INDEX

Members Present

Proceedings

Calendar Item: Approval of the Award of the Crude Oil Sales Contract for Sale of 8 percent of the Crude Oil, Long Beach Harbor Department Tidelands Parcel, City of Long Beach, Los Angeles County

Adjournment

Reporter's Certificate

---000---

PETERS SHORTHAND REPORTING CORPORATION

50 COLLEGE TOWN DRIVE SUITE 213
SACRAMENTO, CALIFORNIA 95825
TELEPHONE (916) 383-3001
MEMBERS PRESENT

Mr. Sid McCausland, Presiding Member
Ms. Betty Jo Smith

STAFF PRESENT

Mr. William Northrop, Executive Officer
Mr. W. M. Thompson
Mr. Alan Hager
Mr. Jack Rump
Mr. Michael Crow
Ms. Diane Jones, Commission Secretary

ALSO PRESENT

Mr. N. Gregory Taylor, Assistant Attorney General
Mr. John Jervis

--000--
PRESIDING MEMBER MCCAUSSLAND: The meeting will please come to order.

MR. TAYLOR: May the record reflect that the two commissioners that are present and voting are Sid McCausland and Betty Jo Smith. Mr. Jervis from the Controller's office is present but is not voting today. He is here in the capacity as an observer.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, we are here this morning in response to the notice for inviting bids on the 1978 crude oil sales contract on the Long Beach Harbor development tidelands sell-off parcel, the 8 percent increments. These bids were submitted to the Office of City Clerk, City of Long Beach on August the 4th for an offer to execute a crude oil sales contract covering that same 8 percent.

Mr. Hager from the Attorney General's office would report further on this item.

MR. HAGER: The way the bidding was set up is that we are asking the bids to execute the contract. Four bids were received. In that case the bidding form said that lots would be drawn to determine the successful bidder. Four bids were received; lots were drawn.

The first one picked is a company called Petroleum...
Energy Distribution.

PRESIDING MEMBER MCCAUSSLAND: Is that one of the seven sisters?

EXECUTIVE OFFICER NORTHROP: As far as we can ascertain, it is an independent broker who is in the process of establishing his own refinery. At the present time we have an indication that Macmillan Ring Free Oil Company of Long Beach—or Los Angeles, would take the oil in the interim period until the contract is okayed. So to answer your question, I don't think so.

PRESIDING MEMBER MCCAUSSLAND: Thank you.

MR. THOMPSON: Possibly for the record we should get in the order of sequence, because there were four bidders and we had to draw by lots.

PRESIDING MEMBER MCCAUSSLAND: I would appreciate that.

MR. THOMPSON: The first bidder was Petroleum Energy Distribution, 700 South Flower, Suite 1220, Los Angeles, California 90017; Century Oil Management, Inc., 1538 North Century Boulevard, Santa Ana, California 92703; McCauley Oil Company, P. O. Box 16014, Long Beach, California 90606; Sunland Refining Corporation, 1017 LaCienega Boulevard, Los Angeles, California 90069.

In case of default by any of the previous ones, then we would merely go down that particular order. Since
all the bids were identical at ceiling price, then the competitive bidding portion had to be resolved by drawing by lot then.

MR. HAGER: A financial statement was requested and submitted by Petroleum Energy Distribution. They are in the process of obtaining a letter of credit from the United California Bank as required by the contract. We talked with the bank this morning, an officer in the Bakersfield branch. He says he has discussed it with them, but they have not received a formal application yet. When they do they will consider it, and they have not acted on it.

The contract itself requires that they furnish the letter of credit before delivery commences; and that would be a prerequisite to their being awarded the contract by the City. In other words, it's a precondition to starting the contract. If they don't provide the letter of credit, they haven't complied with the provision for obtaining the contract.

MS. SMITH: Have you heard from Powerine? Have they elected to do anything?

MR. HAGER: We have determined that we have to give them notice of a bona fide offer, and it was our feeling that this should be an offer that could be accepted. Therefore, before we made the notification to Powerine, we
would submit the proposal to the State Lands Commission, which we are doing today, for their consideration. And only if we have an approved contract that the City could enter into, then we would issue the letter to Powerine. I am informed by the City that should the Commission approve this today, today a letter will go out to Powerine. And I believe, though I do not know as a fact, that that will be hand delivered today, and they would then have 15 days from today to make their decision whether or not they will choose to meet the price offer.

MR. THOMPSON: The Long Beach City Council is also acting on this today, and the action by the Long Beach City Council and the Commission completes that bona fide bid; and the letter has been drafted, and it will be delivered either today or tomorrow. That will start the 15 days.

MS. SMITH: Have you also requested financial statements from the other three companies? or will you be waiting until you fail to be satisfied with the financial--

MR. THOMPSON: We already have financial statements on two of the other companies that were submitted with their bids. But we wouldn't put those through this particular system unless they would come up in sequence.

MS. SMITH: Right. But you will be collecting all the information in the meantime, in case you have to move down the line of bidders?
MR. THOMPSON: Yes, because the next one up has a financial statement attached to it, which is Century Oil. And they all had to deposit $24,000. Those checks are still held by the City of Long Beach.

EXECUTIVE OFFICER NORTHROP: And none of them elected to pick up their $24,000 after the bid.

MR. HAGER: Betty Jo, may I make one statement.

If Petroleum Energy Distribution doesn't appear to be able to meet the letter of credit requirement, we would come back to the Commission for the next one; because the calendar item is asking you—recommending approval of the contract to this particular company, not asking you to—

MS. SMITH: Yes, I understand that. Except when you come back to us, wouldn't it be more expedient if you already had the financial statement and the letter of credit on the second bidder?

MR. THOMPSON: Yes. We will expedite everything if we have to come back with a second bidder, in the interests of time.

PRESIDING MEMBER MCCAUSLAND: I did not read the calendar item to be bidder specific. I read the calendar item to be approval of the contract form, the bid process form, and sequencing of the bids by lot.

MR. THOMPSON: Exhibit "A" that's attached is actually a specific company.
MS. SMITH: I see.

PRESIDING MEMBER MCCAUSLAND: All right. I stand better informed.

EXECUTIVE OFFICER NORTHROP: You did not have Exhibit "A" when you got the other one. That may explain it.

PRESIDING MEMBER MCCAUSLAND: I believe I have Exhibit "A" with a blank page.

EXECUTIVE OFFICER NORTHROP: You did not have Exhibit "A."

PRESIDING MEMBER MCCAUSLAND: Let the record note that I understand that the material handed to me at the meeting today is more detailed than the background material which I read last night. But in substance it's the same. It's just that it now is company specific.

MR. THOMPSON: The caveat form has been the same as you saw before. The only thing that has been added is that specific letter from the number one lot.

MR. HAGER: Since the approval is for a specific contract, that contract would have to be the essential element in this part.

PRESIDING MEMBER MCCAUSLAND: I appreciate the clarification.

Is there any further discussion on the proposed contract?

MS. SMITH: I have one question. Who reviewed the
financial statement submitted by Petroleum Energy Distribution?

MR. THOMPSON: The City of Long Beach and our staff will shortly review it.

MS. SMITH: It has not been reviewed yet?

MR. THOMPSON: We have reviewed it, yes. Would you like to see the financial statement?

MS. SMITH: No, I just want to know whether or not you found any problems—

MR. THOMPSON: Not at the present time.

MS. SMITH: --with the assets and liabilities.

MR. THOMPSON: The main financial responsibility we would look to would be the $400,000 letter of credit.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I think for the record I would like to submit a letter from CORCO, who indicates that they would have also bid on this oil. However, there is a lawsuit that's been filed in Washington by Exxon, Mobil, and Texaco where the relief that they would hope to get for exporting California crude oil to Puerto Rico is being challenged. We would like to discuss that lawsuit in executive session. But they indicate they would have bid also on this parcel if that lawsuit hadn't been a factor.

PRESIDING MEMBER MCCAUSLAND: And if they had bid, that would be another company added to the list?
EXECUTIVE OFFICER NORTHROP: That would be a fifth company.

PRESIDING MEMBER MCCAUSSLAND: But in reality, all companies would have been subjected to the same process of drawing by lot?

EXECUTIVE OFFICER NORTHROP: That's correct.

PRESIDING MEMBER MCCAUSSLAND: There would have been no test of financial strength in terms of ranking bids. All bids have equal footing in the process?

EXECUTIVE OFFICER NORTHROP: That's right.

MR. THOMPSON: But this is another step in this long process of having an oil sell-off. And I know present members here are probably sick and tired of this. You've been in on this for three or four years. But the staff has been involved in this for over seven years.

PRESIDING MEMBER MCCAUSSLAND: You look tireder than we do.

(Laughter.)

MR. THOMPSON: I think we are coming up pretty soon on about the anniversary of the time that the Attorney General of the United States served notice on the existing Commission at that time, a stay order to stop an action on the sell-off in 1971, I believe. They were served that about 9:30 in the morning when we were trying to approve a sell-off. So we have been arguing sell-offs for a good many years.
here. We have been in and out of court.

EXECUTIVE OFFICER NORTHROP: Probably it's well
to note here that this sell-off follows on the heels of an
offer somewhat less than six months ago, in which we had no
response at all. So it has to mean that the response of
four, plus the indication of a fifth, indicates that the
recent change in DOE regulations has had no small effect on
the sell-off.

PRESIDING MEMBER MCCAUSLAND: Would you like to
restate that in an affirmative fashion for the record, since
it was a significant statement.

EXECUTIVE OFFICER NORTHROP: I think the changes
in the DOE regulations have had a positive effect on our
sell-offs. We got responses this time that we did not have
in the past.

MR. THOMPSON: Conversely, the postings that came
out in June have not increased with the ceiling price
increases in July and August. Therefore, we may be pegged
at a flat level, a posted price, with the ceiling price going
up. And that, again, is the reasoning for going into a
sell-off.

EXECUTIVE OFFICER NORTHROP: The staff is looking
now at the possibility of releasing other increments for
sell-off because while it's obvious we did get a price
increase, it does not reflect the true market value of the
oil.

MR. THOMPSON: Then again, you realize that if Powerine comes back in and decides to pay the ceiling price, they again would maintain and would now have a contract for this period of time, and Energy Distribution would not be one we would take.

PRESIDING MEMBER MCCUSAULAND: It is the recommendation of the staff that the Commission, acting pursuant to Section 10(a) of Chapter 29, Statutes of 1956, 1st Extraordinary Session, approve the proposed contract for the sale of the 8 percent portion of the oil allocated to the Long Beach Harbor Tidelands Parcel, which contract is attached hereto as Exhibit "A," and approve the awarding of that contract by the City of Long Beach to the successful bidder recommended by the City and the Commission's staff, provided that this contract shall not be awarded until the present purchaser of the 8 percent portion of the oil has been given the opportunity to meet and fails to meet within 15 days the price offered by the successful bidder.

Is there any further discussion?

MS. SMITH: No.

PRESIDING MEMBER MCCUSAULAND: Would you like to make a motion on this.

MS. SMITH: Yes. I move the adoption of the staff's recommendation.
PRESIDING MEMBER MCCAUSSLAND: The chair will second it. All those in favor say aye.

MS. SMITH: Aye.

PRESIDING MEMBER MCCAUSSLAND: Aye.

Opposed, nay.

The ayes have it.

Let the record reflect that the Commission alternates Smith and McCausland approved the calendar item as recommended by the staff.

Is there any further business?

If not, we will adjourn to executive session and discuss pending litigation.

(Thereupon the State Lands Commission special meeting was adjourned at 10:55 a.m.)

---000---
CERTIFICATE OF SHORTHAND REPORTER

I, NANCY L. HOLLER, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing State Lands Commission meeting was reported in shorthand by me, Nancy L. Roller, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting, nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF I have hereunto set my hand this 3rd day of September, 1978.

Nancy L. Roller
Certified Shorthand Reporter
License No. 3882