TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

March 11, 1966
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PARTICIPANTS:
THE STATE LANDS COMMISSION:
Hon. Alan Cranston, Controller, Chairman
Hon. Glenn M. Anderson, Lieutenant Governor
Hon. Hale Champion, Director of Finance

Mr. F. J. Hortig, Executive Officer

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

First item is: Proposal to enter into Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County - W. O. 5200.510.

Frank?

MR. HORTIG: Yes, Mr. Chairman. The Commission will recall that Richfield Oil Corporation, now Atlantic Refining by merger on December 9, 1965, submitted high bid as shown on Exhibit A of your agenda, page 3, offering a bid percentage of 23.677 percent as a limited over-ride to be paid on the first six million barrels of oil produced from the tract, in addition to the basic bid percentage of 96.25 percent of the net profits attributable to the contractor.

The net result of this bid is that the successful bidder will pay somewhere on the order of one hundred one percent of the net profits on the oil that is produced from this tract to the State of California.

This tract is of particular interest to the State in that here the minerals are owned entirely by the State and there is no allocation of any of the profits from this operation to any other governmental agency, but these will be remitted as all oil and gas revenues which are produced for the account of the State through the State Lands Commission.
It is recommended that the Commission accept the bid and authorize the issuance to Atlantic Refining Company, as successor in interest to Richfield Oil Corporation, the Tract No. 2 Agreement, as detailed in the recommendation before you. The bid percentage has already been discussed, and the Executive Officer should be authorized and directed to execute the Unit Agreement and Unit Operating Agreement on behalf of the State of California as to the State's portion of the offshore area;

And the successful bidder should be directed, within fifteen days of this award and the execution of the Tract No. 2 Agreement by the State, to complete execution of the Unit Agreement and Unit Operating Agreement, Long Beach Unit, Wilmington Oil Field, California, with respect to the parcel including Tract No. 2; and within fifteen days of such award to execute and deliver to the State Lands Commission the performance bond required under Article 24 of the Tract No. 2 Agreement.

GOV. ANDERSON: So move.

MR. CHAMPION: Second. I'd just like to ask a couple questions about this.

I assume the one hundred one percent really goes to the theory on which this bidding has been conducted -- that it is done in view of the secondary benefit of what is to be done with the oil, not asking the company to pay us more money than the oil is worth to them. The theory of bidding more
than one hundred percent is that they want the use of the oil.

MR. HORTIG: This is the only reasonable assumption.

MR. CHAMPION: What is the estimate of the yield on
this basis to the State? Do you have an estimate?

MR. HORTIG: I don't have a dollar figure in mind.
This is, very roughly, within a possible dollar-a-barrel net
value and a potential production of seventy million barrels
of oil -- this could be in the order of seventy million
dollars.

MR. CRANSTON: What would be a rough figure of
the possible value?

MR. HORTIG: Seventy million dollars.

MR. CHAMPION: As a net profit figure?
MR. HORTIG: Right.

MR. CHAMPION: Those are the only two questions I
had.

MR. CRANSTON: Have you seconded the motion?
MR. CHAMPION: Yes, I have.
MR. CRANSTON: The motion is moved, seconded and
if there is no discussion it is unanimously approved.

Calendar Item 2 -- Proposal for restrictive purchase
of submarine line pipe, Long Beach Unit, Wilmington Oil Field.

MR. HORTIG: At the meeting of the Commission on
March 1, 1966, the Director of Finance asked specifically
whether any engineering investigations had been made to satis-
yfy the question of whether this is a genuine problem --
whether cost alternatives had been explored; how much might be paid for an additional amount of protection that might or might not be required.

The answer at that time was these had been explored and had been evaluated, but that due to the press of time it would probably be preferable to report on these items in greater detail at the next meeting of the Commission, which was then set for March 11th, and which is the meeting where we are here today.

In summary, and in confirmation of what was reported on March 1st with respect to the recommendation that purchases of pipe to be used for submarine pipelines for the gathering system from the offshore islands to convey the oil across the harbor area in Long Beach to the mainland, a confirmation of the justification on further review has been outlined in summary on page 2 of the agenda item before you, in which it is stated:

That well casing and tubing purchased from foreign manufacturers and selected to meet the minimum specification standards specified by the American Petroleum Institute is satisfactory for subsurface well installations where pipe failures cannot hazard the general public health, welfare, and safety.

Two, that experience of a major testing laboratory has shown that pipe of foreign manufacture has a notably higher incidence of rejection, particularly at operating
levels above minimum specifications, than domestically produced pipe, indicating that procedures of manufacture, testing, and shipping by United States mills generally provide quality above minimum specifications.

Three -- The estimated cost for the total submarine project (this is a recommendation for a one-time purchase, a one-time contract, a bid contract election only) is $400,000 compared with at least $40,000,000 to be expended for well casing and tubing, all of which to date has been purchased, or the majority of which has been purchased, on competitive bid from foreign sources. No practice will be established in the purchase of pipe for submarine lines which could be alleged to have further mandatory applicability to the project.

Four -- The maximum price differential estimated by foreign suppliers is about $40,000. Such additional amount for domestic pipe appears to be justified as insurance, particularly in consideration of the public health and safety hazards from a harbor submarine pipeline installation, and even the high cost of elimination of contamination resulting from any line failure.

Reference should also be made, as pointed out by the Attorney General's Office, to the fact that judicial decisions have extended the law of manufacturers' warranty to the point that a mill could be held responsible for damages arising out of failure of its pipe for intended use. A judgment against
a foreign mill might be more difficult to obtain and, cer-
tainly, to enforce as against delivery from a domestic mill.

  Under these circumstances, then, it is the opinion
of the staff, as it was on March 1st, that it should be recom-
mended that the Commission modify the resolution of September
23, 1965 to permit the field contractor for the Long Beach
Unit to limit bidding for line pipe required to construct sub-
marine pipelines for the four offshore islands to pipe manu-
factured in the United States.

  I point this out -- that in doing this, if we were
to purchase this from a foreign concern we might have saved
as high as ten percent, $40,000; but in order to protect the
waterfront, the beaches, and general welfare there, we are
willing to expend that additional amount...

  GOV. ANDERSON: As insurance?

  MR. HORTIG: This would qualify as insurance.

  GOV. ANDERSON: I think it should be made clear in
this case that we are going to that expense as protection to
the people in that area, as protection against breakage of
that line pipe.

  MR. CHAMPION: Under this we would continue to use
lowest cost pipe in areas where there is no possibility that
it would affect the public -- that is, casing?

  MR. HORTIG: This is the case.

  MR. CRANSTON: There is no precedent that would
apply to future pipe purchased?
MR. HORTIG: No.

MR. CHAMPION: I'll move approval.

MR. CRANSTON: Is there any discussion? If not, approval is unanimous.

Calendar Item 3 -- Proposed legislation -- relief to State from payment of local leasehold taxes assessed on State's interest in not-profit oil and gas contracts.

MR. CHAMPION: Mr. Chairman, I'd like to ask that this item go over to the next session. I have not yet completed review of what the impact would be, what the legal situation is, with respect to the need to act on this at the special session, or whether this is a matter that might be carried over.

I'd like to ask the Commission to extend it to the next meeting, which is March 31st. I can report on that situation then.

MR. CRANSTON: If there is no objection, that will be the order.

Finally, Calendar Item 4 -- Approval of Lybrand, Ross Brothers and Montgomery, Certified Public Accountants, to study the State Lands Division audit function and recommend improved procedures and work measurements.

Frank?

MR. HORTIG: Mr. Chairman, this recommendation for a contract for conduct of an independent study of audit procedure of the State Lands Division is recommended on the
basis of three primary factors:

First, the State Lands Division has, as a result of
association with the Long Beach Unit oil development, of
necessity increased interest and must apply increased emphasis
on net profit interest contracts; and these contracts require
a more diversified approach to auditing than the royalty con-
tracts that the Lands Commission has dealt with almost ex-
clusively before -- an approach more akin to public accounting
than government auditing.

The second factor is that cooperation in a joint
venture such as the oil development in the City of Long Beach
requires the closest coordination of auditing effort to pre-
vent needless duplication while still protecting all parties'
interests.

Thirdly, an independent survey in depth has never
been made of the whole State Lands Division auditing function.
As a matter of fact, this has been the subject of question
both by the Auditor General, as well as the Audits Division
of the Department of Finance.

In addition, such study would be timely now because
the supervisor of the State Lands Division audit section re-
tired in January 1966; and the position has not been filled
in anticipation that the manner of billing and the scope of
audit programs that would be undertaken under such supervision
could be redirected as a result of an independent audit study
by a contracting auditing firm.
Therefore, leading public accounting firms were solicited for proposals. Four responses were received and on evaluation of these responses by the Lands Division -- also reviewed by the Division of Audits of the Department of Finance; also reviewed by the General Services Department as to the desirability -- it is recommended that the Commission authorize the execution of a service contract with Lybrand, Ross Brothers and Montgomery, Certified Public Accountants, on behalf of the State Lands Commission as contractor, providing for an independent study of the auditing program and responsibilities of the State Lands Division as set forth in that company's bid proposal of February 21, 1966. The maximum amount of the contract is not to exceed $10,500 -- which is an amount which has been provided and is in the budget of the State Lands Division, available for contract services.

GOV. ANDERSON: I move it.

MR. CHAMPION: Second.

MR. CRANSTON: Is there any discussion? If not, approval is moved, seconded and so ordered unanimously.

That finishes our agenda?

MR. HORTIG: Yes, sir, until the 31st of March.

MEETING ADJOURNED 3:35 P.M.

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CERTIFICATE OF REPORTER

I, LOUISE H. LILlico, reporter for the Office of Administrative Procedure, hereby certify that the foregoing nine pages contain a full, true and accurate transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California, on March 11, 1966.

Dated: Los Angeles, California, March 15, 1966.

[Signature]
LOUISE H. LILlico