

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.

In presenting Calendar Item 1 attached, the Executive Officer reviewed the response to the invitation issued by the Commission at its September 30, 1963, meeting for interested parties to submit written recommendations regarding the proposed contract. In addition to letters from the Union Pacific Railroad Company and Pauley Petroleum, Inc., a letter from Shell Oil Company had been received on the day prior to the meeting. These letters were ordered entered as part of the record.

In considering the Union Pacific Railroad Company proposal that the City resign as Unit Operator to permit election of the present upland Unit Operators as the Unit Operators of Segment I of the various units, it was pointed out by the Executive Officer that it was not nominal for the Commission to direct consideration of such alternate proposals. The major objection was presented by Mr. W. A. Smith, Assistant Chief Petroleum Engineer, Long Beach Harbor Department, who stated that the City and the State would be deprived of approximately 10% of the future net profit while the City's expense of operation would go down very slightly, and, further, that the Harbor Department feels it must have operating control to assure full control of subsidence.

One of the recommendations made in the Pauley Petroleum, Inc., letter was to include any company, companies, or persons owning stock in the contractor corporation in the pricing base to determine the higher price paid to the State.

The subject of crude oil pricing was thoroughly discussed and considered as to the contractual advantages of using the average posted price instead of the highest posted price, and the existing controls over the possibilities of price manipulation by cartels or groups. The Chairman expressed the view that it is the State's responsibility to receive the highest profit from the Contract to the State and City.

The Shell Oil Company letter reviewed certain specifics with respect to bid procedures, and further recommended that any crude oil price base that may be adopted should also be used for future State and municipal leases. During the consideration of this recommendation, the subjects of the possible impact on the bid offered for the contract and the definition of what may constitute substantial ownership in the contractor corporation were examined. Accordingly, after obtaining the concurrence of the Long Beach representatives, the desirability of incorporating a contract change was agreed upon as follows:

Upon motion made by Commissioner Cranston, and seconded by Commissioner Champion, the following resolution was adopted:

ON LINE 26 OF PAGE 32 OF THE CONTRACT AFTER THE WORD "CONTRACTOR", A NEW SENTENCE IS TO BE ADDED, READING "WHERE CONTRACTOR IS A CORPORATION, PERSONS, FIRMS OR CORPORATIONS COMPRISING THE CONTRACTOR SHALL INCLUDE ANY PERSON, FIRM OR CORPORATION BUYING OIL IN THE FIELD WHO OWNS TEN PERCENT (10%) OR MORE OF THE STOCK OF SAID CONTRACTOR".

The Executive Officer then presented to the Commission the amendments contained in the staff recommendation of Calendar Item 1, namely:

- A. Inclusion of Richfield Oil Corporation in the list of those companies specifically mentioned in computing the average of posted prices as set forth in Section 18.3 of the Contract;
- B. Addition of a last paragraph to Section 4 of the Contract, reading as follows: "Any termination of this agreement prior to February 28, 1989, shall require State Lands Commission approval."

Following further discussion relative to the provisions for future broadening of the base for arriving at the average posted price, the following change in the Contract was concurred in by the Long Beach representatives, and, upon motion made by Commissioner Cranston and seconded by Commissioner Champion, the following resolution was adopted:

ON PAGE 31, LINE 21, OF THE CONTRACT, THE WORD "AND" BEFORE SOCONY MOBIL OIL COMPANY IS TO BE DELETED, AND THE FOLLOWING WORDS ARE TO BE INSERTED AFTER SOCONY MOBIL OIL COMPANY, INC.: "RICHFIELD OIL CORPORATION, AND ANY QUALIFIED PERSON OR PERSONS AS HEREINBELOW DEFINED." ON LINE 22, AFTER THE WORD "COMPANIES" INSERT THE WORDS "OR PERSONS", AND THEN ADD A NEW SENTENCE AFTER THE WORD "PIPELINES" READING AS FOLLOWS: "A QUALIFIED PERSON, FOR THE PURPOSE OF THE FOREGOING SENTENCE SHALL MEAN AND INCLUDE ANY PERSON, FIRM, CORPORATION, OR ENTITY AS CAN BE DEMONSTRATED TO THE BOARD AND THE STATE LANDS COMMISSION TO HAVE PURCHASED IN ANY OF THE AFOREMENTIONED FIELDS DURING THE PRECEDING TWELVE CALENDAR MONTHS AN AVERAGE OF AT LEAST ONE THOUSAND (1,000) BARRELS PER DAY."

After further discussion, the Commission considered the staff recommendation subject to the Contract changes as adopted hereinbefore, and, upon motion made by Commissioner Cranston and seconded by Commissioner Champion, the following resolution was adopted:

THE COMMISSION APPROVES:

1. THE DRILLING AND OPERATING CONTRACT (LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL), INCLUDING THE SPECIFICATIONS THEREIN CONTAINED, WITH THE FOLLOWING AMENDMENTS:
 - A. INCLUSION OF RICHFIELD OIL CORPORATION IN THE LIST OF THOSE COMPANIES SPECIFICALLY MENTIONED IN COMPUTING THE AVERAGE OF POSTED PRICES AS SET FORTH IN SECTION 18.3 OF THE CONTRACT;
 - B. ADDITION OF A LAST PARAGRAPH TO SECTION 4 OF THE CONTRACT, READING AS FOLLOWS: "ANY TERMINATION OF THIS AGREEMENT PRIOR TO FEBRUARY 28, 1989, SHALL REQUIRE STATE LANDS COMMISSION APPROVAL.";
2. NOTICE INVITING BIDS;

3. BID FORM;

4. BIDDER'S BOND;

SUBMITTED FOR APPROVAL BY THE CITY OF LONG BEACH, REFERRED TO AS EXHIBITS "B", "C", "D", "E", AND "F", RESPECTIVELY, AND HEREBY MADE A PART HEREOF BY REFERENCE TO THE OFFICIAL FILES OF THE COMMISSION.

Attachments

Calendar Item 1 for 10/10/63) Total of 5 pages
Calendar Item 1 for 9/30/63)

CALENDAR ITEM

1.

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.

On September 30, 1963, the Commission deferred to October 10, 1963, further consideration of the calendar item attached, with the provision that any interested parties submit further observations or raise further questions prior to that date in order to permit staff analysis and preparation of recommendations for the current meeting (transcript page 53). Written presentations relative to the proposed contract under consideration were received from Union Pacific Railroad Company on October 7, 1963 (Exhibit "G" attached), and from Pauley Petroleum Company on October 9, 1963 (Exhibit "H" attached).

The Union Pacific Railroad Company has suggested that operations on the Long Beach Harbor Department Tidelands Parcel could be continued under existing unit agreement at the necessity of awarding of a new drilling and operating contract. The cost to the City (and to the State) through such method of operation, and the lack of local control, have resulted in a recommendation by the Long Beach Harbor Department against such operating procedure.

The suggestions of the Pauley Petroleum Company relate primarily to the matter of price bases, which were reviewed on page 2 of the calendar item of the meeting of September 30, 1963, and on pages 5, 6, and 7 of the legal review dated September 27, 1963, from the office of the Attorney General (Exhibit "B"). Secondly, it is suggested that the highest price paid for oil by any stock holder in a corporation who may be the contractor should be required for calculation of oil value. Again, such uncertainty as to the applicable price base would necessitate a discount in the net profits bid offer by any prospective contractor.

At the meeting on September 30, 1963, Richfield Oil Corporation requested that their company name be included with those of the companies specifically mentioned in computing the average of posted price (Section 18.3 of the proposed Drilling and Operating Contract).

The office of the Attorney General has suggested that approval by the Harbor Commission of termination of the contract as provided in Section 4 be subject to approval by the State Lands Commission.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE:

1. THE DRILLING AND OPERATING CONTRACT (LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL), INCLUDING THE SPECIFICATIONS THEREIN CONTAINED, WITH THE FOLLOWING AMENDMENTS:

CALENDAR ITEM 1. (CONTD.)

- A. INCLUSION OF RICHFIELD OIL CORPORATION IN THE LIST OF THOSE COMPANIES SPECIFICALLY MENTIONED IN COMPUTING THE AVERAGE OF POSTED PRICES AS SET FORTH IN SECTION 18.3 OF THE CONTRACT;
 - B. ADDITION OF A LAST PARAGRAPH TO SECTION 4 OF THE CONTRACT, READING AS FOLLOWS: "ANY TERMINATION OF THIS AGREEMENT PRIOR TO FEBRUARY 28, 1989, SHALL REQUIRE STATE LANDS COMMISSION APPROVAL.";
2. NOTICE INVITING BIDS;
 3. BID FORM;
 4. BIDDERS' BOND;

SUBMITTED FOR APPROVAL BY THE CITY OF LONG BEACH, REFERRED TO AS EXHIBITS "B", "C", "D", "E", AND "F", RESPECTIVELY, AND HEREBY MADE A PART HEREOF BY REFERENCE TO THE OFFICIAL FILES OF THE COMMISSION.

Attachment

Calendar Item 1, meeting of September 30, 1963

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 Tidelands Parcel). (Refer to Exhibit "C".)
2. Notice Inviting Bids for Entering into the "Drilling and Operating Contract (Long Beach Harbor Department Tidelands 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 Tidelands 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 well 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. (CONTD.)

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, WIDELAND 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.