PARTIAL TRANSCRIPT
OF MEETING
OF
STATE LANDS COMMISSION

LOS ANGELES, CALIFORNIA

November 30, 1967

RE: LONG BEACH ITEMS
MR. SMITH: Item 6 Classification - City of Long Beach. What is this item, Mr. Hortig?

MR. HORTIG: Item (a) represents an application on behalf of the current companies of the THUMS corporation operating under the field operating contract from the City of Long Beach for a transfer of assignment of an oil production payment, under which moneys will be advanced by the Security First National Bank to the field operating contractor, the loan to be repaid from future oil production.

In a transaction of this type, by the terms of the contract, it requires approval both by the City of Long Beach and by the State Lands Commission.

MR. SMITH: This is Item 6(a)?

MR. HORTIG: And it is recommended Item 6(a) be approved.

MR. SMITH: Any objection to Item 6(a)?

MR. SHEEHAN: No objection.

MR. SMITH: Item 6(a) is approved. 6(b)?

MR. HORTIG: Item 6(b) is a request for approval of the Eighth Modification of the 1967 Plan of Development and Operations and Budget for the Long Beach Unit, under which the THUMS corporation is proceeding with the development of the field, through drilling and operation. The approval requested is such that the total amount of funds authorized to be expended during 1967 would be reduced by an amount of $1,492,345.
MR. SMITH: What effect does this have on the number of wells being drilled and the income?

MR. HORTIG: In inverse order, Mr. Chairman, the number of wells proposed to be drilled as a result of the application for the Eighth Modification is reduced from the number of wells which was estimated could be drilled or would be drilled during 1967 at the time of the original budget approval.

Necessarily, then, in any period of time with fewer wells there will be a concurrent reduction in the estimated amount or concurrent reductions from the amounts previously estimated, and reduction in production patently must be reflected ultimately by lower revenue to the State.

In addition, there is the difference in the proposed Eighth Modification indicating that the unit costs of the remaining wells to be drilled will be greater per well than originally estimated for the 1967 budget; and this, in turn, of necessity would result in an ultimate and comparable reduction in net profits in the future.

MR. SHEEHAN: Is there an explanation as to why this has taken place?

MR. HORTIG: A combination of circumstances -- the differences in estimates by the field operating contractor based on his experience in the last year, when estimates were reduced at the beginning of the year in view of the prior year's experience.
Again, it turned out that the estimates possibly were on the optimistic side from the standpoint of the amount of time that would be required to drill. The operator simply could not conform to his own time estimates for drilling wells nor to the cost estimates for drilling wells.

These estimates are furnished by the field operating contractor as his estimate of his productivity and capability at the beginning of the year and prior to the beginning of the year for an operating budget; and we have here the difference between ten months of actual experience in 1967, as against what was estimated in October of 1966 would be the condition.

MR. SHEEHAN: Is there anybody here from THUMS who would want to explain this further?

MR. LINGLE: I am Harold Lingle, Deputy City Attorney from the City of Long Beach. We do not have the attorney from THUMS here.

My understanding, sir, of the reasons why we are drilling fewer wells than was estimated in October is that we have the maximum number of rigs that we can and that we are drilling all the wells that we can get on those islands. We couldn't get any more there.

The per-well cost has gone up some because we are after deeper production. We are after a deeper and more productive zone. So the actual drilling cost is somewhat higher, but we are after the most prolific pay we can get.
right now.

The October estimate last year was affected by strikes and some other details which disrupted our estimate of income. However, the production estimates made along in June of this year were almost on the nose. Since we got rid of the strike problem, since we have been able to drill and know a little bit more about the field than we did before, the estimates, the estimates as to where we should drill and where the income would be best seems to be all right.

MR. SHEEHAN: What does this do to your target date so far as completion of the field, completion of the number of wells that are going to be dug?

MR. LINGLE: Well, you know, it isn't like building a house. If we had known in October where the best place was to drill the wells, it would have been fine. Maybe we wouldn't have drilled the wells at that point until we got more information. So I can't tell you that, sir. If we were out to build a house, fine -- because we could lay out all the blueprints. If we knew everything there was to know about the substructure of the earth, I would hazard an answer.

We don't think it is going to disrupt anything seriously.

MR. SMITH: What is the recommendation of the staff?

MR. HORTIG: Well, the recommendation of the staff is that, inasmuch as it is absolutely necessary for the continuation of the Plan of Development that the Eighth Modification
which has been requested be approved, it be approved.

MR. SHEEHAN: I'll so move at this time.

MR. SMITH: There being no objection, Item 6(b) is approved.

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