

MINUTE ITEM

21. 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.

Senator Virgil O'Sullivan, Chairman of the Special Subcommittee of the Senate Research Committee; Assemblyman Joseph M. Kennick, Chairman of the Assembly Committee on Manufacturing, Oil and Mining Industry; and Assemblyman C. George Deukmejian were present for most of the Long Beach Unit considerations.

The Executive Officer presented Calendar Item 19, copy of which is attached, informing the Commission of the pendency of Senate Resolution 100, and read into the record communications from the following:

1. Antitrust Division of the United States Department of Justice, Washington, D. C. - letter dated March 19, 1963.
2. Pauley Petroleum Inc. - letter dated March 20, 1963.
3. Signal Oil and Gas Company - letter dated March 26, 1963.
4. Standard Oil Company of California, Western Operations, Inc. - letter dated March 27, 1963.
5. Richfield Oil Corporation - letter dated March 27, 1963.

Those taking part in the discussion which followed included:

Alan Cranston, State Controller, Chairman of State Lands Commission
Glenn M. Anderson, Lieutenant Governor, Member of State Lands Commission
Hale Champion, Director of Finance, Member of State Lands Commission
F. J. Hortig, Executive Officer of State Lands Commission
Jay L. Shavelson, Deputy Attorney General
Senator Virgil O'Sullivan, Chairman, Special Subcommittee of the Senate Research Committee
Raymond Kealer, City Councilman, City of Long Beach
Gerald Desmond, City Attorney, City of Long Beach
Harold A. Lingle, Deputy City Attorney, City of Long Beach
L. W. Brock, Petroleum Properties Administrator, City of Long Beach
M. N. Mayuga, Chief Petroleum Engineer, Long Beach Harbor Department

The following documents were submitted for inclusion in the written record of this meeting:

Comments by City of Long Beach relative to statement of Mr. L. E. Scott, Pauley Petroleum Inc., to the State Lands Commission meeting of February 28, 1963.

List of companies and individuals who have received unit agreements and letters of notification - from the Office of Leonard W. Brock, Petroleum Properties Administrator of the City of Long Beach.

Copies of letters from Leonard W. Brock to Pauley Petroleum (dated December 7, 1962); to Shell Oil Company (dated December 27, 1962); to Continental Oil Company (dated September 4, 1962); to Texaco Inc. (dated September 20, 1962).

Comments by the City of Long Beach on the statement by D. E. Clark, Shell Oil Company, at the State Lands Commission meeting of February 28, 1963.

A Comparison of Wilmington Posted Price by Standard, Mobil & Union Oil Companies.

Statement by W. A. Foraker, President, Orion Oil Company, to State Lands Commission hearing in Sacramento on March 28, 1963, requesting change in the Equity Committee membership requirement for upland working interest owners, Long Beach Unit.

Mr. Johnny Mitchell, President of the Jade Oil Company, expressed his views to the Commission, and read into the record two letters which he had directed to the Executive Officer of the State Lands Commission.

The Lieutenant Governor asked that the record show explicitly that he had requested complete evaluation, and industry and Long Beach testimony at the appropriate time in the Commission's proceedings, on four factors; i.e.,

1. A provision for sell-off of $12\frac{1}{2}\%$ of production which has been suggested, including evaluation of the pricing bases and contract term.
2. Possible market control as it could develop from contracts under consideration.
3. The advantages and disadvantages of unitization of Tract 2, the Alamitos Beach State Park, with Tract 1 now under consideration for development.
4. Evaluation of necessary specifications in any contract bid as to disclosure of production allocation between joint bidders, and the desirability of retention of Commission control through advance approval of any future adjustments of such allocations.

(For complete details, see reporter's transcript, Calendar Item 19, Meeting of the State Lands Commission, March 28, 1963.)

The staff was directed by the Chairman to meet with representatives of industry, the City of Long Beach, and other interested parties to review all facets of the proposed contract and report back to the Commission.

Attachment

Calendar Item 19 (2 pages)

CALENDAR ITEM

19.

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.

At the State Lands Commission meeting of February 28, 1963, the documents relating to the Long Beach Unit of the Wilmington Oil Field were considered. Several requests for related technical and legal information were made by the Chairman of the Special Subcommittee of the Senate Research Committee, and Senator Dolwig, who were present at the meeting.

In answer to these specific requests, the staff has submitted the following information to Senator Virgil O'Sullivan, Chairman of the Special Subcommittee of the Senate Research Committee, on the dates noted:

1. A complete history and royalty analysis of State Oil and Gas Lease P.R.C. 186.1. Forwarded March 18, 1963.
2. A legal memorandum prepared by the Office of the Attorney General dated March 22, 1963, relative to ad valorem tax consequences of the proposed Field Contractor Agreement, Long Beach Unit. Forwarded March 25, 1963.

The following information was furnished Senator Richard J. Dolwig on the dates noted:

1. A legal memorandum prepared by the Office of the Attorney General dated March 22, 1963, relative to the seaward boundaries for Tracts Nos. 1 and 2 of the proposed Long Beach Unit. Forwarded March 25, 1963.
2. A review of the revenues and expenditures related to the City of Long Beach Tideland Trust operations for the period February 1, 1956 through December 31, 1962, including estimated costs for future projects. Forwarded March 25, 1963.

At the meeting of February 28, 1963, Mr. D. E. Clark, representing Shell Oil Company, apprised the Commission of his company's opposition to, or questioning of, certain provisions of the Unit Agreement as follows:

1. It is their belief that Article 6.3, which provides for additions of public lands to the Unit by resolution of the City Council of the City of Long Beach could deprive the City and the State of substantial future income and would favor certain operators over others.

In reply to the above contention, the Office of the Attorney General has issued a memorandum to the State Lands Commission dated March 22, 1963, wherein they state:

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"It is our opinion that under the present proposals, the State Lands Commission would retain the power to approve the terms of any such agreement for the joinder of additional public lands in the Unit, and thus to prevent their inclusion upon terms unfavorable to the State. This would be true regardless of any finding by the City Council as to subsidence danger."

B. The question of the legality of Article 16 of the Unit Agreement relating to relief of Unit obligations and surrender of Working Interests, in two respects:

1. As applied to the City, Mr. Clark questioned whether these provisions might not involve a violation of the prohibition against alienation contained in the legislative grants.
2. Mr. Clark also questioned the validity of the option right contained in Article 16 (whereby continuing Participants may elect to acquire the interest of a withdrawing Participant) under the rule against perpetuities.

In answer to the above question, the Office of the Attorney General by memorandum dated March 22, 1963, states that:

"It is our opinion that Article 16 may not be construed so as to allow the City to convey any interest in Tract No. 1 in violation of trust conditions."

and also that:

"It is our opinion that the 'option provision' in Section 16.1 does not violate the rule against perpetuities, although it may be operable for a period in excess of a life in being plus twenty-one years."

Discussions at the meeting of February 28, 1963, which followed a presentation made by Mr. L. E. Scott, representing Pauley Petroleum, regarding monopolistic control of California production if Tract No. 1 is committed to contract in one parcel, have warranted further review. Accordingly, representatives from the Office of the Attorney General, the City of Long Beach, and the State Lands Commission conferred with the Chief of the Los Angeles office of the Anti-Trust Division, United States Department of Justice, to explain the essential factors relative to the proposed Long Beach Unit contracts. Subsequently, the Executive Officer invited the Chief of the Los Angeles Anti-Trust Division to attend the March 25, 1963, State Lands Commission meeting to present his comments and suggestions. However, the Assistant Attorney General, Anti-Trust Division, U. S. Department of Justice, Washington, D. C., has by letters, submitted comments and procedures which the staff suggests to be read into the record, since these are considered to be of mutual interest to those in attendance.

Further staff studies of the pertinent factors contained in the Unit documentation and reviews with industry of the primary issues are continuing.