of Berkeley," dated April 1962; (c) "Map of the Grant to the City of Emeryville," dated April 1962; (d) "Plat of the Grant to Noyo Harbor District," dated May 1962.

GOV. ANDERSON: Move it.

MR. CHAMPION: Second.

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

Item 9 -- Authorization for lease offer for extraction of sand, at minimum royalty of eight cents per cubic yard, from 126.33 acres submerged State lands in Suisun Bay, Contra Costa and Solano counties, pursuant to the application of Harry Crone Thomsen.

MR. CHAMPION: Move approval.

GOV. ANDERSON: Second.

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

Item 11 -- Service agreements: (a) Authorization
for Executive Officer to execute a supplementary agreement with Control Data Corporation (successor to the Bendix Corporation--Computer Division), to provide funds for the continued rental and maintenance of a G-15 Bendix Computer, Flexowriter, and Systems Analysis Services for the period July 1, 1963 through June 30, 1964, at a rental rate of $1,030 per month, inclusive of service and maintenance;

(b) Authorization for Executive Officer to execute an agreement for reproduction services for the 1963-64 fiscal year with the Metropolitan Blueprint Company, at a cost not to exceed $8500.

MR. CHAMPION: Is there still enough money in the budget?

MR. HORTIG: Yes, sir.

MR. CHAMPION: Move approval.

MR. CRANSTON: Approval moved . . .

GOV. ANDERSON: Second.

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

Item 12 -- Confirmation of transactions consummated by the Executive Officer pursuant to authority confirmed by the Commission at its meeting on October 5, 1959. Anything to report there?

MR. HORTIG: Nothing, inasmuch as these are standard transactions relating to routine extensions and assignments of documents previously authorized by the Lands Commission.

May I, Mr. Chairman, at this time for the record...
and amplification in response to Mr. Champion's question as to whether there is enough money in the budget -- there is enough in to cover this subject; it is not that we could not use more.

MR. CRANSTON: Item 12 is duly acted upon and transactions consummated are approved.

Item 13 -- Election of Chairman. Having reached the time when the Chairman should rotate, nominations are in order.

GOV. ANDERSON: I move we elect Hale Champion as Chairman.....

MR. CRANSTON: I second the nomination.

GOV. ANDERSON: ... and give our present outgoing Chairman a vote of thanks for a job well done.

(Applause).

MR. CRANSTON: Item 14 -- Informative only: Report on status of major litigation.

MR. HORTIG: No significant changes to report.

MR. CRANSTON: There is one supplemental item, Item 17 -- Informative status report on legislation.

MR. HORTIG: In view of the fact that the final status of legislation is not of record before us including the Governor's signature, this is only informative; and, hopefully, at the July meeting the final report on status of legislation will be completed for the Commission. I can report that of the final eight measures introduced at the
request of the State Lands Commission, I believe eight are
now before the Governor or have been chaptered.

MR. CRANSTON: Final item -- Reconfirmation of
date, time and place of next meeting -- Thursday, July 25,
1963 at 10:00 a.m. in Sacramento. If there is no objection
that will be the order, and we stand adjourned.

Thank you all very, very much.

ADJOURNED 1:10 P.M.

*******
CERTIFICATE OF REPORTER

I, LOUISE H. LILlico, reporter for the Office of Administrative Procedure, hereby certify that the foregoing twenty-one pages and pages one through fifty-two which have been reproduced separately in mimeographed form (the latter being that portion of the meeting concerning the 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) contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION at Los Angeles, California, on June 27, 1963.

Dated: Los Angeles, California, July 2, 1963.

[Signature]

LOUISE H. LILlico
STATES LANDS COMMISSION
LOS ANGELES, CALIFORNIA
June 27, 1963

SUPPLEMENTAL CALENDAR ITEM -- Number 41
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: Since a great many of you are here with interest in the Long Beach Unit, Wilmington Oil Field, if there is no objection we will now go to Supplemental Item Number 16, which is relative to that matter. Frank, do you wish to start?

MR. HORTIG: Yes, Mr. Chairman and Commissioners.

Before proceeding to the agenda item, I wish to call the attention of the Commission to a supplemental report of the Subcommittee on the East Wilmington Oil Field of the General Research Committee created pursuant to Senate Resolution Number 10, which was published in the Senate Journal for June 19th. I believe the content thereof should be before the Commission in connection with the consideration of the Long Beach Unit. I will read the report:

On June 10, 1963, this subcommittee submitted a progress report on its study of the proposal for developing the East Wilmington Oil Field, which is presently before the State Lands Commission for approval. Since submitting that report, some of the members of the subcommittee have questioned whether the report makes clear to the State Lands Commission and other interested parties the recommendations of this subcommittee. In order to avoid any possible misunderstanding, we therefore submit this further report.

1. We recommend that the Commission give most careful attention to the report of counsel and to the other materials presented to or filed with this subcommittee.

2. We recommend that the Commission give particular attention to the problems specifically discussed in our report of June 10, 1963. These are the problems which in our judgment create the greatest concern and we urge the
"Commission to satisfy itself beyond all doubt that the public interest is adequately protected in all such respects before approving any documents for the development of the East Wilmington Oil Field.

3. In our judgment, the most important of the matters discussed in our report of June 10, 1963, is the recommendation that Tract 1 be offered in several undivided interests.

4. We recommend that the Commission call for the re-drafting and clarification of any provisions having a disputed meaning.

5. This subcommittee is not prepared to propose legislation that would limit bidders to a single interest if Tract 1 is offered in several interests.

6. This subcommittee is not prepared to propose legislation that would authorize the State to take a working interest position in the unit, as to Tract 2, without leasing said tract."

Parenthetically, Senate Bill 298 as originally authorized for introduction by the State Lands Commission to accomplish this effect, was amended so that it will no longer accomplish this if it is signed by the Governor. It is on the Governor's desk.

(Report continued):

"7. We recommend that the Commission not approve the proposed documents in their present form at this time, until it has carefully considered the foregoing recommendations and such substantive and technical changes have been made as it thinks appropriate. We see no reason, however, for any indefinite or prolonged delay in authorizing the development of the East Wilmington Oil Field.

Respectfully submitted"

MR. CHAMPION: May I ask at this point, what did 298 as amended do?

MR. HORTIG: 298 as amended now spells out what the staff and the Office of the Attorney General felt was inferential in the Public Resources Code, with respect to the authority of the Commission to require unitization of an area offered for lease -- such unitization requirement to be specified as a condition of the lease offer, so that any successful bidder would take the lease subject to a commitment that he in turn would
unitize. The general provisions with respect to leases now
specify in detail as to unitization only that the Lands Commis-
sion may approve unitization of my existing State lease if
there is an application for such approval from the lessee.

MR. CHAMPION: In other words, there is not an obstacle
to unitization of Tract 2 if we decide to offer it?

MR. HORTIG: There is no obstacle and there is an
additional clarification as to the existing statute as to fur-
ther unitization, although on the basis of the State's lessee's
unitizing rather than the State being in the position of the
working interest only.

MR. CHAMPION: Will it be the staff recommendation
that the bill should be signed as amended?

MR. HORTIG: Yes, sir. Referring to the calendar
item starting on page 69, in view of the complexity of the situ-
ation it probably would be preferable for the record if I read
the prepared material:

"UNIT AGREEMENT, UNIT OPERATING AGREEMENT, EXHIBITS, AND
FIELD CONTRACTOR AGREEMENT, LONG BEACH UNIT, WILMINGTON
OIL FIELD, LOS ANGELES COUNTY:

On February 28, 1963, proposed agreements submitted
by the City of Long Beach, setting forth terms for the
development of the Long Beach Unit of the Wilmington Oil
Field, were presented to the State Lands Commission for
consideration.

On March 28, 1963, the Commission, members of the
Senate Subcommittee on the East Wilmington Oil Field of
the General Research Committee, representatives of the
City of Long Beach, the petroleum industry, and other
interested parties again discussed the proposed agreement.
In addition, the Commission directed the State Lands Divi-
sion to hold public reviews on all facets of the contract
documents. Such reviews were held on April 15 and April
22, 1963.

Pursuant to Senate Resolution No. 100, the Subcommit-
tee on May 23, 1963, released a report on the East Wilming-
ton Oil Field by Messrs. Chapman, Friedman and Barash.
This report was reviewed at a public hearing by the Sub-
committee on June 3, 1963. On June 10, 1963, the Subcom-
mittee released a 'Progress Report of the Subcommittee on
the East Wilmington Oil Field.'
Concurrently, participating private interests supplied the Subcommittee with their comments, with the result stated in the Progress Report, "...that the material being accumulated, which represents the combined efforts of all of those (parenthetical correction of a typographical error -- the next word should be "vitally" instead of "mutually" concerned), will serve as a valuable reference to those who are charged with redrafting the documents, if such is found to be necessary, and to the State Lands Commission in arriving at its ultimate decision."

After complete review of all elements appropriate for consideration, including the foregoing, it is suggested that the Commission consider directing the Division, in conjunction with the City of Long Beach and representatives of the petroleum industry, to redraft the contractual documents as necessary, for elimination of any ambiguities and conflicts, and to include the following principal factors:

1. Tract No. 1 to be offered in undivided interests in the proportions of 45%, 25%, 15%, 10%, and 5%. The successful bidder for the 45% interest to be designated as the Field Contractor to assume all obligations of developing and producing the field, and to be the sole beneficiary of the 'Administrative Overhead Allowance' (currently proposed at 3%). The 45% interest to be offered for consideration of a fixed cash bonus in the amount of $20,000,000, with the biddable element to be the percentage of the net operating profits offered. The remaining undivided interests (25%, 15%, 10%, and 5%) to be offered for the consideration of a fixed percentage of the net profit equal to the net profit bid on the 45% interest, plus payment of a cash bonus as the biddable element. (Each undivided interest holder to assume his pro rata share of the development and production costs, determined by the undivided interest percentage held.)

2. A reservation of the right to elect to take 12½% of production in kind, in favor of the City and State, as to all of Tract No. 1. This reservation could constitute the supply for 'sell-off' to small refineries as crude supplies might be required in fact.

3. An option to the City and State to elect to take up to an additional 12½% of the production in kind from all of Tract No. 1 at the approximate time when the development has reached peak production. Election of this option would be dependent upon the basic public interest requirements as determined by the City and State, particularly in consideration of the distribution of the undivided interests, which were offered separately for bid.

4. Establishment of a minimum guaranteed operating profit to the City and State by specification of a percentage return of the gross value of production.

A schedule for bid offering is suggested as follows:

1. Offer the 45% undivided interest.

2. Close bids for the 25% interest fifteen days after receipt of bids for the 45% interest.
3. Offer the remaining interests in the order of diminishing percentage at ten-day intervals.

4. Withhold award of contracts until bids for all undivided interests have been received and evaluated.

MR. HORTIG: (continuing) With reference to the subject matter before the Commission, we have received under date of May 30, 1963, a letter from Jade Oil & Gas Co. which, inasmuch as it was prepared prior to the agenda item before you, as well as the subsequent considerations and special reports by the Senate Committee, is offered for inclusion in the record, if the Commission so desires.

MR. CRANSTON: Certainly.

FOLLOWING IS THE LETTER FROM JADE OIL & GAS CO. above referred to: (Addressed to Alan Cranston, Chairman, State Lands Commission, dated May 30, 1963)

"Dear Mr. Chairman:

It would be appreciated if you would have this letter read into the records of your next meeting on the proposed Long Beach Oil Development Program with regard to the Field Contractors Agreement and/or the Unit Operating Agreement of this program. It is my desire that this letter become a matter of record along with my letters of March 6, 1963, March 27, 1963, April 2, 1963 and May 10, 1963, all directed to the State Lands Commission, and my letter to Governor Edmund G. Brown of March 29, 1963.

The recommendations filed by Oscar Chapman May 22, 1963 before the Senate subcommittee investigating the Long Beach Oil Development Program were almost identical to the statements filed by Pauley Petroleum Company and Shell Oil Company in previous State Lands Commission hearings. In these previous hearings, Jade Oil & Gas Co. answered all the contentions of Chapman and Pauley in my letters of March 6 and March 27, refuting their allegations.

In engaging the services of Oscar Chapman, I seriously doubt that Senator O'Sullivan had ever previously considered the gentleman from Washington as a logical consultant in this matter. So, it is reasonable to assume that Ed Pauley was responsible for the hiring of Mr. Chapman. Certainly Senator O'Sullivan, a relatively new Senator, having held office only a few years, could not be expected to assume the responsibility of spending $35,000.00 of the State's money to hire outside counsel to review the Field Contractors Agreement and other agreements without the consent of Governor Brown. It is inconceivable that Governor Brown would permit this serious undertaking. The people of
"California must place the responsibility for the engagement of Chapman's services on Governor Brown and Ed Pauley. Again we ask, is Chapman qualified to review these contracts and render a fair and impartial recommendation? In my letter of May 10, 1963, I said no. In this letter I say, emphatically, no! I gave several reasons in my letter of May 10th why Mr. Chapman should disqualify himself in this matter and I feel there are additional reasons why his report should be completely stricken from the records of the State Lands Commission.

Oscar Chapman, aside from being a personal friend of Pauley since the Truman days, is a political lobbyist, not specializing in oil and gas contracts. His best qualification is representing interstate pipeline companies and other public utilities. Aside from being a lobbyist, he has been very influential in foreign countries by virtue of his previous position as Secretary of the Interior. He has used this past influence to assist foreign investments by American capital, particularly in areas where American businessmen, without government influence, would find it very difficult to negotiate foreign contracts and agreements. I suspect that Chapman's friendship with Pauley goes deeper than the Truman days, or the era of Governor Brown. I understand that Mr. Chapman assisted Mr. Pauley in his Mexican ventures.

One must wonder if Senator O'Sullivan is aware of Mr. Chapman's performance as Secretary of the Interior. Members of the State Lands Commission, Governor Brown and Ed Pauley are very familiar with the fact that in 1945 the Supreme Court rendered a decision giving title of all the states' tidelands back to the United States Government. Your State of California and all other coastal states were victims of this militant grab by our U.S. Supreme Court. The states affected by this grab fought long and hard in Congress all during the Truman administration in an effort to regain ownership of the tidelands. Mr. Chapman was a persistent witness against all state's rights to the tidelands. Mr. Chapman was not satisfied to testify just once against the states in their efforts, but appeared time after time in the Congress, fighting vigorously and beyond the call of his office in an effort to prevent states from regaining their tidelands. His determined fight helped keep the tidelands in U.S. hands all through the Truman administration.

Only when Mr. Chapman went out of office with the election of President Eisenhower were the states able to regain their tidelands. It is a strange coincidence that the man who played a key role in keeping the tideland ownership from California should be called in by Governor Brown, Pauley and O'Sullivan to review a contract affecting the same tideland properties, supposedly for the purpose of protecting the State's interest. And isn't it strange what a fee will do to change a man's allegiance from national interest to state interest. Now Mr. Chapman has been placed in the position of deciding who will benefit the most, the State (and Pauley) or the City of Long Beach and the people of California.
I am sure that it was not difficult for any of the State Lands Commissioners, Governor Brown, O'Sullivan or Pauley to predict what Chapman's report would read. Paid lobbyists move in only one direction. In all of my experience, never has such an insult been heaped upon the average intelligence of a state's citizenry as in this O'Sullivan-Chapman incident. If Chapman's recommendations are followed there will never be a Long Beach Unit and the State and City will lose over one billion dollars. The Governor, O'Sullivan and the State Lands Commissioners are able to resist this pressure and reject this report. The Chapman report proposes a devastating abuse to the State and one of our most progressive cities, the City of Long Beach.

What benefit will be gained by Governor Brown, the State Lands Commissioners and O'Sullivan by the State's acceptance of the Chapman report? Political influence so obvious in the Chapman case is sure to hurt the Governor, O'Sullivan and the State Lands Commission. No political reward is worth this sacrifice.

In conclusion, the greatest insult of the Chapman-O'Sullivan case must be pointed out. The people of California elected in Stanley Mosk, California's Attorney General, one of the most conscientious and capable public servants in California's state government. Aside from the Attorney General himself, his office is ably staffed with most capable assistants. I have had the pleasure of watching them in action at the State Lands Commission hearings on the Long Beach Unit. Unquestionably the review and analysis of the Field Contractors Agreement and Unit Operating Agreement, and other agreements, should have been placed in the hands of the Attorney General. His decision would have been fair because Attorney General Mosk and his staff are qualified. The authorization of the hiring of a known lobbyist, a political friend of Pauley's and Governor Brown's, to decide the fate of the City of Long Beach is an unwarranted act.

Where Governor Brown, Pauley and O'Sullivan, and the State Lands Commission, have welcomed Mr. Chapman with open arms and are paying him a fee of $35,000.00, you can be assured that I feel that any man who fought against states rights as Chapman has in the past should be about as welcome as the boll weevil and the fruit fly.

Respectfully yours,
JADE OIL & GAS. CO.

/s/ Johnny Mitchell, President

MR. HORTIG: With respect to the recommendations in the agenda item before the Commission, we have received the following telegram from Occidental Petroleum Corporatia, reading:

"A review of the forthcoming agenda of the Land Commission hearing scheduled for Thursday, June 27, 1963, lends hope to the position of the independent producer of California. Our sole reservation from an operator's point of view is the five undivided interests recommended by the staff. We would strongly suggest that at least seven undivided
"interests be placed up for bid. We fail to understand why the City and staff feel it desirable to request bids on a net operating basis rather than on royalty basis. We would hope that the City of Long Beach, the recommending party, could supply convincing arguments in favor of its premise."

MR. CRANSTON: At this point we would be very happy to hear comments on the staff recommendation from anyone who is interested in commenting.

MR. WANVIG: I am James L. Wanvig, a lawyer from San Francisco, representing Standard Oil Company of California at this meeting. I am also authorized to speak for Standard's associates in a joint venture, who intended to bid on this proposal, mainly Richfield Oil Corporation and Signal Oil and Gas Company. I have been asked to present my clients' comments on the suggestions contained in this supplemental agenda item.

Our first comment is that in our judgment every one of the suggestions contained in the supplemental agenda item will reduce the total revenues to the City and the State. Moreover, we feel this is unnecessary and that there is no real justification for reducing revenues which will inure to the benefit of all the taxpayers of the State.

If I may start with the simplest example of what I mean, in our opinion the substitution of cash bonuses for the advance payment concept that was embodied in the City's proposal will reduce revenues to the City and State by many millions of dollars. This is because the Federal income taxes which must be paid by the working interest owners will be increased by that amount. One very elemental fact that I am sure I don't even need mention, but I will, nevertheless, for the record,
that I think should be kept in mind, is this: Any bidder, in
approaching the decision as to what he is willing and able to
bid on any proposal, must first of all decide how much net in-
come he must derive from the venture in order to justify the
investment and the risks that he assumes. It follows, there-
fore, that what he is able to bid, what he is able to pay the
public, is the difference between the gross income from the
property less what he must retain and less all the costs that he
must incur, including taxes. Therefore, it is as simple as
this: If Federal income taxes are increased, the revenues for
the City and State will be decreased.

Now, quantitatively estimates vary as to how much
money we are talking about, but it is a very large amount. One
of my clients insists that the City and State will lose in the
neighborhood of twenty million dollars by substituting cash
bonuses for advance payments, as the City had proposed; and all
of my clients agree that the loss will be many millions of dol-
ars. I might point out that this isn't a matter of very great
concern to us. It doesn't matter a great deal whether we pay
the money to the Federal Government or the City and State gov-
ernments; but we don't see what motivation there is for the
State to give up this income to the Federal Government.

Turning to what I think is a more important point, we
are convinced that splitting up Tract Number 1 by whatever means
is adopted will result in lower revenues to the City and State.
The fundamental reason for this -- and I am not going to try to
explain it in detail here -- the fundamental reason is that we
can see no way to devise a plan for splitting up Tract Number 1
which will give the City and State the same protection against
potential defaults that is embodied in the City's proposal,
and will at the same time be as attractive to bidders. We are,
therefore, convinced that you will get lower bids and less total
revenue by splitting Tract 1. If I have heard the testimony at
your earlier meetings correctly, this is also the opinion of your
staff and it is unquestionably the opinion of the City.

Now, obviously we could argue and speculate at great
length about that question; but I don't believe that is necessary
for the reason which I will bring up in just a second. Before
turning to that, however, I'd like to say a word about the sug-
gestion that's been made that even though public revenues should
be reduced by splitting up Tract Number 1, there is an over-
riding reason of public policy which dictates it should be split
up, namely, that offering Tract 1 as a whole threatens to create
a monopoly.

Now, if you will forgive a sort of ipse dixit, gentle-
men, in my opinion all this talk about monopoly is merely loose
talk, which is based on a misunderstanding of the anti-trust
laws or a misunderstanding of the oil industry, or in some cases
of both; and I'd like to make two points: very briefly.

First of all, there is no threat of monopoly. I have
covered this point in some detail in a letter dated June 3rd
which I filed with the Senate Subcommittee investigating the
East Wilmington Oil Field, and I won't undertake to repeat all
that discusses here; but to recap it very briefly, it is wholly
irrelevant to try to lump together any combination, any joint
venture of companies that are bidding on a producing venture,
in analyzing the facts under the anti-monopoly law. The reason
for that is very simple: Joint ventures as producers are very
common, end in production and there are very serious reasons
which require them to end with production. By that I mean, once
the oil is in the tanks, each of the joint venturers must then
separately and individually take his share of the oil in kind
and from then on he deals as a competitor with his producing joint venturers. That is compelled not only by the anti-trust laws, but also by the Federal tax laws. If it were otherwise, that is, if a producing joint venture continued on from production into the marketing phases of the business, an attachable association would be created and double Federal income taxes would be assessed. So the result is these joint producing ventures end at the tank and it is wholly beside the point to talk about a producing joint venture in terms of monopolizing any refined products.

Therefore, you must consider each of the three companies in our group individually. I submit it is ludicrous to think that Signal Oil and Gas Company or Richfield Oil Corporation is a monopoly or threatens to become a monopoly. The question is, does Standard Oil Company of California threaten to become a monopoly. I think if you will look at the facts you will see this is a frivolous question.

Again referring to my letter of June 3rd to the O'Sullivan Committee, I pointed out that Standard's share of the crude oil in California at the present is on the order of eighteen per cent. If Tract 1 is offered as a whole and if our bid should be successful, Standard's share of the production would increase to only about twenty-one per cent -- not a significant change in the control of California production. Moreover, Standard's own production would still represent probably less, or certainly not more than half, of the crude oil it needs for its refineries. Consequently, Standard would still have to obtain elsewhere, other than its own production in California, about half of all the oil it needs. Therefore, to even talk about Standard becoming a monopoly because of the City's proposal is, I submit, ludicrous.
The second point I'd like to make about this monopoly question is that, as I read the State Lands Act and the other associated statutes, it is not the function of this Commission to enforce the anti-trust laws. That power resides in other State agencies and if, notwithstanding what I have said, any monopoly or threat of monopoly should arise, there are ample powers in the Office of the Attorney General to break up any possible monopoly. It seems to me, and I submit to you, that the proper function of your Commission is to realize for the taxpayers the greatest possible revenues from the State lands that are under your jurisdiction -- consistent, of course, with the protection of those lands for other uses.

Therefore, I think the real question before you is whether you can obtain more revenues from Tract Number 1 by offering it as a whole or by splitting it up. We realize that other people have assured you, and I am sure sincerely, that you can realize more revenue by splitting up Tract 1. My clients, on the other hand, are convinced that you cannot.

There is a way that that question, that dispute, can be settled beyond all doubt. All speculation on this question can be ended by simply letting the bidders prove which method will yield the greatest revenues for the State. To put this suggestion in its simplest form, we suggest that you offer Tract 1 alternatively, both as a whole and in undivided portions, and let the bidders bid both for the whole tract and for whatever undivided portions they want, and let the bidders prove which will yield you the greater revenues. We see no legal reason nor, indeed, any policy reason why this cannot or should not be done.

If you will forgive a little free legal advice, it seems to me that the main requirement legally is that the
alternative bases be designed so that the bids are truly comparable; in other words, so that you can determine with certainty which really is the more favorable bid. Now, that rule has couple of obvious corollaries. One is that the bid variant must be the same under both alternatives -- that is, all the bidding must be by cash bonus or it must all be by net profit, so you can compare the bids and decide which is better.

Secondly, we think it is necessary that the City and State receive the same protection against defaults under both plans, and I'd like to emphasize a moment the importance of this point. This will be a unitized operation from the start and that creates a number of difficulties in terms of any failure by one working interest owner in the unit to perform his obligations. If - may focus for just a moment on the obligations to be taken in the disposal of the participants' share of crude oil and accounting for it at the contract price -- in an ordinary oil and gas lease the lessee's failure to take and account for the oil does not create too serious a problem. The normal remedy is to forfeit his interest if he continues to default and then you are free to re-let to a man who will perform.

That remedy is really not adequate in a unitized operation because if one of the undivided interest owners defaults the whole operation cannot be brought to a stop. The other participants have the right that the operation continue, so the oil will be produced and it will come out of the ground and it will be owned in part by you and the successful bidder. Moreover, the needs for cash continue, since the operation must continue, so money has to be forthcoming with respect to the parcel that is in default and the oil that is attributed to that parcel must be disposed of.

Now, the City and State are not well equipped to
perform those jobs. You gentlemen in the City don't have the
money available to enter into an oil venture and you are not
well equipped to dispose of oil quickly. These risks, there-
fore, are very serious; and I might observe that it is precisely
when the City and State need the money most that you are most
likely to suffer a default. In other words, when the market is
generally depressed and times are tough and crude oil is in long
supply is exactly when one of your contracting parties may simply
walk away and fail to perform his obligations.

Therefore, I again emphasize that under the alterna-
tive proposals that we are suggesting you offer, it is most im-
portant that each of them give you the same protection against
such defaults so that, again, the two alternatives will be truly
comparable. Now, in our opinion these criteria, legal criteria,
can be met; and if you will instruct your staff to design a
proposal for offering Tract Number 1 alternatively -- as a
whole or in parts -- we are confident that they can design a
valid plan which will provide the public adequate protection
against defaults.

If you do this, you can settle beyond any doubt which
method will bring the public the greatest revenue -- and if I
may be perhaps a little too blunt, this is the only way we can
see that the City and your Commission can avoid the accusation
on one hand that by offering Tract 1 as a whole you will have
favored certain large oil companies, and the accusation on the
other hand that if Tract 1 is split up you have squandered tax-
payers' money to subsidize or favor certain small oil companies.

I'd like to deal briefly with certain other, perhaps
less important, points. With respect to the size of the operat-
ing interest under the undivided plan -- and this comment I
think is applicable whether or not our suggestion for alternative
offerings is adopted -- in our judgment forty-five per cent interest for the operator is too small to attract good bids. The larger the operating interest is, we think, the better the revenues you will derive from it and from the entire operation; and, very briefly, the reason for that is simply that the benefits accruing to the operator will be more in proportion to the responsibilities and potential liabilities which he assumes.

Turning to the next point -- that is, the suggestion for a minimum guaranteed income -- we believe that this suggestion, too, will have an adverse effect on bidding and on State and City revenues. We point out that, unlike most State leases, this proposed contract gives the contractor no right to surrender until final equities have been determined, which will probably be twenty-five years down the road. This is very unlike the State lease, under which the lessee can surrender at any time and thereby protect himself against continuing losses. Under this proposal -- and we think properly, in view of the needs to protect the land against subsidence and so on -- the contractor will have no right to surrender for perhaps twenty-five years.

On the other hand, the City and State will have complete control over operations, including water injection. It follows from this that late in the life of the contract it is quite possible for the City and State to order the Field Contractor to undertake extensive additional operations, say, for water injection -- it could be something else -- which would have the effect of virtually eliminating or very greatly reducing the net profits that are available to be divided between the Contractor and the public.

Now, if the public has a guarantee, at such a stage this could very well wipe out the net profits altogether and means that the operator would be obligated contractually to
continue operations, although he would be earning no income for
himself. Now, this would be a serious risk, which bidders would
have to take into account in calculating what they could bid;
and to protect themselves against that risk, they would have to
increase the share of net profits accruing to the bidder and
thereby decrease the share accruing to the public.

Our suggestion, therefore, would be to use only the net
profits approach. This has, we think, very great advantages in
that it makes the economic interest of the City and the State and
the Field Contractor identical; they all share in profits and
receive them only if there are profits, and because of that the
contractor can rely upon the economic self-interest of the City
and State to be quite sure that they will not order him to do
things that are unprofitable. He can, therefore, afford to take
a smaller share of the profits as his own and therefore bid more
to the City and State.

If, notwithstanding these considerations, you feel it
is essential to have a minimum guarantee of some income to the
public, we would suggest that you give serious consideration to
putting the guarantee on a cumulative basis; that is, a guaran-
tee, for example, that at all times the City and State would
receive at least one-eighth of the cumulative value of all pro-
duction to date. Now, this will accomplish part of the purposes
of a minimum guarantee but will also greatly ameliorate the
adverse effects on bidders.

One further point, briefly -- this refers to taking
production in kind for sale to others. In our judgment, the
twenty-five per cent reservation that has been suggested is far
too large and will have an undue depressing effect on the bid-
ding. Refiners must schedule crude supply very closely in order
to operate economically. Accordingly, barrels of oil that a
refiner can count on and depend upon are economically worth more
to him than barrels of oil that he cannot count on. Therefore,
if there is as big a swing as twenty-five per cent in the supply
that is available from this source, all the barrels will be
worth less to the bidders and they will have to bid less for
them. Moreover, we cannot feel that anything like twenty-five
per cent is necessary for the purposes for which this reserva-
tion is intended, and we would seriously urge that not more than
one-eighth of the oil be reserved for this purpose.

Moreover, we would urge that the mechanics for exer-
cising the right to take in kind be modeled, approximately at
least, on the mechanics contained in the current State lease
form -- which requires that the lessee be given six months' advance notice before the State exercises its right to take in
kind, and, moreover, that he must be given six months' advance notice before the State changes its election. Notice periods of this kind are essential so that refiners -- and independent pro-
ducers, too, who are reselling the crude -- can plan their re-
finery requirements and plan to meet their contractual require-
ments.

So, in summary, gentlemen, we would urge you to
reconsider the question of shifting from an advance production payment to a cash bonus; we would urge that you severely limit
your reservation of the right to take in kind, and that you
eliminate or greatly modify the minimum guarantee provision;
that you increase the size of the operating interest under the undivided interest approach; and, most especially, that you
offer Tract 1 alternatively, both as a whole and in undivided portions.

Thank you for the opportunity of speaking to you.

MR. CRANSTON: Thank you. Any comments by members
GOV. ANDERSON: Yes. Mr. Wanvig, I was interested in the original part of your discussion, where it applied to monopoly -- which you tended to play down or in a sense referred to it as something that really would not exist; and that this Commission, with this hat we have on today, should not be concerned with what might be considered a monopolistic tendency -- or I believe I have heard it called control of the market or dominant position, or whatever this thing is we are talking about.

I am concerned a little bit with this, even though I am not an expert on what this dominant position or control of market or monopolistic tendency would really be. I think one of the statements that was made -- maybe it was one that your company put in -- I believe it was stated that the three companies that you represent today control about a third of all California production. Is that generally correct?

MR. WANVIG: I'll accept it, Governor Anderson. I can't qualify it.

GOV. ANDERSON: I was just wondering if in your figuring you had determined -- say in ten years from now, when this field would be at its peak, a billion and a half barrel field, at a time when other production in California might be receding a bit -- could you tell me approximately what your three companies would control of the California market and the Los Angeles market at that time?

MR. WANVIG: I can tell you what Standard alone would control, Governor Anderson, but I have never bothered to collect the figures on the three companies -- because in my opinion those figures are irrelevant.

MR. CHAMPION: Except to the point of production; as far as control of production is concerned, it would be a joint
venture.

MR. WANVIG: That's correct, certainly; but it doesn't mean anything.

MR. CHAMPION: Control of production means something.

MR. WANVIG: Not really very much, Mr. Champion, if you will forgive my saying so, except for the profit that is derived from the production itself.

Governor Anderson, as to Standard, the figures are on this order: At present Standard's share of California production is about eighteen per cent. Now, making the most realistic possible estimates of what the situation would be when production from Tract Number 1 reaches its peak, which would be in seven to ten years, Standard's share of California production would be on the order of twenty-one per cent -- an increase of about three per cent.

GOV. ANDERSON: What about in the Southern California market? Would there be any appreciable difference there, or haven't you broken it down?

MR. WANVIG: No, I haven't broken it down by areas within California. I suggest that one fact important to keep in mind is that Standard would still fall far short of controlling sufficient production to supply its own needs. At present, Standard's California production supplies considerably less than half its needs, and that would continue to be true seven to ten years hence under any reasonable forecast.

GOV. ANDERSON: Then your estimate is that if the three of you, these concerns, had the entire unit, you would only change at the peak about three per cent for Standard?

MR. WANVIG: For Standard, yes.

GOV. ANDERSON: And you couldn't estimate what that would be for Signal Oil and ....
MR. WANVIG: No. As I say, I have never asked for these figures to be developed, because they seem to me to be irrelevant, in that producing joint ventures stop with production -- do not continue into marketing and refining phases of the business, and because in California, with the kind of market situation we have here, control of production really has no effect on the refining and marketing phases of the operation of the oil industry.

As we pointed out, Standard can only produce about half the crude it needs. The crude it needs is determined by how much it is able to sell -- that is, how many products it is able to sell -- and that, in turn, depends upon the ability of its salesman and advertisers, and so on, to persuade customers to buy its products. So it is there that Standard's market position is determined, and Standard obtains whatever crude it needs to supply its market.

Now, naturally, we would like to produce as much of that crude as possible within reason, since there is a profit to be earned in producing crude; but it has never been able -- at least in modern history that I am familiar with -- it has never been able to produce more than half of the crude it needs. It buys the remainder from other producers and imports some, and from offshore, and brings some from Alaska and the four corners of the world, southwest of the United States, and so on. Whatever its refining needs are will be met either by its own products or its purchases. So Standard will have the same amount of crude oil under its control, whether it is the successful bidder on this thing or not. It will get that crude oil somehow.

MR. CHAMPION: Let me ask you this -- out of curiosity rather than any background of knowledge. Isn't there, however, the relationship to the import and accessibility of import supplies of Standard compared to some of the small refiners in
California? In other words, it isn't a question of whether you use all you produce but as to whether you would have control over the import situation or what the market would be for other refiners. Isn't that the situation imposed by the Chapman report?

MR. WANVIG: Yes, sir; I am forced to say that in my opinion Mr. Chapman and his associates in that report did not understand the way the import program works on the west coast. The plan, the program ou. here, is different from that in effect east of the Rockies. Out here, the plan, roughly, is this: The appropriate agencies of the Federal Government estimate the total crude oil for District V, which includes California and the other west coast states. It then estimates domestic production and imports from Canada, and deducts those from the expected demand. The difference becomes the import, the offshore foreign import quota, for District V as a whole. Then that quota is broken down into individual quotas for importing companies by a formula which has nothing to do with local production. The formula is based on refinery runs, not on local production; and while I don't think we need go into all the details of that formula, the fact is that it is loaded in favor of the smaller refiners. Percentagewise, they are given a larger portion of what their refineries require than are the larger refiners. So control of local production has nothing to do with an importer's quota for imports.

Now, to carry this out one step further, what will happen when Tract 1 oil becomes available -- and I am assuming now, of course, that the Federal Government continues its past program for District V, and I see no reason to think that isn't a reasonable assumption -- if they do, what will happen when Tract 1 comes on the market, irrespective if Tract 1 is broken
up or goes as a whole, irrespective of who the respective bidders
are, the over-all district quota of District V will be reduced by
the amount approximately equivalent to Tract 1 production. That
is the way they approach the matter here. So all importers will
lose import quotas by an amount equal to Tract 1 production; then
that loss will be apportioned among the importing companies,
again under a formula based on refinery runs -- not on local pro-
duction -- and the greater part of that loss will fall --
this is a formula that is loaded in favor of the smaller refiner --
the greater part of that loss will fall on the major refiners.

MR. CHAMPION: But in this case some of those major
refiners will have this new production to replace it, whereas the
smaller will not.

MR. WANVIG: Mr. Champion, the way this program works
all the refiners will have California production to replace the
imports that are lost, because the import control program is
designed to balance supply and demand.

MR. CHAMPION: I recognize that, but the places where
that oil goes can change very substantially.

MR. WANVIG: Certainly there will unquestionably be a
reshuffle.

MR. CHAMPION: And those who do not participate in
Tract 1 would have some decrease in their ability to get oil for
their refinery, import oil.

MR. WANVIG: No, sir ....

MR. CHAMPION: It is a loss across the board, even
though it is a loaded formula. I am not arguing. I am just try-
ing to get this point straight in my mind.

MR. WANVIG: Everybody will lose import quotas, irre-
spective of whether or not they participate in Tract 1.

MR. CHAMPION: That is right. So those that do
participate in Tract 1 now have a source of domestic production, but everybody will lose import quotas.

MR. WANVIG: But there will be alternative sources of domestic production....

MR. CHAMPION: That is to be hoped.

MR. WANVIG: ... if the program works the way it is designed to work.

MR. CRANSTON: Frank, do you have any comments on the recommendation that if we retain the minimum guaranteed operating profit concept it be put on a cumulative basis?

MR. HORTIG: We have not given any extended staff evaluation to this particular feature. However, as outlined by Mr. Wanvig, the hazard of potential economic pressure is there unless some recognition is given to the manner in which such a guaranteed minimum would be applied; and, patenty, a cumulative guarantee, a minimum cumulative value of past production, would be one method to accomplish this, to minimize the economic impact. There are definitely others which can be explored.

The Commission will note that in the suggestion for exploration of programs to be explored, the program even as suggested by Mr. Wanvig isn't precluded from consideration under Item 4 as a method for establishment of a minimum guaranteed operation.

MR. CRANSTON: I would think that is a matter we should explore.

MR. HORTIG: Very definitely.

GOV. ANDERSON: On this same thing, I have the impression that toward the end of our program we would be faced with the necessity of increased water injection to halt subsidence, giving the impression, I thought, that we wouldn't be doing what we should in this field as drilling went along. It was my
understanding, my feeling, that as we go along in production we
are going to make sure that the water is injected at that same
time, so we won't wake up at the end with additional increased
water problems. I got a little different opinion from his
remarks than I thought we were going to have.

MR. HORTIG: I might summarize my reaction to Mr.
Wanvig's report. You are completely correct that any operating
program contemplated for approval by the Lands Commission for
placement into effect by the City of Long Beach through its
field operating contractor would necessitate the continuous ap-
plication of all engineering and production techniques to assure
to the ultimate, in accordance with the then current state, that
all protections that could and should be take: and are economi-
cally justified at the time would be taken.

I think one reaction is -- not that this condition of
possible augmentation of water injection late in the life of the
field is an inevitable necessity -- indeed it should not occur
at all -- but we do have the difficulty of forecasting twenty-
five years hence that something we are unable to understand to-
day may not arise; and protection against that something which
we cannot forecast might require additional expenditures on the
part of the field operating contractor -- which, under the pres-
ent format of the contract proposed, could be ordered by the
City and State, indeed, right down to the point of an economic
loss on the part of the operating contractor and simply his sug-
gestion is on the necessity for insurance to preclude this oper-
ating impact on a field operating contractor for unforeseen cir-
cumstances which could arise despite the very best efforts dur-
ing the course of the operation.

Prior to 1937, you could have gotten probably conserva-
tively, in the neighboring state that permits placing of gambling
bets, anything from a thousand-to-one to a million-to-one odds that there ever would be any land surface subsidence in Long Beach, and look what we have had in our contemporary experience.

So in the eventuality, and certainly not hoped for and with no reasonable expectation that there will ever be a repetition thereof, particularly in view of the fact that we are not at all certain just what the mechanism has been that triggered subsidence in the first place or alleviated it in the second place, but fortunately it has been alleviated, and we are in an area of such uncertainty as to what is happening five to seven thousand feet under the ground where we can't see -- a prospective operator who might find himself faced with a new type of situation naturally would have to take insurance, if he is at all going to be liable for trying to correct a situation that we can't forecast at this time.

MR. CRANSTON: Can you all hear Mr. Hortig?

(A number of negative answers and adjustment of microphones)

GOV. ANDERSON: Summing it up, however, there is no reasonable expectation of this situation. It would only be something that would be unforeseen?

MR. HORTIG: That is correct, sir.

MR. CRANSTON: I'd like to ask your comments on another point, Frank -- the suggestion that if the State takes in kind or changes its take, there be six months' advance notice.

MR. HORTIG: As a matter of mechanics and in view of the development of this as a policy and a specific lease condition in our leases which have been issued by the State Lands Commission, patently it would be a staff recommendation that the equivalent be included in any contract form which might be applied.
MR. CRANSTON: I might say that I was astounded at the pacificity of this audience. If you can't hear what is going on, squawk.

MR. CHAMPION: I'd like to ask Frank a broader question that really goes to two parts of this whole relationship between the recommendations and the possible economic return to the City and State, the two central questions raised -- and I suppose they ought to be treated somewhat separately.

First, in compiling this new set of recommendations, was there recognition generally that in order to meet what was felt to be a market problem, control of market, or what have you, that there was calculatedly, or at least an assumption, of some loss of revenue to the City and State in order to meet this problem?

Secondly, was there calculation of the impact on the tax situation as between the two proposals and for what reason, if there was calculation and if it was felt that this would mean a substantial impact, what reason was there for shifting to the cash bonus basis?

These are separate questions, but I think they all go to the same point.

MR. HORTIG: I became so engrossed with your second question, I have already lost the first.

MR. CHAMPION: I am just as interested in that as in the first. Let's take the second.

MR. HORTIG: Definitely, the difference in tax impact between an advance payment as proposed in the initial submittals by the City of Long Beach as against a cash bonus payment -- which for tax purposes would have to be capitalized and would result in a higher Federal income tax -- was taken into consideration. Specific calculations could not be made as to any
reasonable number of dollars of difference, other than it can be
said categorically, as Mr. Wanvig did, that the cash bonus pay-
ment route would necessarily result in a lesser net return, cumu-
lative net return, to the City and State.

The difficulty in determining any reasonable estimate
of dollar difference is because the individual corporate tax
positions, corporate tax payment bases, schedules and options
which have been elected vary so widely that you can literally
come up with an infinite number of combinations that you have to
evaluate, and the effect would be more or less dependent upon
who might be the successful bidder; but there would be "a" dif-
ferential between the two procedures.

However, offsetting factors that must be considered
are, first, and this is certainly not suggested as a complete
offset but also in the over-all view for the benefit of the
State of California as an aggregate of all governmental functions,
there would accrue under the cash bonus, additional California
corporation franchise taxes which would not accrue under the
advance payment base, as a partial offset -- again incapable of
being estimated accurately against the probable loss of percent-
age of net profit bid if the lease were offered on an advance
payment basis.

Additionally, of course, an advance payment basis can
be interpreted as representing Government borrowing the money,
its own money, in view of the fact that it is to be repaid from
revenues which would otherwise accrue in the future -- borrowing
its own money from the successful bidder and then returning it
to the successful bidder after a period of time with a payment
of interest in addition; and, therefore, the problem of the net
worth of such a loan as against the net worth to Government of
the cash bonus in hand, which is not repaid, was another one of
the elements that was included in the estimation of why the
advantages of the cash bonus procedure might outweigh, or could
outweigh in the aggregate, or come reasonably close to equalizing
the monetary advantages alleged for the advance payment base,
without the concurrent disadvantages of this problem to the
Government of borrowing its own funds and repayment to industry
subsequently with interest. That was one of the primary factors.

GOV. ANDERSON: Is there suggested interest?

MR. CRANSTON: Three million, five hundred thirty-
thousand dollars possible interest charge under the
original suggestion.

MR. HORTIG: At the rate suggested -- which rate was
still subject to discussion.

MR. CHAMPION: That was four per cent?

MR. HORTIG: Three and three-quarters, I believe.

MR. CRANSTON: That's one specific cost that would be
avoided by this method and I think that's one calculable in
precise dollars. Certainly it is not calculable, and can never
be, precisely as to what income might be developed.

MR. HORTIG: I now recall Mr. Champion's first ques-
tion, which was with respect to whether recognition was given,
and it was included in the calculations when translated into
estimates, to the impact with respect to diminishing possible
returns. This was done particularly in view of the fact that
irrespective of the position of the United States Department of
Justice through their Anti-Trust Division representations that
difficulties would probably be minimized and operations might
proceed much more serenely under a contract which in the first
instance made reasonable provision for insurance against anti-
trust allegations, some of which have already been countered
by Mr. Vanvig on a different basis -- nevertheless, the sum
total of suggesting the division of the parcel, for offering parcels into undivided interests, plus a reservation of the right to take a percentage of the production in kind, we felt was designed to go to a solution of the problems which were indicated by the Anti-Trust Division of the Department of Justice.

MR. CHAMPION: I recognize that. What I meant to say: Was there a feeling that in order to solve these problems it probably was necessary to devise a system which would produce less income than to go to a straight undivided interest? Was there a feeling that there probably would be some less income but that it was sufficiently important as a matter of public policy that we receive a somewhat less income?

MR. HORTIG: This was definitely one of the elements that is before the Commission for consideration. On the other hand, it cannot be forecast with certainty that the aggregate of the bids under the undivided interest procedure offer might have been less or would, in fact, be less........

(Audience unable to hear -- Mr. Hortig changed position)

MR. HORTIG: (continuing) The last statement was to the effect that there is no mathematical possibility of asserting with precision in advance that there could, in fact, be an economic detriment by reason of offering Tract 1 in properly selected undivided interests, if this were the only bid basis on which the parcel were to be offered.

Patently, I think it would be an open secret in industry that the first bidder, who would be the successful bidder under the proposed program for the position of field operating contractor, would probably be extremely interested in the disposition of the remaining parcels; and in view of the fact that both the present State Law and the last Research Committee
report pointed out that there was no intent to change the law with respect to permitting a successful bidder to bid on additional parcels, this can at least be theorized to be an additional source of providing for tremendous competition in bidding for the remaining parcels as the remaining parcels become fewer and fewer.

On the other hand, as Mr. Wanvig has proposed, we definitely will have to evaluate the advisability of putting the situation to the complete test of whether or not it is practical and feasible, in fact, to offer -- if it is possible to design an offering of Tract 1, so that it can be offered on alternative bid bases simultaneously; and, as has been suggested, the obvious proof will be immediately available as to superiority of systems from the size of bids received in the respective methods.

MR. CHAMPION: Let me ask one more question in this area. Would it be possible to construct an alternative bidding system, using some of the other protections -- the oil in kind and the others -- which would still satisfy the problems that might be raised in the anti-trust area, and have these two alternative bidding systems each equally strong so far as the anti-monopoly provisions of the bids are concerned?

MR. HORTIG: Mr. Champion, I'll be brave enough to say, hopefully yes -- that it should be possible. Patently, none of the features that are intended to be accomplished by some of the elements of the undivided interest and reservation of right to take in kind applicable to all the undivided interests have been considered heretofore for direct application to offering Tract 1 as a unit; but I must assume that equivalent protections could be designed.

On the other hand, again I bring to the attention of the Commission Mr. Wanvig's very own recitation of this
alternative bidding procedure: There has to be assurance that
the alternatives are on a truly equal footing and that there
cannot be alleged to be advantages in one as against the other
and disadvantages in one as against the other; that they have
to be a truly equal offering under two alternative procedures;
and this, patently, can become a very complex situation and I
would think our major problem there is to get a consensus among
our legal advisers that the packages we were bringing to the
Commission for consideration were indeed bases for equal offer-
ing under alternative procedures.

MR. CHAMPION: I'd like to have that before we let
the bids, rather than after.

MR. HORTIG: Right.

MR. WANVIG: Might I interject one more note? When
Mr. Hortig speaks of equality between the two proposals, it
seems to me that he must be talking about equality from the
public's point of view, not necessarily from the point of view
of bidders. These are two different questions; and while it is
not my function to advise you gentlemen, obviously I think it
is worth keeping that distinction in mind.

MR. SHAVELSON: May I make one remark here? Mr.
Champion, as I understood your question, were you suggestin-
g that there might be the same anti-monopoly protection under the
two alternate schemes, so that then we could compare the bids
in the terms of which system we can get the most money? If so,
I think there would be an intrinsic difficulty there for the
very reason the bids have to be comparable. If we introduce
the fact that the splitting up of the tract into undivided
tracts has an anti-monopoly effect, if we introduce a comparable
protection as to the single interest, then they would cease to
be comparable and I think we would run into more serious
difficulties.
MR. CHAMPION: In other words, and this was my assumption when I asked the question, you could introduce almost all of the other factors, but the one involved in the undivided interest cannot be compensated in any way in this alternative bidding system.

MR. SHAVELSON: I don't think so; and for that reason, unless it were determined by the Commission that the sole objective of the bidding system was to get the most revenue for the State, I don't think this alternative bidding system would do more than to enable the Commission to evaluate the effect of what the State is paying for the anti-monopoly features; but we would be compelled probably as a matter of law, unless we rejected all bids, to accept that system that gave the most revenue to the State once we did that.

MR. CHAMPION: We just determine the cost of a fixed public policy as against another public policy.

MR. SHAVELSON: Yes.

MR. WANVIG: May I add one more comment? This is essentially an argument from authority which I hesitate to make, but I am sure you gentlemen realize that the job of our office is to keep Standard out of anti-trust troubles; and we don't always manage to keep them out of trouble but we have so far managed to beat off most of the trouble. You can, I am sure, appreciate that we would never advise Standard that it could go into a bid on Tract 1 as a whole if we thought for a moment there were any serious, or any, anti-trust problem involved. Now, as I say, that is simply an argument from authority.

MR. CHAMPION: We already have that, both in your opinion and in the opinion of the Chapman group, that there is nothing illegal about the original proposal....

MR. WANVIG: Yes.
MR. CHAMPION: ... nor anything that would of itself
be a violation of anti-trust -- not necessarily what actions
might be taken thereafter, but in the contract itself.

MR. WANVIG: Yes, and I might add that if there is any
anti-trust trouble that results from this, the trouble will fall
on the successful bidders, not on the City or State, as I under-
stand the Attorney General has advised you; and if in the con-
ceivable event there were monopoly or other anti-trust trouble,
that can be corrected under remedies that are presently avail-
able under existing law administered by the Attorney General,
both of California and of the United States.

MR. CRANSTON: Are there further comments or questions?
I think that it is rather obvious that the two approaches are so
different that there is no clear-cut or scientific way to com-
pare them in terms of the benefits to the State and the public.
Mr. Wanvig, thank you very much. Are there others who would
like to be heard?

MR. SCOTT: My name is L. E. Scott, Pauley Petroleum.

MR. HORTIG: Mr. Scott, would you please speak direct-
ly into the microphone? We have been informed by the sound room
out there that if you climb into it, you can be heard.

MR. SCOTT: We reiterate our position of February 28th
and again request that you consider everything we said in that
presentation, so I will not go back into it again.

(Audience: "Can't hear.")

MR. SCOTT: First, we would like to recommend that
you go the undivided interest approach. We think it's the only
approach that will save the oil industry in California and pre-
vent it from being placed under control of two or three compan-
ies. It is the market control, the production and refining and
price control that we object to being vested in one group; and
when you couple that with a gift by the State of onshore drill-
sites to give the onshore bidders an unfair advantage, it makes
it an unfair, unconscionable situation which we cannot recommend
nor can we be a party to.

Now, to go on further, we recommend that Tract 1 be
split up into eight or nine interests. You realize, gentlemen,
that forty-five per cent interest in Tract 1 gives a company con-
trol of in excess of one-half billion barrels of oil; twenty-five
per cent gives a company control of a quarter billion barrels of
oil. I refer to an Oil and Gas Journal that came out just re-
cently, where they have pointed out that in 1960 there has been
only one field found in the United States that had in excess of
one hundred million barrel oil reserve, and only two or three
were found in the whole of the United States in 1950. So it is
easy to understand why this fight for Tract 1 goes on, because
you are fighting for tremendous stakes here and you are also
fighting for control of District V and the west coast of the
oil industry, and perhaps you would have repercussions in the
international field.

Now, Mr. Wanvig spoke of imports. I am going to
introduce into evidence Standard Oil's statement to the import
hearing on May 3, 1963. There it points out that the small
independent refiner is mistreating the major refiner, but in
that statement it has something I think I will read. It says:

"Excessive throughput leads to the accumulation of excess-
ive product inventories which must be disposed of at low
prices. This acts to depress crude prices and hence to
diminish the incentive to explore for new domestic reserves.
The scale should be made less, not more regressive."

And, Mr. Champion, you asked me at the February hearing why
would this reduce domestic exploration in California. I don't
think you were satisfied with my answer. The main reason I
brought this here today was to give credence to it, since our
very nice opposition also said it. It says:

"Furthermore, if one thing is clear from the history of oil import controls, it is that maximum flexibility is needed to meet constantly changing requirements. It is not unlikely, for example, that domestic production in District V will increase in the future as the result of new on- and offshore discoveries. This prospect alone, only one of many variables to be considered, should indicate the impracticability of attempting to freeze allocations at a particular level based on the situation existing at a particular point in time."

MR. SCOTT: (continuing) Gentlemen, we have a refinery of about five thousand barrels a day capacity. We intend to increase that capacity if we can get crude to run it. Import quotas in District V are based on one thing. You don't get any refinery imports unless you have throughput. You have to have throughput to get oil and will continue to have to have throughput to get oil. This is just exactly the situation in the State here today and I think you should understand that when you cast your vote.

So far as the cash bonus is concerned, Mr. Champion, all of us like to get our money back, but one thing about the cash bonus -- the State doesn't have to give this money back when you get it. It just goes in your pocket. Mr. Wanvig pointed out this gross production guarantee, -- just another name for a landowner's royalty. To be very frank, I'd like to see no royalty on this, because it is a lot easier on the operator; but to my knowledge there is not a crude operator in the United States that would put out a parcel like this on a purely net profits basis. It is absurd, and I invite this Commission and this staff to review all the major land companies -- Kern Land, Louisiana Land and Exploration, and all the companies that own fee land. In very few instances might they go the net profits approach. The idea of having this fixed landowner's royalty against these premises will cause the properties to become more
economic at an earlier time, that's true. Perhaps that merely
points out to you gentlemen in a very clear and concise manner
that you are taking the risk on that property, as I pointed out
in February; and if you take the landowner's royalty or go the
royalty route, fix a royalty or fixed bonus, perhaps you are go-
ing to exercise your decision for the public interest better than
if you take the net profit. You are taking the total risk on
that net profit and I don't think you ought to kid yourself
about it.

That's all I have to say. By the way, I am not
against this alternative approach. You can't compete with these
people when they get control of the market -- they control the
price, everything else.

MR. CHAMPION: I'd like to ask one question about that
net profit. Our approach to that and Long Beach's approach and
the staff's recommendation is based on the experience they have
had with the net profit approach. Hasn't that tended to produce
more revenue than the cash bonus-royalty?

MR. SCOTT: I don't know, Mr. Champion, whether it has
or not on wells drilled before the present time; I don't know
whether it is good or bad -- that's your decision. But the
fact this issue was made of having a landowner's royalty on this,
pointing out that the operator would have to be excused because
it would put him in position of not making any net profit --
you just remember this: If the operator isn't making any net
profit, neither is the State or City.

MR. CHAMPION: In effect, isn't the State really in
the same position as an operator?

MR. SCOTT: That's right; you are in the oil business.

MR. CHAMPION: You are saying you are taking a minimum
risk taking a cash-royalty bid, the minimum you can make and
still get a bid....
MR. SCOTT: That's right.

MR. CHAMPION: ... Whereas we are in the position of sharing the risk, with presumably the greater return.

MR. SCOTT: I have no objection to the State going to net profits. I mean, this is all right. Just remember you are taking the risk.

MR. CHAMPION: I recognize that but it is very seldom, at least as it has netted out, that on the cash bonus-royalty basis any oil company has suffered thereby; and it seems to me highly unlikely in this situation, with a proven field, that the State is going to suffer thereby.

MR. SCOTT: This I can't argue with. If you want to go net profit, fine; but I don't think there is any prudent owner in the United States that would issue a parcel of land without a landowner's royalty. I think it's good -- you may want to have that sliding scale to eliminate when there is no net profit, but I think it is imperative that the State reserve some landowner's royalty here. I don't care what tag you put on it. You have to have a portion of the gross as public policy.

MR. CHAMPION: What is your view on that?

MR. HORTIG: This, of course, is a combination of factors -- actually a cash bonus payment for any substantial portion of the production of the field and for the interest, or however this matter might be devised or even whether offered as one total tract, as a prepayment and a guaranteed minimum income that the City and State would receive. So there is this matter of guaranteed minimum income already reflected in the situation if the leases are awarded or the tract is awarded on a cash bonus payment situation. Additionally, the staff contemplation in the suggestion for consideration of guaranteed minimum as reflected in Section 4 of the recommendations is in keeping with the principles, if not in consonance with the particular mechanical details, which Mr. Scott has been discussing here.
MR. CRANSTON: Any further questions?

GOV. ANDERSON: Yes. Is there any protection in your Item 4 -- "Establishment of a minimum guaranteed operating profit to the City and State by specification of a percentage return of the gross value of production" -- Now, is there any balance in this where, if the net profits are low due to, oh, all kinds of expenses -- is there any way that you can balance against that to have a minimum of the gross?

MR. HORTIG: This would be the protection feature which would be established by specification of a percentage return of the gross value.

GOV. ANDERSON: What percentage?

MR. HORTIG: Well, the selection of that percentage is again a feature that is going to require particular evaluation such as will establish a value that would both give the minimum detrimental effect on the bidding, as was suggested by Mr. Wanvig would occur, and would still guarantee a reasonable equitable minimum return to the City and State.

GOV. ANDERSON: What that would be -- a cash bonus and then the balance on net profit, balanced off against gross production?

MR. HORTIG: With a guaranteed minimum royalty payment.

GOV. ANDERSON: Guaranteed on what basis?

MR. HORTIG: Based on the gross value of oil produced.

GOV. ANDERSON: Not the profit?

MR. HORTIG: No, sir. In other words, on the basis, for example -- and selecting a value merely for illustration and not because this has been calculated or even suggested -- it might be specified that the operator would pay at all times, after production was established and developed and oil was
actually being produced -- that the minimum net profit, irrespective of the percentage bid, minimum net profit payable to the City and State could not be less than one-eighth of the value of the oil produced. If the calculated percentage of the net profit bid were greater than that amount of one-eighth of the gross, then such higher value would be paid to the City and State. If the calculated value were lower, the one-eighth is a floor below which the payments could not be.

GOV. ANDERSON: One-eighth to the City and State, or one-eighth to each?

MR. HORTIG: The exact value hasn't been selected.

If it were one-fourth, it would be under present law one-eighth to each the City and State.

GOV. ANDERSON: But when we read various reports about four and one-half billion -- the City and State will receive one and one-half billion, which is approximately a third; and then I hear one-eighth thrown in, and there is a difference between one-eighth and one-third.

MR. HORTIG: This would be the suggested guaranteed minimum and, as I say, this has not been calculated. It might be twenty-five per cent by the time we recommend it to the Commission, but the point is this would be one of the other factors which would be guaranteed in addition to the cash bonus already received under this procedure.

MR. CRANSTON: Any further questions? Thank you very much, Mr. Scott.

MR. MITCHELL: My name is Johnny Mitchell, and I am with Jade Oil and Gas Company. I would like, first thing, to compliment this meeting today, because it looks like a real sincere business meeting and ....... (inaudible to reporter and audience indicated they could not hear.)
I would like to be as constructive as I can today and answer the points that I feel are imperative for the quick progress of the Long Beach Unit Agreement. Can you hear me back there?

In referring to Mr. Scott's opinion, I can go along with Scott here in the undivided interest, but as an onshore producer -- I mean, owner of onshore property -- I am deeply concerned that my part of the property be produced in the most efficient manner. Now, a division exists between companies that can become too bulky. Naturally, the glory and the future possibility of the oil in place at Long Beach looks like a wonderful thing for a man to buy; but I worry, deeply worry, that in the long run at great expenditure -- you talk about millions of dollars -- that the average small man that may be able to buy into the bidding group may never be able to continue to perform with the efficiency and rate of production that his field has to have to pay out and pay the State and City.

I will read just a few lines of what I think my feelings are, and I say here to you, Mr. Cranston: (Read from letter of June 26, 1963 submitted at meeting):

"Jade Oil & Gas Co. is presently the owner of approximately 14% of the onshore leases. We at the present time have approximately 1,600 onshore royalty owners. It is our obligation to our royalty owners and to the welfare of Jade Oil & Gas Co. that the combined operation of the onshore and offshore leases, under the field contractors agreement, is so awarded that the present and future equity of the successful bidder is great enough to insure a selfish interest for the most efficient operation for the next 35 years. Unless the successful bidder is permitted to own enough equity in the undivided interest, it is reasonable to assume that this 35-year contract of operation will lose efficiency caused by production problems and many, many other unaccountable problems that will arise. We are all aware that the successful high bidder will have to furnish many of his key operating personnel for this great project and unless the equity justifies it, the successful bidder will be reluctant to transfer this key personnel to the East Wilmington Unit. Without this key personnel, the efficiency of his operation is sure to be impaired and the State, the City of Long Beach and Jade Oil & Gas Co. will
"be the losers. For this reason, I firmly believe that the initial 45% interest should be raised to approximately 75% or something in that category. In turn, the bonus of $20,000,000 can be raised proportionately. I sincerely believe that in such a tremendous operation, a larger percent of ownership will automatically mean a higher bid. For this reason, by raising this percentage to 75% or better, it should result in a higher bid for the State and the City.

On the remaining 25% interest, it could be divided in any manner the State Land Commission desires.

It is the responsibility of the State Land Commission that the successful bidder of the larger piece is never handicapped by delayed payments, refusal of payment, or subject to any opposition by the minority interests. This contract should read that the minority interest holders of the undivided interest must pay their proportionate part of the operations currently, or their interest will revert automatically, free of cost, to the field operator. Otherwise, the field contractor will be unable to carry on its obligation both to the State, the City of Long Beach and to the other onshore operators. The State, the City of Long Beach, and my company cannot jeopardize their future interests in this combined agreement by subjecting themselves to the whims of the minority interest holders. It would be unfair to have the successful bidder of the larger piece be responsible for the minority interest group in future operations. The minority bidders must be non-operators in the field contractor's agreement or it will mean that this operating unit will become a hodge-podge of confusion and may become political again.

In Sections 2 and 3 of the calendar items, the State can reserve part of the production for the State and City to use or for the use of smaller refineries. However, this reservation of production means that the State, the City or small refineries must agree to purchase only the produced oil at the same price as the other oil is sold. Secondly, this reservation of production should be made on at least a six months contract for only in this manner can the field contractors produce and market the balance of his oil properly.

The other points brought up are minor and may fit into the contract, but they should not impair the efficiency of the field contractor."

MR. MITCHELL: (continuing) Now, I want to bring one point forward to you three gentlemen. I imagine in oil production I don't think there's very few people in this audience that has drilled as many wells as I have, that has worked in the industry as long as I have, that has worked on import problems, export problems. I know imports far more than even the majors
know themselves, because their interests are selfish and would hesitate to say that by adding oil in California, wherever it may be -- whether it be Wilmington or anyplace -- it will mean that less oil will come in from Venezuela, Mexico and other imports. At least, it means we will collect State revenue on State oil. It will mean we will pay our own labor and materials to produce our oil. It is the greatest incentive and the greatest thing that happened to California in ten years. But if they shut this thing down or operate it inefficiently to permit the small refiners, who never contribute one bit of money to drilling or producing oil -- Mr. Pauley is an exception; he drills oil in California; most of the other refiners have to look for the windfall of handouts, because every gallon they import they get a dollar of benefit. The refiners are the only people that get a subsidy and they are not entitled to it at the expense of California production.

Now, you gentlemen should never worry about refiners' problems because they contribute nothing to California economy. I mean, this could be a great producing state. If refiners are concerned about production, let them go out and drill like I do, or Mr. Pauley does, or Standard, or anybody else; but they spend all their time in Washington asking for an increase in refinery imports so they can cut the prices of the domestic oil here in California and impair our economy.

There is something to think about here, because if we ever become self-sufficient, then in a national emergency this State would survive. Right now, if we were at war tomorrow, you would be without oil for sixty days -- no pipelines, nothing but ships and sunken ships, and your sons and my son at the bottom of the ships. We should look far ahead and pray and have a chance to make our production. I don't care about the
Mexicans ... I am an American. I'd like to build up in my state first, and the rest of them can go to hell.

One thing, too - - I think I've said enough.

MR. CRANSTON: Any questions?

MR. CHAMPION: I'd just like to ask Frank: In your judgment, in the contracts as proposed are there sufficient guarantees of performance for each of the undivided interests?

MR. HORTIG: Well, the proposal as before the Commission would provide for staff recommendation to the Commission of limitations whereunder only the Field Operating Contractor would have full field operating responsibility and there would be no operating responsibilities or possibilities ...

MR. CHAMPION: I am not talking about that. I am talking of financial responsibility. In other words, are we adequately protected in the area that anybody who bid on an undivided interest would be required to have sufficient financial responsibility?

MR. HORTIG: This is a definite intent to provide this. This has not yet been written, because actually the undivided interest approach has not yet been authorized for study by the Lands Commission.

MR. CHAMPION: Then let me ask one other question...

MR. CRANSTON: On that point, we definitely, if we go to the undivided interest approach, we absolutely must have guarantees that protect the field operator against defaults, financial defaults, by holders of undivided interests. That would be the unanimous agreement among us.

MR. CHAMPION: Except I'd like to make one comment. I don't think the undivided interests should revert without any consideration of anybody else to the Field Contractor. The undivided interests should revert in accordance with percentages across the board.
MR. CRANSTON: Any further questions or comments? Does anyone else wish to speak? (No response) I think it would be appropriate for Long Beach to say whatever it wishes to say at this point.

MR. DESMOND: Mr. Chairman, members of the Commission, the City did receive the calendar item, I believe, some time last week and we have been studying it in the City Manager's office and the City Attorney's office. When we have completed our studies we intend to discuss it with the City Council and particularly with the Oil Committee of the Council, which is chaired by Councilman Ray Kealer. We have no comment to make at this time. We have started; we have followed with interest the comments today, and we will study them and other things.

MR. CHAMPION: Do you have any idea when your comments will be ready?

MR. DESMOND: No, I do not. We are at work on another project, as I advised the Commission would be necessary, and we realize that that is a different field, a different size, and different stage of completion; and we are somewhat concerned. We believe there will be some differences in what we have proposed for the larger and new field than would be in the redevelopment of the existing Harbor area parcels. But we are trying our very best now to anticipate your questions and make sure that this is satisfactory to you. We are working on that now.

MR. CHAMPION: I think there is no application before us?

MR. DESMOND: That's right.

MR. CHAMPION: Are you working with the staff, so that we will not lose time? We recognize your time problem on the other. Is there adequate communication now, so we may proceed together?
MR. DESMOND: Mr. Champion, the lines of communication are certainly open, as they have been at all times. We have not yet discussed the matter with the staff. We are trying first to make our own proposal, then we will take it up with the staff.

MR. CHAMPION: I simply want to make it clear we recognize your time limit and want to help you in any way. We stand ready to act.

MR. CRANSTON: I would simply say the earlier time you involve the staff in your thinking, the closer we will be to a decision.

MR. DESMOND: Thank you.

MR. GOGGIN: Mr. Chairman, I would like to be heard. I don't know whether you are going to reconvene at two o'clock or not.

MR. CRANSTON: We are going to try to continue along now if we can. Do you wish to testify?

MR. GOGGIN: May I? My name is George T. Goggin. I am associated with the Douglas Oil Company of California and I have been authorized by the Independent Refiners Association of California to appear at this hearing on their behalf.

In reviewing the presentations made by Standard Oil Company, we of course differ considerably with their application of the principle of public policy insofar as monopoly and anti-trust facets are concerned. The observation that they make that this is loose talk and misunderstanding by certain members of the industry is not justified in view of the case that has been previously filed against them and the other six major oil companies of this area. Also, with respect to the observation made that the import program so far as foreign oil is concerned is based upon a loaded formula to favor small refiners is also in error.
Mr. DeMaris, Executive Vice President of this association, testified before the Department of Interior at its hearing in Los Angeles in May of 1961 and stated, among other things, that by way of illustrating the demise of the independent refiner in this area, the record of the Bureau of Mines in the California State Board of Equalization reveals that in 1940 there were fifty independent refiners in existence and today that there are less than seventeen.

He further states that these facts will bear out the extreme concern over the import program and illustrate in a sense that the program is relatively more important to the remaining independent refiners than to some of our larger major competitors.

The complexity of this program can best be illustrated by a finding of the Department of Justice, which was incorporated in their civil action Number 11584-C, wherein it was found that ninety-four per cent of the crude oil in this area is owned or controlled by the major oil companies. I have been advised that this control now approximates ninety-eight per cent. In other words, you might say that the typical small refiner of this State is completely at the mercy of his major competitors for the very life blood of his refining operations, namely, crude oil.

I can say without hesitation that without the import program the independent refiner would be nonexistent in this area. I don't think that there is a clearer example in any other industrial area in the United States of the problems confronting a manufacturer who must buy practically all of his raw material, either domestic or foreign, from a competitor many times his size and then attempt by whatever efficient means he has at hand to compete in the open market with that same company.
The immediate and extremely critical problem facing most of the small refiners in this area is a steadily decreasing supply of domestic crude. However, to generalize the condition, the recent purchase of crude oil by the major oil companies has in many instances placed some of these small companies in a position where, due to lack of crude, their operations were temporarily shut down. The only possible way that companies in this predicament can survive is through the medium of increased availability of crude. This problem of increasing nonavailability of domestic crude has pinpointed an inherent weakness. With the cancellation or lack of renewal of a domestic contract, if a small refiner should find himself without an immediate source to replace this loss, this results in a reduction of his runs with a comparable reduction of his foreign crude quota, as computed under the present formula.

With respect to that particular formula, which has been classified by Standard Oil Company as being loaded in favor of small refiners, let's take a look at it. The records show with the first ten thousand barrels of crude oil that is throughput in a refinery, that that refinery will receive fifty percent of the total amount of the input. If he runs between ten and thirty thousand barrels, he will receive presently 25.9 percent of the amount in that classification. This is for both the small and the big, so where is there anything loaded in this formula? If a man has a five-thousand-barrel refinery or a ten-thousand-barrel refinery, he gets the identical same percentage as the giant that is controlling the market in this area, so there isn't anything loaded except in the brain of the giant, who tries to control this market.

Now, with respect to the case that was referred to, that was filed by the Department of Justice, I wish to make
this quotation. In paragraphs 14 and 15 of that complaint, it
states that in January of 1948 there were approximately nine
hundred fifty producers of crude oil in the three producing
areas in California -- that's San Joaquin, Los Angeles Basin,
and the coastal region. Approximately fifty per cent of the
crude oil produced in these three areas is produced by the seven
defendant majors, approximately two per cent by the integrated
independent refiners, and approximately forty-eight per cent by
non-integrated independents engaged only in the production of
crude oil.

It further states that the defendant majors purchased
approximately ninety per cent of the crude oil produced by the
non-integrated producers. These purchases, when added to their
own production, provided defendant majors for refining purposes
with approximately ninety-four per cent of the total amount of
crude oil produced in the Pacific State areas.

The Justice Department stated in paragraph 19:
"Independent refiners of crude oil, when purchasing their sup-
ply, must pay at least the posted price of the posting defend-
ant majors. In many instances they are required to pay a bonus
or premium above the posted prices in order to secure adequate
supply, because of the dominant position of the defendant
majors."

In our opinion, it would appear that in the event
the present proposal, prior to the Chapman-Friedman report, is
approved, that the power of the one successful single combine
could very well unreasonably restrain trade and commerce, in
lessening competition, and in creating a monopoly. It could, in
fact, eliminate all real competition at all levels of the oil
industry and control the competition of independent producers
and refiners. It could make it impossible for independents and
smaller companies to compete effectively; and certainly it would
disourage new capital and new enterprise to enter the petroleum
business in any of its branches in California.

This oil field is reputed to be the largest undevel-
oped proven oil pool in the United States. We believe that
there is an obligation and a duty upon the officers of this
State to encourage that which is best for the public interest,
as well as that which will strengthen our national security and
improve our national defense. We, therefore, believe that the
proposal made by the staff of this Commission is a constructive
step forward, in order to attempt to protect the interests of
the smaller independents.

We believe, however, that the five undivided inter-
est is not sufficient for the purposes that would enable the
smaller refiner to participate and we believe that a more equit-
able and more feasible formula on the division of interests
would be on this basis: Forty per cent for the successful field
operator; two fifteen-per-cent-increments; two ten-per-cent-
increments; one five-per-cent-increment; and two two-and-one-
half-per-cent-increments. On this basis we feel that we can
offer a bid, either individually -- separately or jointly --
and that we will have an opportunity to participate in the
actual ownership and the operation of this particular property.

It is all good and well to set aside a certain por-
tion of the production for the purpose of allowing the independ-
ents to purchase that off; but they are purchasing it primarily
at the artificial or fictitious posted price that is fixed by
four major oil companies that are participating in this area.
We have gone through experiences that have shown that the posted
price does not reflect the true market price of the product;
and this was illustrated in the Suez crisis. When it was
resolved, the price of crude dropped fifty to seventy-five cents a barrel at the market under the posted price of the major oil companies, and I pose the question to you: Why did they not lower what posted price to meet what the actual market price was? And I throw out the suggestion for thought -- the depletion allowance.

We believe that the public policy demands that this State and that the City of Long Beach be not a party to anything that will further monopoly or anti-trust in this area.

Thank you, sir.

MR. CRANSTON: Thank you. Any questions? Thank you, Mr. Goggin.

MR. GOGGIN: Thank you.

MR. CRANSTON: Is there anyone else who wishes to testify? (No response)

MR. CHAMPION: I'd like to offer a motion that in the absence of comment from Long Beach, after all the major partner of the State in this operation, that we instruct the staff to again begin work on the necessary documents along the lines outlined in the staff report, but that any final commitment to these principles be subject, first, to what comments we have from Long Beach, and after the study of today's testimony that will be offered; but I think we ought to get about the work of preparing these documents on the principles that have been outlined here. I think such changes that might come later can be worked into it; but I don't think any time ought to be lost in that work.

MR. CRANSTON: Is there a second to that motion?

GOV. ANDERSON: Second.

MR. CRANSTON: The effect of that motion, as I would interpret it -- I am not wholly clear on what we are doing. The Lands Commission, in effect, tentatively approves the staff
recommendation as outlined in this calendar item; that there is
nothing inflexible in our decision. We recognize we are in part-
nership with the City of Long Beach, and as we took time, and
considerable time, to study what they recommended to us, we
recognize their right and need to have whatever time they need
to examine our thinking on the subject; and there can be further
negotiation and further efforts to come to an agreement if they
find there will be any segments they want to change.

I think the Lands Commission will have the say on the
vote, but we have the need for activity and further action back
on Long Beach's standpoint. Is that a fair statement?

MR. CHAMPION: Yes, it is. I think also we should not
conclude that the Commission itself might not have further exami-
nation of some of the points. There may be some ....

GOV. ANDERSON: I'd like to ask Frank one thing. I
am in favor of the motion, I seconded it; but there is one point
I am not too clear on. What is our present status? What are we
thinking of as to the price we pay to the City and what is the
present view of the staff as far as posted price or average price?
On what basis would the price be determined?

MR. HORTIG: The answer, Governor -- in view of the
fact that there have also been other problems raised with respect
to both applicable price and production limits and standards as
contained in the present agreements, which must be clarified or
desirably should be clarified in order to eliminate any misunder-
standing and any ambiguities -- with respect to price as such,
it is the intention of the staff to recommend including in the
final draft of the documentation some price basis that will
clearly reflect calculations & returns to the State on the
reasonable market value of the production.

GOV. ANDERSON: Now, in our present leases -- not
what we are talking about today, but the other leases -- we are using the current market price, but not less than the highest quoted price?

MR. HORTIG: That is correct. However, even that requires qualification and probably amplification; and in the new contract, because of the question that has been raised heretofore on definition, there is included the term "substantial quantities" and patently there must be agreement on minimum limits of what would constitute substantial quantities. This, at least, would have to be defined additionally, over and above the present definitions.

GOV. ANDERSON: As a result of this motion, then, you will be coming in with a recommendation that you think will meet what I am concerned with here, and at that time we can discuss it back and forth?

MR. HORTIG: That is correct, sir.

MR. GRANSTON: Any further discussion? (No response)

If not, the motion is adopted unanimously by the Lands Commission.

At this point, to spare the girls that are busy taking all this down, we will take a five-minute recess, but we will then seek to complete the calendar.

(Recess 12:30-12:37 p.m.)

(END OF ITEM -- Balance of meeting not reproduced on stencils)