

MINUTE ITEM

2. DRILLING AND OPERATING CONTRACT (LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL) BOARD OF HARBOR COMMISSIONERS, CITY OF LONG BEACH, WILMINGTON OIL FIELD - L.B.W.O. 10,190.

The Chairman introduced Senator Virgil O'Sullivan, stating that he was sitting with the Commission, by invitation, to participate in the discussion of Calendar Item 1.

In his opening remarks, the Chairman explained that the Commission did not expect to conclude action on the drilling and operating contract today. He stated further that during this week problems and differences would be considered in order for the Commission to act at a meeting next week.

After presenting Calendar Item 1, the Executive Officer noted for the record two letters which had just been received relating to Section 18.5 of the proposed contract:

1. From Richfield Oil Corporation, requesting that its name be included with those of the companies specifically mentioned in computing the average of posted prices.
2. From Standard Oil Company of California, Western Operations, Inc., stating that if the lease proposal were modified to a highest posted price basis, it would prevent Standard from participating in the bidding.

William R. Gardner, Humble Oil & Refining Company, endorsed the Chairman's suggestion that action be delayed a week because of the complexity of the documents and the fact that some companies have not had a chance for review.

J. Barton Hutchins, Pauley Petroleum, Inc., asked for at least a week's delay in acting on the proposed contract to allow time for review by his company.

In response to a series of questions from Senator O'Sullivan, the Commissioners, and Alan Sieroty, the following appearances were made:

John C. Spence, Jr., Assistant City Attorney, City of Long Beach, stated that:

- a. The contract under consideration had been changed very little from the rough draft of July 23, which had been given to the Commission and to others who had requested it.
- b. A bidders' meeting will be held shortly after the notice inviting bids for the purpose of distributing kits containing information on the economic background, accounting procedures, and other pertinent data.
- c. It is imperative that the contract be approved so that contractor will have sufficient time to take over operations by March 20, 1964.

- d. He agreed with the Executive Officer that adding Richfield to the list of those postir<sub>e</sub> prices would broaden the base for determining the market value and would be both desirable and advantageous.
- e. There is no way to determine the price actually paid for oil in any individual transaction. Such prices are not matters of public record, and there is no way the City or State can find out the price. He presented a statement on behalf of the Board of Harbor Commissioners giving four reasons why they felt that the average posted price should be used.

W. A. Smith, Assistant Chief Petroleum Engineer, Long Beach Harbor Department, stated that:

- a. Based on the 17/100-cent-per-barrel difference between the average and the highest posted prices, the L.B.O.D. contract would have produced \$400,000 more in revenue if the initial bid percentage had remained the same. However, any prospective bidder would have reduced his bid by an offset percentage to protect himself.
- b. The reason for a contract based on net profits rather than on gross profits is that it is desirable to have the contractor dependent on profit for his remuneration.
- c. The reason for the 25-year contract is that the period of high profitability will be early in the contract; therefore, a more favorable bid can be anticipated that will extend as long as possible to 25 years.

M. D. Hughes, Director of Petroleum and Subsidence Control Operations, Long Beach Harbor Department, in response to a question regarding the advisability of requiring competitive bids on all items, stated that to put all services and purchases to competitive bids would be completely unworkable. He stated further that the purchases of the contractor are audited, and that quotations from vendors are taken frequently and submitted to the Harbor Board for approval, and that major purchases, at the discretion of the Board, are put to public bid.

Howard S. Goldin, Assistant Attorney General, in response to a question regarding why the contractor is excused from liability for things the City directs him to do regarding subsidence, explained that it would be doubtful that a contractor could be held accountable for alleged subsidence damage for following orders given by the City, and that the deletion of this type of indemnification would enhance the bid.

Attachment

Calendar Item 1 (3 pages)

CALENDAR ITEM

1.

DRILLING AND OPERATING CONTRACT (LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCELS), BOARD OF HARBOR COMMISSIONERS, CITY OF LONG BEACH, WILMINGTON OIL FIELD -- L.B.W.O. 10,190.

The City of Long Beach, in accordance with the provisions of Section 10, Chapter 29, Statutes of 1956, 1st E.S., has submitted the following documents for approval by the State Lands Commission prior to publication of notice to bidders.

1. Drilling and Operating Contract (Long Beach Harbor Department Tideland Parcel). (Refer to Exhibit "C".)
2. Notice Inviting Bids for Entering into the "Drilling and Operating Contract (Long Beach Harbor Department Tideland Parcel)" for the Production of Oil, Gas and other Hydrocarbons from Certain Lands Lying Within the Harbor District of the City of Long Beach, California. (Refer to Exhibit "D".)
3. Bid for Entering into the "Drilling and Operating Contract (Long Beach Harbor Department Tideland Parcel)" for the Production of Oil, Gas and Other Hydrocarbons from Certain Lands Lying Within the Harbor District of the City of Long Beach, California. (Refer to Exhibit "E".)
4. Bidder's Bond. (Refer to Exhibit "F".)

In 1939, 1942, and 1944 the Board of Harbor Commissioners, acting for and on behalf of the City of Long Beach, entered into agreements with Long Beach Oil Development Company providing for the drilling of oil wells and for the production of oil, gas, and other hydrocarbon substances from certain tide and submerged lands located in the Long Beach Harbor District. Subsequently, these agreements were consolidated by amendments to effectuate expiration of all agreements on March 20, 1964.

The Board of Harbor Commissioners of the City of Long Beach must obtain a responsible contractor in order to provide continued production operations and maintenance of existing petroleum facilities and for the drilling of additional wells and construction of additional facilities, and to take account for and pay to the City for all of the oil produced from or allocated to such lands.

The lands covered by this proposed contract lie completely within the limits of the Long Beach Harbor District and include all harbor tidelands presently developed, plus approximately 2,100 acres of undeveloped tidelands. (Refer to Exhibit "A".) Within the developed harbor tidelands 600 wells are producing nearly 40,000 barrels of crude oil per day. State revenue from this production (before deduction of subsidence costs) is presently in excess of \$800,000 per month.

CALENDAR ITEM 1. (CONTD.)

The bid for this proposed Drilling and Operating Contract would be awarded to the qualified bidder who agrees to pay to the City the highest percentage of net profits. No "cash bonus" or "advance production payment" is to be required. Net profits shall be computed by subtracting development, operating, and maintenance costs, certain taxes and insurance premiums from the value of the crude oil produced from or assigned to the subject lands.

All such oil shall be valued, accounted for, and paid for at the higher of either (1) the price equal to the arithmetic average of the prices posted by Continuing Purchasers in the Field (provided that there are two or more such Continuing Purchasers posting in the field); or (2) the price equal to the arithmetic average of the prices posted by Standard Oil Company of California, Union Oil Company of California, Texaco Inc., and Socony Mobil Oil Company (or by such of said companies as may be posting in one or more of the following-named fields: Wilmington, Huntington Beach, Signal Hill and Inglewood fields) for oil of like gravity. If there are not two or more of such companies, each posting a price for oil in two or more of such fields, then all of such oil shall be valued, accounted for, and paid for on the basis of the highest of the following prices: (1) the price equal to the arithmetic average of the prices posted by Continuing Purchasers in the Field (provided that this criterion shall be applicable only in the event there are two or more such Continuing Purchasers in the Field); or (2) the price equal to the market price generally prevailing and paid in the field; or (3) the price equal to the arithmetic average of the market prices generally prevailing and paid in the Wilmington, Huntington Beach, Signal Hill and Inglewood fields for oil of like gravity.

The price for valuing each delivery of oil as determined by either of the above methods shall be computed to the closest tenth of each degree of API gravity and the closest tenth-of-a-cent per barrel.

The City reserves the right to take in kind any percentage up to and including  $12\frac{1}{2}\%$  of the oil produced from or assigned to the subject lands. This right is exercisable upon 180 days written notice. The taking of oil in kind may be discontinued upon 180 days written notice or a lesser period if mutually agreed upon by the City and Contractor. Any oil taken in kind by the City shall be valued in the same manner as other oil produced or assigned and such value shall be used in computing net profits.

Under the terms of this proposed contract the Board of Harbor Commissioners will retain control over the rates of production of oil and gas and the rates of injection of water or other substances.

The City and the Board (or either) and the State will enter into agreements requiring consultation on major operational and policy matters with the Commission. The contract authorizes such City-State agreements.

All of the operations conducted by the Contractor, and all structures erected by the Contractor shall be in a first-class, good workmanlike and efficient manner and in accordance with good oil field practices among responsible operators. All equipment, machinery, facilities, materials and supplies shall be first class and of not less than American Petroleum Institute Standards.

CALENDAR ITEM 1. (CONTID.)

Each bid submitted shall be accompanied by a satisfactory Bidder's Bond in the amount of \$500,000 as evidence of the bidder's good faith and as a guarantee that the bidder will sign and execute the Drilling and Operating Contract within 15 days after it is presented for signature.

The Board of Harbor Commissioners reserves the right to reject any or all bids and return all Bidder's Bonds accompanying such bids.

The contractor shall furnish the City a faithful performance bond in the principal sum of \$2,000,000. The Board, with the approval of the State Lands Commission, may in the future permit the amount of this bond to be reduced.

The term of this proposed contract shall be for 24 years, 11 months and 8 days from the anticipated effective date of March 20, 1964. Computing from said effective date the termination date will be February 28, 1989. The Contractor shall have the option to terminate this contract 180 days after it can be shown to the satisfaction of a majority of the total membership of the Board of Harbor Commissioners that it is not profitable for the Contractor to continue operations. If the Board finds that continued operations under this contract are not profitable for the City, the Board may, upon 180 days written notice, terminate the contract. Once the Contractor or the Board has given such notice to terminate the contract, neither party may act unilaterally to revoke such notice of termination.

The Board of Harbor Commissioners and the City Council of the City of Long Beach have approved the proposed Contract, Notice and Bid form in principle.

The staff has reviewed the technical provisions and accounting procedures of the proposed contract and has found them to be reasonable and equitable.

The submitted documents have been reviewed as to legality by the office of the Attorney General who has advised that said documents comply with applicable provisions of law as to legal sufficiency and may be approved by the State Lands Commission. (See Exhibit "B" attached).

Under the provisions of Section 10(a), Chapter 29, Statutes of 1956, 1st E.S., the award of the operating contract pursuant to this offer shall be approved by the Commission.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE DRILLING AND OPERATING CONTRACT (LONG BEACH HARBOR DEPARTMENT, TIDELAND PARCEL), INCLUDING THE SPECIFICATIONS THEREIN CONTAINED, NOTICE INVITING BIDS, BID FORM, AND BIDDER'S BOND, SUBMITTED FOR APPROVAL BY THE CITY OF LONG BEACH, REFERRED TO AS EXHIBITS "C", "D", "E", AND "F", RESPECTIVELY, AND HEREBY MADE A PART HEREOF BY REFERENCE TO THE OFFICIAL FILES OF THE COMMISSION.