

## 21. AUTHORIZATION FOR CRUDE OIL SELLOFF, TRACT NO. 1, LONG BEACH UNIT, WILMINGTON OIL FIELD; THUMS AND CITY OF LONG BEACH.

During consideration of Calendar Item 15 attached, Attorney Robert H. Buchanan, representing THUMS, appeared and told the Commission that his clients -- the Texaco, Humble, Union, Mobil and Shell oil companies -- wanted more protection than they felt would be provided by the sales provisions prepared by the City of Long Beach. Mr. Buchanan said that THUMS should be protected against any inability by the purchaser of the 12½% to pay for the crude oil. He stated that, under the present agreement, THUMS is responsible for paying to the City of Long Beach not only the agreed base price for all crude oil it extracts, but also to pay any bonus or excess amount agreed to by the purchasers of the oil to be sold. He recommended that the successful bidders for the 12½% be required either to provide THUMS with satisfactory security, or to post a performance bond. Mr. Buchanan, on behalf of THUMS, made several other requests, including one that the successful bidders enter into separate agreements with the five THUMS firms, rather than with the THUMS combine jointly.

Deputy Attorney General Warren J. Abbott recommended against entering into five separate agreements, and reminded the Commission that the "sell-off" provision was in the law when THUMS bid on the tidelands contract in 1964, and that the five companies comprising the THUMS group must be held jointly as well as individually liable. It was however agreed that the one document should and would be signed by each of the five companies separately, rather than being signed only by THUMS on behalf of the five companies.

Mr. Harold A. Lingle, Deputy City Attorney for the Long Beach Harbor Department, asked that it be made clear for the record that the foregoing presentation was not made to the City of Long Beach before being made to the Commission. He said that the City had worked out jointly, in a great spirit of cooperation, what it thought was mutually acceptable. He indicated that the procedure that had been worked out sounded reasonable, and that it had been accepted by the City Council.

Deputy Attorney General Abbott confirmed that the provisions being recommended at this meeting on behalf of THUMS had not been presented to the City of Long Beach, recommended that those that are reasonable be presented to the City, and indicated that if they are reasonable, there would be no difficulty in putting them into the selloff contract. He suggested that the THUMS' representatives be permitted to sit in on the discussions by the City of Long Beach as to what additional conditions should be included in the contract. Mr. Lingle entered a protest against this procedure. The Commission agreed that while THUMS should not be permitted to dictate terms of the contract, it should be permitted to make suggestions pertaining thereto.

The question of requiring a performance bond from the bidders was reviewed. Mr. Abbott pointed out that the certified checks (good-faith deposits) to be submitted by the bidders, were to be held for six months, and should

provide sufficient protection. Also, either the City or the State can reject the bids, which is a further protection against irresponsible bidders. It was felt that anything more onerous would result in a discounting of the bids. Several alternate suggestions for the protection of the Field Contractor (THUMS) were considered. Mr. Buchanan was of the opinion that the Field Contractor was legally entitled to make the ultimate decision on the bids to be accepted, rather than the City and the State, but the Commission did not agree with this opinion.

Upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION PURSUANT TO THE PROVISIONS OF SECTION 3(e), CHAPTER 138, STATUTES OF 1964, FIRST EXTRAORDINARY SESSION:

1. REQUIRES, ON ADVICE OF THE ATTORNEY GENERAL, THAT THE FIVE CONTRACTORS IN THE THUMS GROUP, OR THEIR AGENTS, BE REQUIRED TO SIGN ANY CONTRACT FOR ANY SALE UNDER THE SELLOFF PROCEDURE.
2. DETERMINES THAT THE CITY OF LONG BEACH SHALL DIRECT THE FIELD CONTRACTOR TO OFFER SEPARATE PORTIONS OF 7 PERCENT, 4 PERCENT, AND 1-1/2 PERCENT, COMPRISING 12-1/2 PERCENT OF THE OIL ALLOCATED TO TRACT NO. 1, LONG BEACH UNIT, FOR SALE BY COMPETITIVE BIDDING.
3. FIXES THE TERM OF AGREEMENTS OF SALE OF OIL BETWEEN THE FIELD CONTRACTOR AND SUCCESSFUL BIDDERS AT THREE YEARS FROM THE DATE OF THE COMMENCEMENT OF SUCH SALE.
4. DIRECTS THE EXECUTIVE OFFICER TO NOTIFY THE CITY OF LONG BEACH OF THE ABOVE ACTION.

Attachment:

Calendar Item 15 (2 pages)

CALENDAR ITEM

7/71  
CVB

15.

OFFER TO SELL OIL, TRACT NO. 1, LONG BEACH UNIT, WILMINGTON OIL FIELD.

The Commission, at its meeting of March 25, 1971, directed the Executive Officer to hold public hearings, as necessary, relative to the sales of up to 12½ percent of the oil allocated to Tract No. 1 of the Long Beach Unit, to be taken out of the Field Contractor's share of such oil, pursuant to Section 3 (e), Chapter 138, Statutes of 1964, 1st E.S., as a basis for future recommendation to the Commission as to:

1. Whether oil should be offered for sale;
2. Percentage of oil to be offered for sale;
3. Guidelines for competitive bid specifications.

In compliance with the Commission's direction, a public hearing regarding this possible sell-off of oil was held on April 20, 1971, in the Board Room of the Long Beach Harbor Department Administration Building. Prior to this hearing, members of the California oil industry, including all known independent and major refiners in the State of California, were notified of the hearing and invited to attend and express their views regarding the subjects set forth above.

The Division has reviewed the transcript of this public hearing and summarized the findings as follows:

1. The oil sell-off should be ordered by the Commission.
2. The maximum permissible quantity of oil (i.e., 12-1/2 percent of the oil allocated to Tract No. 1) should be offered for sale.
3. The offer should be made in three to five portions ranging in quantity from 1,200 to 4,000 barrels of oil per day.
4. The term of the sale should be three years.
5. The competitive bidding factor should be the additional price the bidder will pay above the price at which the field contractor accounts for like quality oil under Article 9 (b) of the Contractor's Agreement.

The Office of the Attorney General has advised that the Commission may properly direct that such an oil sale be offered.

IT IS RECOMMENDED THAT THE COMMISSION, PURSUANT TO THE PROVISIONS OF SECTION 3 (e), CHAPTER 138, STATUTES OF 1964, FIRST EXTRAORDINARY SESSION:

1. DETERMINE THAT THE CITY OF LONG BEACH SHALL DIRECT THE FIELD CONTRACTOR TO OFFER SEPARATE PORTIONS OF 7 PERCENT, 4 PERCENT AND 1-1/2 PERCENT, COMPRISING 12-1/2 PERCENT OF THE OIL ALLOCATED TO TRACT NO. 1, LONG

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BEACH UNIT, FOR SALE BY COMPETITIVE BIDDING.

2. FIX THE TERM OF AGREEMENTS OF SALE OF OIL BETWEEN THE FIELD CONTRACTOR AND SUCCESSFUL BIDDERS AT THREE YEARS FROM THE DATE OF THE COMMENCEMENT OF SUCH SALE.
3. DIRECT THE EXECUTIVE OFFICER TO NOTIFY THE CITY OF LONG BEACH OF THE ABOVE ACTION.