TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA
April 8, 1965

PARTICIPANTS:

THE STATE LANDS COMMISSION:

Hon. Glenn M. Anderson, Lieutenant Governor, Chairman
Hon. Hale Champion, Director of Finance
(Hon. Alan Cranston, Controller, not present)

Mr. F. J. Hortig, Executive Officer

Mr. Alan Sieroty, Executive Secretary to
Lieutenant Governor Anderson

APPEARANCES:

(In the order of their appearance)

Mr. Leonard W. Brock, Petroleum Properties
Administrator, City of Long Beach

Mr. J. Barton Hutchins, representing
Edwin Pauley and Associates

Mr. Harold A. Lingle, Chief Deputy City
Attorney, City of Long Beach

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GOV. ANDERSON: The meeting of the Commission will come to order. The secretary will make note of those present. (Gov. Anderson and Mr. Champion present, Mr. Cranston absent).

The first item is: Proposed oil and gas lease, tide and submerged lands, Santa Barbara County - W.O. 5424 (Parcel 24).

Mr. Hortig, do you want to comment on that item?

MR. HORTIG: Mr. Chairman, the recommendation for award of lease is based on receipt of a bid on March 4, 1965, which was actually also immediately after the closing date for the March agenda of the Lands Commission.

This item appears on this calendar today, inasmuch as there was a meeting of the Lands Commission, in order to shorten the standby time for the lessee and to eliminate the need to wait until the regular meeting on April 29th, since we could take advantage of the opportunity of having a meeting today -- which was set primarily and initially and exclusively for purposes of considering contract approvals at Long Beach.

This is the unique set of circumstances that brings this item before you today, but the bidder having complied with all the procedural requirements of law and the cash bonus payment offered by the bid of Richfield Oil Corporation and Socony Mobil Oil Company, Inc. of $3,667,111 having been determined to have been adequate, the bid is complete as to technical sufficiency and economic factors, and the Office
of the Attorney General has reviewed the bid as to compliance with all legal requirements.

Therefore, it is recommended that the authorization be given for the award of the lease.

GOV. ANDERSON: Why was there only one bid?

MR. HORTIG: Yes, sir.

GOV. ANDERSON: Why?

MR. HORTIG: A combination of circumstances. This, of course, also followed very shortly on the heels of the bids that were submitted in connection with the Long Beach operation -- which involved tremendous amounts of capital from the many companies, most of the operating companies interested in operating in California.

Actually, Richfield is one of the minority contractors in that operation and Socony Mobil is one of the members of the THUMS group for the Long Beach operation.

Additionally, by the nature of their operations, their existing leases, and their exploration conducted on tide and submerged lands, they expressed their definite interest in this particular area by the size of the bid they offered.

GOV. ANDERSON: Had this not come to bid so soon, is there any chance we would have received more bids than so soon after Long Beach? In other words, if this had been put over to a later date, would there be any chance of receiving more?
MR. HORTIG: To the best of our information, no. The evaluation of the economic considerations as to the best appraisal at any time on the open market has been more than met by the bid offered by Richfield and Socony Mobil.

GOV. ANDERSON: I see Richfield has the adjoining properties on each side, which would make them want this more than anyone else. I just don't like the idea of one bid.

MR. HORTIG: By the same token, since they have the adjoining properties on each side, this would be a discouraging element to the operator of an intervening lease as against two adjoining leases under one operator, so the condition applied uniformly so long as these leases are held in these ownerships. Under those circumstances, we cannot even suggest that there would be any advantage in not awarding this lease at this time.

MR. CHAMPION: I'll move approval.

GOV. ANDERSON: I'll second it; carried unanimously. I think from hindsight we might have realized that coming so close on the other bidding, we would have been wiser to have more time between. That was the original idea when we spread these out in parcels — to give the different groups time to rally their money.

The second calendar item is: Approval of plan of development and operations, Long Beach Unit, Wilmington Oil Field — L.B.W.O. 10,155, W.O. 5200.3.1.
Do you wish to explain that, Frank?

MR. HORTIG: Yes, Mr. Chairman. In compliance with Chapter 138, Statutes of 1964, under which management control for future developments of tide and submerged lands in the Long Beach area was made the responsibility of the State Lands Commission, the statute provided for initial development and, indeed, for subsequent development that there must be submitted a plan of development on an annual basis, which would be recommended by the City Council and be approved by the State Lands Commission.

Pursuant to this requirement, such a plan was submitted, adopted by the City Council on March 2, 1965 -- that is, the City Council of Long Beach. The plan is before you as an exhibit in the blue-covered folder you gentlemen have, and basically contemplates the initial approval for drilling of ten wells starting on July 11, 1965 -- excuse me, June 11, 1965 -- which is the expiration of the one hundred-day statutory period also provided in the Act before an operation can be commenced.

The program also contains provisions for initial approval of the drilling of an additional thirty wells, with the specific location and precise details for those thirty wells to be the subject of further Commission approval before the additional operation is undertaken.

Additionally, in the next item to be considered by you gentlemen, is the budget to permit the field development
contractor to actually implement this development plan which is here under consideration; and this budget contem-
plates, in addition to the program for the drilling of the wells, the initial design and commencement of the placement of two of the four offshore islands that are ultimately to be placed for additional drill sites, over and above those on Pier J, an existing pier in the Long Beach Harbor area, which will be used for the initial ten wells as well as the thirty wells already mentioned.

This plan has been the subject of complete discus-
sion and review with the representatives of the Field Oper-
at ing Contractor, with the City of Long Beach, and in particu-
lar with the Department of Petroleum Properties. It has been reviewed by the State Lands Division's technical staff and by the Commission's current consultants, DeGolyer and MacNaughton.

The Commission's consultants are of the opinion, as are the staff, as is the Office of the Attorney General as far as legal factors are concerned, that the plan, together with conditions set forth in the City Manager's letter which is attached as Exhibit B immediately following page 3 of the agenda item before you -- wherein it is stated and agreed that the Lands Commission retains the controls for final approval with respect to the thirty additional wells, final island location for the one island and design location for the one island on which more data must be developed before
there can be an engineering consensus— that subject to
the reservation of these rights and controls to the State
Lands Commission as expressed in the letter, the plan is
sufficient to give the State the effective economic control
over oil operations in the area for the remainder of the
calendar year.

Therefore, it is recommended that the Commission
approve the plan of development and operations, Long Beach
Unit, Wilmington Oil Field, as adopted by the Long Beach
Council March 2, 1965, under Resolution No. C-19276, subject
to the conditions detailed in the letter from the Long Beach
City Manager, dated April 5, 1965, and in light of said condi-
tions, agree that said plan may omit certain of the specifica-
tions set forth in Section 5(a) of Chapter 138, Statutes of
1964, First Extraordinary Session, and in paragraph 5 of
Exhibit C to the Unit Agreement, Long Beach Unit, Wilmington
Oil Field, California.

GOV. ANDERSON: Just to clarify my thinking, then,
we are not in any way giving any approval on the thirty wells,
the second group of thirty wells. This is something that
you will present to us at a later date; is that it?

MR. HORTIG: The specific location, and so forth,
for the wells.

GOV. ANDERSON: We are doing nothing to approve
the thirty wells.

MR. HORTIG: No, sir.
GOV. ANDERSON: So today the approval is strictly for the first ten wells and two of the islands?

MR. HORTIG: The burial two islands, that is correct.

GOV. ANDERSON: Do we know where these ten wells are going to be, exactly? There is an exact understanding as far as you are concerned and Long Beach and the operator where the ten wells are located?

MR. HORTIG: The top and bottom location of all ten wells are specifically set forth.

GOV. ANDERSON: Is there an exact location and description of the two islands?

MR. HORTIG: There is an approximate description and location of the two islands. This is shown on the last map in the blue folder that you have before you, indicating the circles of 600-foot radius within which areas the two islands closest to shore will be located. These locations conform with the City ordinance, which requires the islands to be placed at least two thousand feet offshore, and even if the islands are located at the most shoreward limit of the circles shown as "1" and "2" on the map before you.

GOV. ANDERSON: I thought I heard you use the words "definite location" in your discussion; and we are apparently never going to have a definite description of the locale when we are asked to approve these things.

MR. HORTIG: Yes, sir. For subsequent islands,
When we have more development data, the probabilities are that the plan will pinpoint the center and the major dimensions, and so forth, of the islands.

GOV. ANDERSON: In other words, in the next two islands we will have a more definite understanding where they are going to be than these at the present time?

MR. HORTIG: As it is now, it is reasonably definite in that it is within six hundred feet of a spot on the face of the earth and no closer than two thousand feet offshore. Change of this location within this six-hundred-foot radius circle patently would not change any of the visual impressions anyone would have from shore -- whether it is six hundred feet to one side or six hundred feet to the other -- inasmuch as these islands will probably be of an average size of ten acres of surface area.

GOV. ANDERSON: What control, what consultation, what part do we have in the design of the island itself and what goes on in the later development -- what they wish to do with the islands in addition to putting the wells on there? I am thinking now of marinas; I am thinking of possible resorts, anything they put on them.

MR. HORTIG: Marinas, of course, would ultimately be factors that would only be feasible after the completion of the oil development and the exhaustion of the oil production, simply as a matter of safety. These islands are being constructed in the first instance as necessary locations from
which to develop the Wilmington Oil Field, and these are oil production islands in the first instance. However, under the terms of the City ordinance, there are plans drafted by the Planning Commission of the City of Long Beach, on which the representatives of the City of Long Beach can help give you details, on this Long Beach operation.

GOV. ANDERSON: What part do we play if they wish to do anything at any time? Does it come before us, or do they have control?

MR. HORTIG: I would believe any use other than oil drilling would be an entirely new subject. There certainly must be some degree of control in the Lands Commission.

MR. CHAMPION: To the extent that they use funds whose use is governed by the statute we have, they must come before the Lands Commission.

MR. HORTIG: This is the best control.

MR. CHAMPION: And I would assume any development in those areas would involve funds under this specific law.

MR. HORTIG: That is right. We haven't evaluated this, Governor, for the reason there is no contemplation currently for utilization of these islands other than for oil development, and this must be prosecuted as diligently and efficiently and economically as possible -- because, as the Commission's consultants have already reported to you, any unwarranted delay, any delay that could be avoided, would result in losses of as much as three million dollars a month.
in delay in ultimate revenue recovery to the State. So this also initially would result in revenue loss, or could result in less revenues coming to the City of Long Beach.

Under the circumstances, the Field Operating Contractor, the State and the City have only one common goal at the present moment -- to get oil development going on these islands just as expeditiously and efficiently as possible.

GOV. ANDERSON: Do you have any questions?

MR. CHAMPION: No. I'll move approval of the recommendations of the staff.

GOV. ANDERSON: I'll second them. Any further comments? (No response) Carried unanimously.

MR. HORTIG: Page 4 of your agenda is next.

GOV. ANDERSON: Item 5 -- Investment and expense budget, Long Beach Unit, Wilmington Oil Field, Los Angeles County - L.B.W.O, 10,155, W.O. 5200.3.11.

Do you wish to explain that?

MR. HORTIG: The second phase of the problem is that an approved program in the implementation patently requires the expenditure of money, which is under budgetary control and approval by the City of Long Beach and the State Lands Commission's review and approval, again as provided by Chapter 138 of the Statutes of 1964.

For the development plan which you gentlemen have just approved, a proposed budget has been submitted totaling $13,785,000, which is broken into two periods -- April 1 to
June 11, and June 12 to December 31. The necessity for breaking the approval for expenditures into these periods results from the fact that it is not felt that funds could be legally expended for actual operations prior to the expiration of the hundred-day statutory period specified in "Chapter 138, which will expire on June 11th; but that funds which are necessary for preparation, organization, pre-planning and doing those things that would be done in any event, irrespective of the actual operating decisions made after June 12th, may be properly expended at this time.

Patently, the Field Operating Contractor is intensely interested and does want to proceed with acquisition of staff, establishment of their headquarters for operation, and of committing for purchases particularly of steel equipment which is going to be used under any operating program.

For these features, it has been determined that a budget of $1,572,028 for the period April 1 to June 11 is reasonable and should be approved, with the balance of the funding in the amount of $12,212,972 to be authorized for expenditure after June 12 and prior to December 31, to complete the calendar year 1965 phase of these operations.

This is not to indicate that this will be the only plan or only budget that will be before the Commission this year, but these are the features and the operations of the program on which there is a consensus, which are definitely necessary in order to initiate the development of the
operation under the Field Operating Contract which was let by the City of Long Beach and approved by the Lands Commission.

Therefore, it is recommended that the Commission, pursuant to Section 9.5 of the Unit Operating Agreement, Long Beach Unit, Wilmington Oil Field, approve the "1965 Investment and Expense Budget for the Long Beach Unit," dated April 1, 1965, as prepared by the Field Contractor and submitted by the City as Unit Operator, said budget to be subject to adjustment, in accordance with said Section 9.5, to conform in all respects with the initial plan of development and operation as ultimately adopted, and to be adjusted also to cover any expenditures prior to the adoption of said plan for any items or categories not now included in said budget.

Mr. Chairman, in view of the fact that there seems to be a discussion of a problem between counsel --- Apparently it has been resolved. I will stand on the recommendation I just read.

MR. CHAMPION: I'll move approval of the recommendations.

GOV. ANDERSON: How much did our staff work with them on the preparation of this budget? Is this something Long Beach and the operator worked out, and you looked over rather lightly, or ....

MR. HORTIG: It has been looked over rather heavily, it has been dissected, and alternatives have been considered
by our staff and your consultants.

GOV. ANDERSON: Mr. Sieroty.

MR. SIEROTY: Just to clarify a couple things in here -- I am referring to the blue book here -- let me ask about the item of "Pre-Unit Printing" which is under "Operation and Maintenance" -- a $75,000 item for pre-Unit printing. Does that have to do with the Unit Agreements and the work that was done over the past two or three years?

MR. HORTIG: Yes, Mr. Sieroty. The Unit Agreement itself provided that as a Unit expense, as and when the Unit Agreement became effective -- which it did on April 1, 1965 -- the preparation costs for the documentation that had been necessary for the accomplishment of the Unit Agreement and the additional volumes necessary thereto, specifically the Unit Operating Agreement and Exhibits to the Unit Operating Agreement, would be allocated as a Unit operating expense and would be paid for by all participants in the Unit in the proportions that the Unit participants share ultimately in the revenues from the Unit.

This includes both payments for material which has been prepared by and for the City of Long Beach and also prepared by the State of California, which resulted in the last printing of the Unit documents which the State Lands Commission authorized.

MR. SIEROTY: All right. I'd like to ask another question here as to the "Administrative Allowance," how was
that determined? Was that provided for by statute?

MR. HORTIG: No; this is provided for in the Unit Agreement.

MR. SIEROTY: How is that allocated? It's a $480,000. tea...?

MR. HORTIG: This is correct.

MR. SIEROTY: ... Administrative allowance.

MR. HORTIG: There is a specific provision, if Mr. Pfeil can find it in the Unit Agreement there.

MR. SIEROTY: As I recall, there was a one percent and a three percent figure.

MR. HORTIG: Section 5.15 of the Unit Operating Agreement provided as follows, and I quote:

"Administrative Overhead: In lieu of any charges for any part of the salaries and wages paid managing officers and other employees not otherwise chargeable under the provisions of Article 5 hereof, and any part of the expenses of Unit Operator's and Field Contractor's offices other than the offices provided in other named sections hereof, the Unit Operator shall or on behalf of itself charge an amount equal to one percent and on behalf of the Field Contractor shall charge an amount equal to three percent of the net amounts chargeable to Unit expenses, excluding any other stated costs which are incurred" and which are detailed also in this section.

In other words, the Unit Operator, who in this
instance will be the City of Long Beach and is the City of Long Beach since the effective date of this operation — there will be an administrative overhead charge made from the Unit to the City of one percent and to the Field Contractor of three percent of the amounts chargeable to Unit expenses, which are detailed specifically in the Unit Agreement as to what amounts are chargeable and for what factors and for what services.

MR. SIEROTY: All right. There is an item of $69,000 for "City of Long Beach Production and Business License Fees." I wonder if we could have some explanation of that. What is a production fee? I assume the business license fee is for somebody doing business, but how is it calculated?

MR. HORTIG: It is calculated as far as the well permit fees, which is also an allocation there, the next thousand dollars, on a well basis; and the production tax is a tax which is levied by the City of Long Beach at three cents a barrel on every barrel of oil that is produced within the City limits of Long Beach.

MR. SIEROTY: Is this $69,000 a calculation at three cents a barrel?

MR. HORTIG: That is correct. As to the additional element of "Business License Fees," if I might ask either Mr. Lingle or Mr. Brock to comment on the factors which are included under that heading — —
MR. BROCK: What is that, Frank -- a thousand dollars?

MR. HORTIG: No. The statement is "City of Long Beach Production and Business License Fees." Now, over and above the three-cents-per-barrel production tax, what are the other business license fees which were included in the estimate to bring the total to $69,000 for the budget?

MR. BROCK: That's all. There are drilling permits.

MR. HORTIG: That's the well permit fees, which are set out separately.

GOV. ANDERSON: Then the words "Business License Fees" should have been removed from that, and the $69,000 is all the three cents per barrel?

MR. BROCK: The three cents per barrel is a production license fee.

MR. CHAMPION: In other words, "production" and "business" modify license.

GOV. ANDERSON: I see. It is one fee.

MR. SIEROTY: Do you expect from your calculations over two million barrels of oil produced this year? Is that correct?

MR. BROCK: The last estimate was it would be up to about eighteen thousand barrels a day at the end of the year, so I would assume two million barrels would be reasonable.

MR. SIEROTY: I haven't calculated it here. I
assume what you are saying is the $69,000 is based upon the three cents a barrel. Of course, if you don't produce that many, it's not that big a tax.

MR. HORTIG: That is correct and, therefore, it would not be an expenditure under the budget. It can't be expended for anything else.

GOV. ANDERSON: Any further questions or comments? (No response) It has been moved and seconded the budget items be approved, carried unanimously.

Any further items, Mr. Fortig?

MR. HORTIG: No, Mr. Chairman. Thank you.

GOV. ANDERSON: Any further comments from the audience? If not, the meeting is adjourned.

MR. HUTCHINS: Mr. Chairman ....

GOV. ANDERSON: Mr. Hutchins. We will re-open the meeting for a moment.

MR. HUTCHINS: If you are through, I'll defer and write you a letter.

GOV. ANDERSON: I'd just as soon have you say it now.

MR. HUTCHINS: My name is Hutchins, I am associated with Ed Pauley and Associates. I just think the record ought to show, Mr. Chairman, and we would like it to show that in the future when there is any discussion that comes up with the operating companies and the non-operating companies, we are of the opinion that outside of the THUMS
group consisting of the operators themselves, we would like to be included in any discussions with the non-operators. I know there won't be anything when things are nice and hunky-dory, but we would know in that event there won't be any case of forcing anything down anybody's throat.

GOV. ANDERSON: Mr. Hortig, would you like to comment on that, or the City of Long Beach?

MR. HORTIG: I would like to comment and possibly I think the City of Long Beach would like to comment on it also; and possibly our legal counsel here today, Deputy Attorney General Warren Abbott.

The contemplation under the award of the contracts was very clearly that the operating control, the development of the entire Unit area, would be the responsibility of the Field Operating Contractor, the successful bidder for the eighty percent portion of the field, as directed by the City of Long Beach, as approved and authorized by the State Lands Commission; and that non-operating contractors, by the very choice of the words for non-operating contractors, were not included in any operating committee or executive board or to be included in any of the discussions with respect to how the field operations were to be conducted, in fact, because the non-operating contractors by the nature of their very contract have no voice, no vote, and therefore their participation in any discussions for the field development, it would appear on the general on-going basis, could serve no effective
MR. CHAMPION: Frank, before we go on and try to cover the whole waterfront here -- Mr. Hutchins, just exactly what kind of conversations are you concerned the other interest holders might be involved in?

MR. HUTCHINS: Mr. Chairman, I'd like to answer Mr. Champion's question: Just from the point Mr. Hortig is talking to itself, we appreciate just what he said. We know what the contract says. What I mean is if any of the other non-operators are included that we would like to be, also.

MR. CHAMPION: Equal treatment among non-operators?

MR. HUTCHINS: That's right. We would have the desire to have this one big ball of wax. I know that is the intent now, but thirty-five years is a long way from now. For the first meeting on this purpose, I'd like this on the record.

MR. LINGLE: I think it appropriate that the City comment. This is the first time we knew that anybody had a complaint. We asked the Field Contractor, as the Field Contractor was going to have to advance the money, and we had discussions with the Field Contractor and with your consultants, but not with any non-operating contractors.

I think in future we will. We were breaking our backs trying to get this thing out and if they feel slighted in any way, the oversight would make money for them and money for you. I want to assure you we didn't talk to anybody and
believe in equal treatment of all.

MR. HUTCHINS: Mr. Chairman and members of the Commission, we have no complaint at the present time, but we would like to be sure there is no basis for complaint in the future. I know Long Beach has every intention of doing just what Mr. Lingle said. I just wanted to put it on the record at the first meeting you had for this purpose, so we will be able at all times to do the same thing for the same reason that the City and the staff of your Commission are looking forward.

GOV. ANDERSON: Thank you. No further comments, the meeting is adjourned.

ADJOURNED 11 A.M.

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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing twenty pages contain a full, true and accurate transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held in Sacramento, California, on April 8, 1965.

Dated: April 9, 1965.

/s/ Louise H. Lillico