

I N D E X
 In accordance with Calendar Summary)

<u>ITEM ON</u>	<u>PAGE OF</u>	<u>PAGE OF</u>	<u>PAGE OF</u>
<u>CALENDAR</u>	<u>CALENDAR</u>	<u>CALENDAR</u>	<u>TRANSCRIPT</u>
Minutes of meeting November 7 and 20, 1942			1
.....			
.....	19	1	8
.....	5	2	8
.....	10	3	8
.....	14	4	8
.....			
.....			
.....	26	5	9
.....	24	7	9
.....	6	8	9
.....	21	9	9
.....	22	10	9
.....	23	11	10
.....	12	12	10 (Deferred)
.....	9	14	10
.....	25	16	10
.....	17	17	1
.....			2

continued

I N D E X
(In accordance with Calendar Summary)
continued

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON</u>	<u>PAGE OF</u>	<u>PAGE OF</u>
	<u>CALENDAR</u>	<u>CALENDAR</u>	<u>TRANSCRIPT</u>
11 Confirmation of trans- actions consummated by Executive Officer:	8		14
California, State of		32	
Division of Highways		33	
Humble Oil & Refining		31-32	
Shell Oil		33	
Standard Oil Company			
12 Confirmation of schedule of 1963 meetings	16	34	14
13 Informative only - Status of major litigation	27	36	14
14 Next Commission meeting			21
SUPPLEMENTAL			
15 Legislation 1963 session	29	39	21

LONG BEACH UNIT, WILMINGTON OIL FIELD	28		REPRODUCED SEPARATELY

I N D E X

(In accordance with item numbers)

ITEM ON CALENDAR PAGE OF CALENDAR PAGE OF TRANSCRIPT

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
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1	18	10
2	20	11
3	21	11
4	25	12
5	2	8
6	8	9
7	22	12
8	31	14
9	14	10
10	3	8
11	24	2
12	12	10 - Deferred
13	19	11
14	4	8
15	30	13
16	34	14
17	17	1
18	28	13
19	1	8
20	26	13
21	9	9
22	10	9
23	11	9
24	7	9
25	16	10
26	5	9
27	36	14
28	Separate item	Reproduced on stencils
29	39	21
	NEXT MEETING	21

1 MR. CRANSTON: Will the meeting please come to
2 order? The first item to come before us is the confirmation
3 of minutes of meetings of December 6, 1962 and of December
4 20, 1962. If there is no objection they stand approved as
5 submitted, is that correct?

6 MR. HORTIG: Yes, sir.

7 MR. CRANSTON: In order to take up matters before
8 us today which have attracted a large number of people to
9 this hearing, we will seek to speed through the agenda and
10 take up matters now where people are present, and leave until
11 the end of the day those which are not controversial, where
12 we have no people before us.

13 I have one request to take up an item which I have
14 been assured will not take up any time, which is Item Classi-
15 fication 4 (j). If there is no objection, we will take that
16 up now and then one or two other matters; then seek to get
17 to the oil matter which will consume a large amount of time.

18 Applicant (j) is T. Jack Foster -- Assignment to
19 Estero Municipal Improvement District of Mineral Extraction
20 Lease P.R.C. 2613.1, San Bruno Shoal, San Mateo County, sub-
21 ject to continuing obligation of T. Jack Foster.

22 As I understand it, there is no objection to this.

23 MR. HORTIG: There are no objections, Mr. Chairman,
24 and the application is for assignment of a lease which was
25 issued heretofore pursuant to competitive public bidding;
26 and the application is in full compliance with the statutes

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and the rules and regulations of the Lands Commission; and
the chair recommends approval.

MR. CRANSTON: Bert, do you wish to comment?

MR. LEVIT: No, I think not.

MR. CRANSTON: Motion is in order to approve.

MR. CHAMPION: Move.

MR. CRANSTON: Motion is made to approve, seconded
and the unanimously.

Is there anyone here who wishes to take up anything
before the Brisbane matter and the oil matter, before
we proceed to Item Classification 6? If not, let's proceed to Item Classifica-
tion 6 providing we can settle it by ten thirty, say, which
we will be able to; and if it is not definite at that time,
we will proceed to the oil matter -- for which we have many
people here from a much further distance.

Frank, do you wish to state briefly the subject
of Item Classification 6 -- Proposed Annexation?

MR. HORTIG: Yes, Mr. Chairman. Pursuant to the
provisions of the Government Code, the City of Brisbane,
in processing an annexation of additional territory to
expand their existing city limits, submitted the requis-
ite notification to the State Lands Commission for appraisal
of that portion of the area desired to be annexed
which include and submerged lands; and the Commission's staff
conducted appraisal and had recommended that the Commis-
sion approve the notification to the City Council of the

1 City of Brisbane that pursuant to requirements of the Govern-
 2 ment Code, the Commission has determined the present value of
 3 the State-owned tide and submerged lands proposed to be an-
 4 nexed under City of Brisbane Council Resolution No. 70 to
 5 be \$14,584,000.

6 As of yesterday evening, the staff received a
 7 telegram reading:

8 "State Land Commission
 9 The Bayshore Sanitary District a public utility
 10 contests the Brisbane annexation. Your valuation
 11 of the tidelands is requested by Brisbane should
 12 consider Section 35313.1 of the Government Code.
 13 A letter follows explaining this. The Brisbane
 14 annexation proceedings are now in litigation in
 15 Superior Court. Please call my office to
 16 further discuss this subject.

17 Tom Bocci
 18 Attorney Sanitary District "

19 Also from Mr. Bocci, a letter to State Land Commission,
 20 attention Bert Tucker, who is the supervisor of our commer-
 21 cial and recreation leasing section, who had been processing
 22 this application on behalf of the City of Brisbane:

23 "Dear Sir:
 24 I represent 4,000 residents of Bayshore City
 25 and Bayshore Sanitary District who are con-
 26 testing the right of the City of Brisbane
 to annex an entire area of land that includes
 tide and submerged lands.

1 "Under Section 35313.5 of the Government Code,
 2 your Commission, upon application, must set a
 3 value on the tidelands under the circumstances
 4 set forth in this Code section. In 35313.1, a
 5 formula is established for establishing the
 6 value to publicly owned property. This value
 7 is that which would be assessed to the property
 8 on the assessment rolls in the County Assessor's
 9 Office if privately owned. Since the two sec-
 10 tions must correlate, it would appear that your
 11 valuation would be the valuation to be placed
 12 thereon by the County Assessor for assessed
 13 valuation purposes. Such a valuation would
 14 be less than 25% of market value.

15 "Since this is a most important issue to the
 16 City of Daly City, which is also annexing this
 17 area, the 4,000 residents of Bayshore City and
 18 the Bayshore Sanitary District, who is con-
 19 testing the Brisbane annexation, I would
 20 respectfully ask that the interpretation to
 21 be made of 35313.5 Government Code section be
 22 in keeping with the remaining provisions of
 23 Section 35313.1 through .5.

24 Yours very truly,

25 Thomas L. Bocci "

26 MR. HORTIG (continuing) The proposed annexation
 27 report by the staff recommended to the Commission is in
 28 strict conformance with the same procedure which has been
 29 utilized at all times, with the approval of the Office of
 30 the Attorney General, in connection with applications of the
 31 same type; and there is no record in State Lands of any
 32 proposed annexation by the City of Daly City with respect
 33 to the subject area, as contained in the referenced letter
 34 from Mr. Bocci.

35 MR. GRANSTON: Does anyone here wish to appear on
 36 this matter?

1 MR. REISCH: Mr. Chairman, members of the Commis-
2 sion, my name is Conrad Reisch. I am the City Attorney of
3 the City of Brisbane. The Mayor of the City, Mr. Turner, is
4 present; and the City Manager, Mr. Brady, and some of the
5 councilmen. We are prepared to answer any questions which
6 you may have concerning this particular matter.

7 I can advise the members of the Commission unequiv-
8 ocally that the lands that are under the State Lands Commis-
9 sion, that are proposed for annexation to the City of Bris-
10 bane, are not included in any annexation being proposed to
11 the City of Daly City.

12 GOV. ANDERSON: This Sanitary District group --
13 is this all located in Brisbane?

14 MR. REISCH: The Bayshore Sanitary District is a
15 district operating under the Sanitary District Act of 1923.
16 It s jurisdiction generally is in the area to the north of
17 the city limits of the City of Brisbane.

18 GOV. ANDERSON: Does it cover the area that is to
19 be annexed?

20 MR. REISCH: Some of the Sanitary District is in
21 some of the area proposed to be annexed to the City of
22 Brisbane. The major part of the Sanitary District is an
23 area presently being proposed for annexation to the City of
24 Daly City. There is no conflict with respect to boundaries
25 in the areas proposed to be annexed to the City of Brisbane
26 and the City of Daly City.

1 GOV. ANDERSON: The four thousand residents they
2 state they represent, are those four thousand residents in
3 Brisbane or just where are these four thousand people?

4 MR. REISCH: These four thousand people reside in
5 the area proposed for annexation to the City of Daly City.
6 I might add parenthetically that I am confident that Mr.
7 Bocci does not represent four thousand.

8 MR. HORTIG: Mr. Chairman, the staff would like to
9 suggest for consideration, however, in view of the fact that
10 at least a portion of the area is the subject of litigation,
11 possibly the clearest manner in which this matter could be
12 disposed of would be consideration by the City of Brisbane
13 to withhold action on its annexation application until the
14 completion of the litigation; and thereafter the Lands Com-
15 mission could process the application expeditiously in
16 accordance with whatever judicial determinations had been
17 made.

18 MR. CHAMPION: What relevance does that have to
19 our evaluation?

20 MR. HORTIG: It has no relevance to our evaluation.

21 MR. CHAMPION: Why should we delay?

22 MR. HORTIG: Only, sir, because -- as Governor
23 Anderson has pointed out previously with respect to applica-
24 tions of this type, an appraisal by the Lands Commission at
25 this time of this order of magnitude could be alleged to
26 have been one of the persuasive features in overcoming pro-
tests of citizens in the other area.

1 In other words, the Lands Commission appraisal
2 submitted at this time could be the determining factor in
3 resolving what is strictly a local problem; and the question
4 is could the Lands Commission -- not deliberately, but un-
5 wittingly -- be placed in that position?

6 MR. CHAMPION: It seems to me we are just asked
7 to comply with the statute. We are not asked to make any
8 particular judgment. Whatever the result of our obligation
9 to carry out the statute, that is something of local concern.

10 MR. HORTIG: This is the alternative of the two
11 that the Commission has before it.

12 MR. CHAMPION: I move we approve the original
13 staff recommendation.

14 GOV. ANDERSON: I'll second it.

15 MR. CRANSTON: Approval is moved, seconded, and
16 without objection it is made unanimously.

17 MR. REISCH: Thank you, Mr. Chairman.

18 MR. CRANSTON: We will now proceed to the matter
19 of the Long Beach Wilmington Oil Lease, having disposed of
20 matters involving people present here on the agenda.

21 (The next item considered was Calendar Item 28:
22 Unit Agreement, Unit Operating Agreement, Exhibits
23 and Field Contractor Agreement, Long Beach Unit,
24 Wilmington Oil Field, Los Angeles County -
25 L.B.W.O. 10,155. This item has been reproduced
26 separately on stencils because of the number of
copies required.)

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MR. CRANSTON: We will return to Item Classification

3. Is Jay Shavelson still present?

MR. HORTIG: We are still in session.

MR. CRANSTON: Jay, I have an expediting question to ask you. I have always wondered if we need to read the details of the authorizations asked. I would like to ask if we can just take up the matters under Classification 3

MR. SHAVELSON: My suggestion would be to go through the ordinary procedure, since you are required to have a public meeting.

MR. CRANSTON: Item Classification 3: Applicant

(a) I. Mills Beam -- five-year renewal of permit dated 1/22/58, issued by Department of Finance, to salvage abandoned cable from State-owned tide and submerged lands along the California coast -- to minimize hazards to shipping and facilitate harbor defense;

Item (b) State of California, Department of Fish and Game -- 49-year life-of-structure permit, two acres of sovereign lands of Eagle Lake, Lassen County, for boat-launching ramp and appurtenant facilities;

Item (3) State of California, Division of Highways -- Right-of-way easement, tide and submerged lands of Sacramento River, Shasta County, for bridge for State Highway Route II Sha 20 C;

Item (4) United States of America, Department of Defense -- Easement, 0.24 acre sovereign lands at City of

1 Coronado, San Diego County, for four fenced airplane approach
2 lights for Runway 29 at Naval Air Station, North Island,

3 GOV. ANDERSON: I'll move.

4 MR. CHAMPION: Second.

5 MR. CRANSTON: Approval is moved, seconded, and
6 adopted unanimously.

7 Classification 4 -- Applicant (a) American Tele-
8 phone and Telegraph Company -- 49-year easement, 0.457 acre
9 school lands, San Bernardino County, for underground coaxial
10 cable; total rental \$150.

11 MR. HORTIG: Mr. Chairman, for the information of
12 the Commission, where such cable installation would cross the
13 uplands and particularly across State lands as indicated
14 here for this easement, all facilities will be underground.

15 MR. CRANSTON: Item (b) Kenneth E. Edmiston and
16 Marjorie A. Edmiston -- Five-year grazing lease, 3840 acres
17 school lands San Bernardino County, annual rental \$38.40;

18 Item (c) E. I. Du Font de Nemours and Company,
19 Inc. -- 15-year lease, 1.35 acres tide and submerged lands
20 of San Joaquin River near Antioch, for dock and dolphins for
21 barges for chemical plant, annual rental \$575.94;

22 Item (d) James A. Gallagher and Mary A. Gallagher --
23 10-year lease Lot 37 Fish Canyon Cabin Site, Los Angeles
24 County, annual rental \$65;

25 Item (e) Howard J. McQuigg and Ruth McQuigg --
26 10-year lease, Lot 62 Fish Canyon Cabin Site, Los Angeles

1 County, annual rental \$65;

2 Item (f) Philip D. Tripp and Richard M. Russell --
3 10-year lease, Lot 46, Fish Canyon Cabin Site, Los Angeles
4 County, annual rental \$65;

5 Item (g) San Francisco Port Authority -- I under-
6 stand that is put over.

7 MR. HORTIG: It is the staff's request ...

8 GOV. ANDERSON: (g) is off calendar, then?

9 MR. HORTIG: Yes.

10 MR. CRANSTON: Item (h) California Minerals Corpora-
11 tion -- Assignment to Minerals Materials Company of a 50%
12 interest for initial period of ten years, and approval of
13 subleases from California Minerals Corporation and Mineral
14 Materials Company, joint venturers doing business under the
15 name of California Asbestos Company, to Atlas Corporation,
16 of Mineral Extraction Leases P.R.C. 1511.2, et cetera,
17 Fresno and San Benito counties;

18 Item (i) Continental Oil Company -- Assignment to
19 Douglas Oil Company of California of Oil and Gas Lease P.R.C.
20 1524.1, Huntington Beach field, Orange County;

21 Item (j) T. Jack Foster ...

22 MR. HORTIG: This was the assignment acted on
23 earlier this morning, Mr. Chairman.

24 MR. CRANSTON: Item (k) Pacific Gas and Electric
25 Company -- Amendment of right-of-way easement P.R.C. 2942.1,
26 Sonoma County, to change the legal description, resulting

1 in an increase in acreage to 0.895 acre. Total rental to
2 be increased from \$1,856.61 to \$2,491.65.

3 Item (l) Northern California Plywood, Inc. --
4 Acceptance of quitclaim deed for Lease P.R.C. 1861.1, Klam-
5 ath River, Del Norte County -- logging operations completed.

6 Item (m) Karl Pierce, Ferec Pierce, and Frank
7 Pierce -- Deferment of operating requirements, Mineral Ex-
8 traction Lease P.R.C. 2150.2, San Luis Obispo County, for
9 lease year ending April 13, 1963. Chrome market depressed;
10 grade of ore occurring within leased area cannot be mined
11 economically at present.

12 Item (n) San Diego Gas and Electric Company --
13 Deferment of operating requirements, Mineral Extraction
14 Lease P.R.C. 2094.1, San Diego County, for lease year ending
15 March 9, 1963. Dredging operations required in construction
16 of first and second units of South Bay Generating Station
17 are completed; no further dredging contemplated at present.

18 GOV. ANDERSON: Frank, would you just briefly
19 explain that item (h) -- the assignment to Minerals Materials
20 Company?

21 MR. HORTIG: Well, there is an existing lease for
22 extraction of various minerals at the junction of San Benito
23 and Fresno counties at the mountain top, on which a portion
24 of interest is being acquired from the present lessee.

25 GOV. ANDERSON: It is a half interest and no
26 compensation at all?

1 MR. HORTIG: No, sir.

2 MR. CRANSTON: Motion is in order for approval of
3 those items pending before us.

4 MR. CHAMPION: Move approval.

5 GOV. ANDERSON: Second.

6 MR. CRANSTON: Approval is moved, seconded, made
7 unanimately.

8 Item 5 -- Authorization to exchange with the United
9 States eighty acres of State school lands in Shasta National
10 Forest for 54.10 acres Federal lands in Trinity County, the
11 State and Federal lands being of approximately equal value --
12 pursuant to application of Kelso V. B. Young.

13 MR. CHAMPION: Move approval.

14 GOV. ANDERSON: Second.

15 MR. CRANSTON: Approval moved, seconded, made
16 unanimately.

17 We have acted on Item 6.

18 Item 7 -- Authorization for Executive Officer to
19 execute Stipulation in Pacific Gas and Electric Company v.
20 County of San Mateo, et al., San Mateo County Superior Court
21 Number 80503, extending interim occupancy of certain State
22 lands by Pacific Gas and Electric Company to December 31,
23 1964 -- pending consummation of an exchange transaction with
24 Leslie Salt Company.

25 MR. CHAMPION: Move approval.

26 MR. CRANSTON: Approval is moved

1 GOV. ANDERSON: Second.

2 MR. CRANSTON: .. seconded, made unanimously.

3 Item 8 -- Authorization for Executive Officer to
4 execute Compensatory Gas Royalty Agreement with Patrick A.
5 Doheny for State's interest in bed of Sacramento River,
6 Sycamore Area, Colusa and Sutter counties.

7 MR. CHAMPION: Move approval.

8 GOV. ANDERSON: Second.

9 MR. CRANSTON: Approval is moved, seconded, made
10 unanimously.

11 Item 9 -- Authorization for issuance to high bidder,
12 Union Oil Company of California, of proposed Oil and Gas
13 Lease, tide and submerged lands, Santa Barbara County,
14 Parcel 11. The staff has recommended approval of this.

15 MR. CHAMPION: What is involved in that?

16 MR. CRANSTON: The high bid?

17 MR. HORTIG: \$267,000 high cash bonus offer.

18 GOV. ANDERSON: I'll move it.

19 MR. CHAMPION: Second it.

20 MR. CRANSTON: Approved moved, seconded, made
21 unanimously.

22 Item 10 -- Authorization for Executive Officer to
23 offer Proposed Oil and Gas Lease, Santa Barbara County --
24 Parcel 13.

25 MR. CHAMPION: Move it.

26 GOV. ANDERSON: Second.

1 MR. CRANSTON: Approval is moved, seconded, made
2 unanimously.

3 Item 11 -- Confirmation of transactions consum-
4 mated by the Executive Officer pursuant to authority con-
5 firmed by the Commission at its meeting on October 5, 1959.

6 MR. CHAMPION: Move confirmation.

7 GOV. ANDERSON: Second.

8 MR. CRANSTON: Moved, seconded, and made unani-
9 mously.

10 Item 12 -- Confirmation of schedule of meetings of
11 the State Lands Commission for 1963 calendar year, as indi-
12 cated on pages 34 and 35. We have already had that before
13 us but never adopted it.

14 MR. HORTIG: This is the schedule which was sent
15 to you gentlemen in January.

16 MR. CHAMPION: Move approval.

17 GOV. ANDERSON: Second.

18 MR. CRANSTON: Approval moved, seconded and made
19 unanimously.

20 Item 13 -- Informative only, no Commission action
21 required -- Report on status of major litigation. Frank,
22 do you have anything?

23 MR. HORTIG: Not specifically -- the routine ex-
24 tensions of existing permits and other authorizations --
25 Are we on litigation?

26 MR. CRANSTON: Status of major litigation.

1 MR. HORTIG: No, no new litigation has been added
2 since the last time we reported to the Commission.

3 MR. CRANSTON: On the next meeting, let's take one
4 moment to discuss what we went through here today. What is
5 your feeling? Should we schedule a substantial amount of
6 time a month hence?

7 MR. CHAMPION: I'd like to ask Mr. Desmond a
8 question in terms of the discussion on time we had here today.
9 You indicated in your testimony a question of urgency on time
10 because you want to go to work on the other existing con-
11 tracts?

12 MR. DESMOND: That's right.

13 MR. CHAMPION: Now, what is the schedule which you
14 consider you have to meet in order to meet that problem?

15 MR. DESMOND: We have not discussed this at all
16 with Mr. Hortig or his office, but that will expire and it
17 isn't the first day of March -- I believe it's March the
18 25th of next year the present L.B.O.D. contract runs out.
19 We feel that -- dating back, again, to the time needed for
20 preparing this -- let's say ninety days from that going back
21 wards would take us to the latter part of November, which
22 I would think would allow no time - - I would say it would
23 have to go out to bid probably in the month of October.

24 GOV. ANDERSON: Is this going to take a great
25 amount of time, inasmuch as it is reviewing and continuing
26 with what you already have?

1 MR. DESMOND: Well, we don't know. We feel that
2 the present contract, which is on a gross basis, should be
3 changed. I mean, a different method -- the net profit basis --
4 should be the basis of proceeding, I believe. I think this
5 is Mr. Hortig's view. I know he has expressed pleasure and
6 appreciation that the contract here under consideration is
7 on that basis. So I would say there would be a considerable
8 period of time required.

9 GOV. ANDERSON: Well, the time for staff work on
10 your part, I heard there would be a lot of staff work on
11 your part to review this and reprepare this.

12 MR. DESMOND: I think so.

13 MR. CHAMPION: Frank, let me ask it another way.
14 Starting from this end, how long do you think it would take
15 for you to review the various questions that were raised in
16 the hearing today and present your comments, and I presume
17 Long Beach will also want to review and present comments;
18 how long would it take you to do that?

19 MR. HORTIG: From the policy standpoint I could
20 give you an estimate. There are a great number of questions
21 which are either inherently or explicitly legal questions
22 and I just have a feeling it is going to take longer to get
23 a resolution of those than the operating and policy questions;
24 so if I might pass the question to Jay - -

25 MR. SHAVELSON: That's a difficult question.
26 Mr. Clark raised some interesting questions rather rapidly

1 and I'd like to sit down and assimilate them before I
2 answer that question.

3 GOV. ANDERSON: Two months?

4 MR. SHAVELSON: Oh, yes.

5 MR. CHAMPION: Is there a chance that at the next
6 meeting, as Alan suggested, we might be able to hear the
7 comments on this and have a further discussion at the next
8 meeting, or is that too soon?

9 MR. DESMOND: We were hoping you would say a
10 special meeting in about two weeks' time; if the work can-
11 not be accomplished then, depend upon the next one.

12 MR. CHAMPION: I think you will agree that some
13 rather complex questions were raised.

14 MR. DESMOND: Yes.

15 MR. SHAVELSON: We have some internal problems
16 and that is this -- that the Long Beach boundary litigation
17 is set for pretrial in July and it so happens that I have
18 done all of the work on the Long Beach Unit and I have also
19 done all the work on the Long Beach boundary; and if I
20 have under four to six weeks on this, it is going to create...

21 MR. CRANSTON: I think you are going to have more
22 than four to six weeks.

23 MR. SHAVELSON: I believe so, or else have to
24 shift it over to Howard Golden -- which means that he is
25 going to have to familiarize himself -- which again means
26 it would take more time than ordinarily. So until we

1 straighten this internal problem out

2 MR. CRANSTON: I think we should schedule a full
3 day for the next regular meeting. This would give us time
4 for the staff to work on it.

5 MR. CHAMPION: I think we ought to ask the
6 Attorney General to reinforce the troops on this matter.

7 MR. SHAVELSON: It is not a question of the number
8 of people. It is a question of getting familiarity with
9 the problem. The amount of work that went into our opinion,
10 I think, was four or five months almost.

11 MR. CHAMPION: Well, in view of the importance of
12 this to Long Beach and of the importance of it to the State
13 in terms of revenue -- I think if the statement was made
14 that we are in dire straits, it would be a little exag-
15 gerated; but we really ought to get more people familiar
16 with it.

17 MR. DESMOND: May I make this comment? If it
18 becomes the decision of the Commission that any substantial
19 changes be made, it really means a change also in the Unit
20 Agreement, Unit Operating Agreement, and I think that would
21 mean really starting over. We could not start over at this
22 time. Unless this is out in substantially the same form
23 within, I would say, a period of not more than six weeks'
24 time, then I think we should devote our attention entirely
25 to the other matter; and at some later time take this up.

26 MR. CHAMPION: Are you speaking only to the Unit

1 Agreement, or are you speaking to the Field Contractor's
2 Agreement?

3 MR. DESMOND: I am speaking to the Field Contrac-
4 tor's contract. If the type of contract is changed, the
5 Field Contractor's contract, that would mean the entire pack-
6 age has to be redone -- and this is something we have actu-
7 ally devoted, I would say, almost a full year to.

8 MR. CHAMPION: The Unit Operating contract did not
9 come under great question here.

10 MR. DESMOND: Not a great deal, a few questions.
11 One is tied to the other. If we start over, we start over
12 the whole thing and we are not going to be able to do that.

13 GOV. ANDERSON: You mean if we attempted to, in a
14 sense, break up this feeling towards monopoly and may be used
15 that one suggestion of interests and still have the one oper-
16 ating unit, that this would mean starting all over again?

17 MR. DESMOND: I think it would.

18 GOV. ANDERSON: Why? And I was going to ask you
19 earlier -- why didn't you get agreements in writing on the
20 Unit Agreement before actually the contract itself?

21 MR. DESMOND: No reason not to. Mr. Shavelson, of
22 course, commented there that we have all these letters --
23 as soon as it is approved, they are ready to sign.

24 GOV. ANDERSON: Why don't you get them signed up
25 before?

26 MR. DESMOND: I made that suggestion. If the

1 Commission makes the condition that to let this contract
2 out to bid that first there must be whatever assurances
3 needed, that's fine. There is no other reason. I think
4 you have heard these people. Now, several of the companies
5 have advised that they are ready to sign and will do so upon
6 approval of this agreement.

7 Now, if the agreements are not approved, why, of
8 course, there is no point in proceeding. They have said as
9 soon as they are approved, they will sign -- not as soon as
10 the bid opens or the contract is open.

11 MR. CHAMPION: The question that was raised: Do
12 you go through the procedure until you have got these com-
13 mitments? And I think this is a fair question. In other
14 words, is there any reason why they should not be asked to
15 do this right now?

16 MR. DESMOND: We could do that.

17 MR. CHAMPION: Why don't we do it?

18 MR. DESMOND: All right.

19 MR. CRANSTON: I'd like to allocate two days next
20 time. The next meeting is Thursday, March 28th. Why don't
21 we schedule Wednesday, the 27th, and Thursday, the 28th?
22 That would give time for a full exploration at that time
23 and we could see where we are.

24 GOV. ANDERSON: I would much rather see it go
25 Friday and Saturday. Two days out of Legislature are murder.

26 (off-the-record discussion)

1 MR. CRANSTON: We should schedule the day and
2 reserve the evening of the 28th and we will announce it
3 may go into the evening.

4 MR. HORTIG: Mr. Chairman, there is a supplemental
5 calendar item attached to your calendars and this requires
6 action. It is pages 39 and 40 and it relates to legisla-
7 tion which has been introduced and can affect the legisla-
8 tive cognizance or operations of the Commission. It is
9 recommended that the Commission authorize the Executive
10 Officer to discuss the foregoing listed measures with the
11 authors thereof, and to attend the respective legislative
12 committee hearings for the purpose of presentation of re-
13 ports of facts and existing Commission administrative
14 procedure and regulations relative thereto.

15 MR. CHAMPION: You would be derelict in your
16 duty if you didn't.

17 MR. HORTIG: If I didn't have such instructions
18 I couldn't.

19
20 MEETING ADJOURNED 5:27 P.M.

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CERTIFICATE OF REPORTER

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I, LOUISE H. LILLICO, hearing reporter for the Office of Administrative Procedure, hereby certify that the foregoing twenty-one pages, and pages 1 through 144 of the Long Beach Wilmington Oil Field item reproduced on stencils by me, contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION at Sacramento, California, on February 28, 1963.

Dated: Los Angeles, March 12, 1963.

Louise H. Lillico

STATE

LANDS COMMISSION

FEBRUARY 28, 1963

STATE LANDS COMMISSION

S.L.C.
FILE COPY

SACRAMENTO, CALIFORNIA

February 28, 1963

CALENDAR ITEM 28

UNIT AGREEMENT, UNIT OPERATING AGREEMENT, EXHIBITS, AND FIELD CONTRACTOR AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD:

MR. CRANSTON: We will now proceed with the matter of the Long Beach Wilmington Oil Field, having disposed of matters involving people present here on the agenda.

I'd like first to welcome members of the Special Senate Committee who are going to sit with us and keep track of this particularly vital matter: Senator O'Sullivan, Chairman of that Special Committee; Senator McCarthy, Senator Murdy, Senator Teale, Senator Arnold.

Frank, would you get word to Senator Kennick that we are about to take up this matter? I believe he would wish to be with us when we get to it. I believe he is on the Assembly floor.

Just to sort of set the framework for what we are going to be doing, I have a brief statement to read. Before the Lands Commission today for consideration are proposed agreements submitted by the City of Long Beach, setting forth terms for the development of the Long Beach Unit of the Wilmington Oil Field.

Revenues to the State of California from this development should run into hundreds of millions of dollars during the next thirty-five years. We hope that substantial revenue will be forthcoming soon enough to contribute significantly toward the relief of our present fiscal situation. Every dollar taken from the tidelands means that one dollar less must

1 come from the pockets of our taxpayers.

2 Petroleum engineers believe this field may prove to
3 be the second richest in this country. Estimates of its recov-
4 erable oil range up to 1.5 billion barrels.

5 The purpose of this hearing primarily is to permit
6 the City of Long Beach and other interested parties to express
7 their views on these agreements. The Lands Commission will
8 not reach a decision on this matter today. However, we will
9 not procrastinate in our deliberations.

10 The Long Beach Unit (sometimes referred to as the
11 East Wilmington Field) covers some 6,700 acres and includes
12 4,500 acres of tide and submerged lands held in trust by the
13 City of Long Beach.

14 The Lands Commission will authorize no development
15 inconsistent with the preservation of the natural beauty and
16 recreational utility of the coastline.

17 In summary, it is the hope of the Lands Commission,
18 with the help of those present today, to bring about the
19 development of this oil field in keeping with the best inter-
20 ests of all the people of California.

21 I think first in order would be a statement by
22 Frank Hortig of the issue before us. We will then proceed
23 to hear from Long Beach, and then from those who would in any
24 way wish to testify or add to the information. I would like
25 the Senators or Assemblymen here to interpose their questions
26 along the way, whenever they wish to do so.

27 Do you wish to proceed, Frank?

28 MR. HORTIG: Yes, Mr. Chairman. Summarizing from
29 the calendar item, a copy of which is before all members of
30 the Commission, the industry representatives, and the City,
31 the City of Long Beach has submitted for approval by the State

1 Lands Commission, in accordance with applicable provisions of
2 law, copies of a Unit Agreement, Unit Operating Agreement,
3 Exhibits to the Unit Agreement and Unit Operating Agreement,
4 and a Field Contractor Agreement, providing for the unitization
5 of all oil, gas, and other hydrocarbons to be produced from a
6 proposed Long Beach Unit.

7 The proposed Long Beach Unit is outlined on the air
8 photo on the far wall from you gentlemen and includes both the
9 upland area within the heavy white line to the north, which is
10 to the upper part of the map, extending to the westerly bound-
11 ary, which is the jagged north-south line to the left of the
12 flood control channel and which you gentlemen see terminating
13 in a curved pier section and extending easterly to the second
14 diagonal line, trending approximately northeast-southwest; and
15 if I may step to the map, I will outline this area again, as I
16 have just attempted to describe it in words.

17 The westerly limit of the area proposed ultimately
18 for inclusion in the Long Beach Unit would be the line I am
19 tracing at the moment. Approximately the northerly limit
20 would be the heavy white line, which I am also following, ex-
21 tending along the shore to the easterly limits of the ultimate
22 unit development, southwesterly along the common boundary be-
23 tween the Cities of Long Beach and Seal Beach, and returning
24 across the tide and submerged lands to join again the westerly
25 limit.

26 Under discussion for development in the contracts
27 which are before the State Lands Commission for consideration
28 for approval are only two sets of parcels, being this area --
29 which 's granted tide and submerged lands which have been
30 granted by the Legislature to the City of Long Beach in trust
31 heretofore -- and the area of uplands held in private ownership

1 and under lease to various oil companies and to various other
2 oil operators.

3 The area between the two lines I have just traced,
4 and hope that all the Committee can see it, at the easterly end
5 of this map is the Alamitos State Beach Park parcel, of which
6 the oil and gas are under the exclusive jurisdiction of the
7 State Lands Commission; and the manner of development and the
8 manner of commitment of that portion of the total area is not
9 under consideration yet. This will be a matter for considera-
10 tion of the State Lands Commission in the future.

11 The contracts which are under consideration by the
12 Commission relate at this time, or would relate at this time,
13 only to the granted tide and submerged lands and privately
14 owned uplands within the geographic boundaries of the Long
15 Beach unit. This is also shown, and possibly a little more
16 clearly for you gentlemen, in the map which is an exhibit
17 in the copy of the Unit Agreement you have before you.

18 SENATOR TEALE: Mr. Hortig, the unit to the west
19 there -- that is presently in production?

20 MR. HORTIG: Senator Teale, the area to the west is
21 presently being operated under two sets of contracts, also is-
22 sued by the City of Long Beach and prior the time of the State
23 of California having become associated in a supervisory capaci-
24 ty by reason of Chapter 29 of the Statutes of 1956. Immedi-
25 ately to the west of the westerly boundary of the proposed unit,
26 and over to the curved pier section previously referred to, is
27 the area which is under development and production by Richfield
28 Oil Corporation; and the remainder of the area, along the Har-
29 bor frontage and extending out into the water, is the area that
30 is under development by an organization known as the Long Beach
31 Oil Development Company.

1 MR. CRANSTON: Senator Kennick, how about coming up
2 here with the other Committee members? And welcome to our
3 hearing.

4 ASSEMBLYMAN KENNICK: Thank you, Mr. Chairman.

5 MR. CRANSTON: Frank, do you want to proceed?

6 MR. HORTIG: Again in summary, prior to February 27,
7 1962, the offshore area just described for potential unit devel-
8 opment, on which application has been received, was located with-
9 in an area in which oil and gas drilling were prohibited by City
10 ordinance.

11 On February 27, 1962, the Long Beach electorate ap-
12 proved an oil development ordinance for establishment and desig-
13 nation of a portion of the offshore area, being that area just
14 described, as permitted drillsite areas, and specifically author-
15 izing the development of such area from only four offshore
16 islands as permitted drillsites, to be placed in the general
17 area and to be located depending upon, particularly, the engi-
18 neering and geologic determinations that would be made of explora-
19 tion information, after exploration information would permit such
20 operations.

21 The ordinance provided that in the development, the
22 onshore and offshore areas are within geographic boundaries of
23 a subsidence area which has been established by the Oil and Gas
24 Supervisor; that repressuring operations can be expected to pre-
25 vent and arrest subsidence and increase the amount of oil recov-
26 erable, and protect oil and gas waste in a unit under cooperative
27 development of underlying pools.

28 Pursuant to the ordinance, any drilling operations must
29 be conducted in a manner consistent with conservation practices,
30 with exploitation operations to be conducted in a systematic plan
31 of development, in an economic manner consistent with the best

1 oil field practice prevailing in the adjoining Wilmington Oil
2 Field.

3 As a result of this proposal to the State Lands Commis-
4 sion staff, and predicated on a Long Beach Harbor Department
5 recommendation that consideration be given to employing for de-
6 velopment of the new unit area the same practices and methods
7 and techniques as had been utilized heretofore by the Harbor
8 Department -- specifically in connection with those same opera-
9 tions, Senator Teale, as are being conducted by Richfield Oil and
10 Long Beach Oil Development Company -- the Commission staff ex-
11 pressed the need for preparation of an engineering and economic
12 study of the previously existing operations, to prove their
13 feasibility from an engineering and economic standpoint.

14 Such report was submitted by the City, and the staff
15 also prepared a separate report, generally in concurrence as to
16 findings -- particularly, that economic analysis of past perform-
17 ance under actual waterflood operations indicates that this has
18 been an extremely effective method of increasing oil recovery,
19 and that the oil revenue from the developed portion of the Long
20 Beach tidelands will be considerably greater than it would have
21 been if the waterflood program had not been undertaken. However,
22 it must be noted that for application to the Long Beach Unit,
23 the waterflood program conducted in the developed and partially
24 depleted field will require modification because of reservoir
25 characteristics which not only may but will certainly vary from
26 those in the developed field which are expected, and some have
27 already been found within the geographic boundary of the unit
28 area.

29 The purpose of the agreement, if achieved by the City,
30 is to accomplish the following: (1) To promote the conservation
31 of oil and gas in the unitized formations and to secure other

1 benefits obtainable through the development and operation of the
2 unitized formations as a unit under the terms, conditions, and
3 limitations therein set forth; (2) To initiate and conduct re-
4 pressuring operations in accordance with the provisions of the
5 City ordinance and the Public Resources Code; and (3) to increase
6 the maximum economic quantity of oil and gas ultimately recover-
7 able from the unitized formations through repressuring operations.

8 Now, the surface area overlying the anticipated produc-
9 tion zones within the entire unit area is approximately 6,700
10 acres, of which 4,500 acres lie within Tract 1. That Tract 1 is
11 the tract of granted tide and submerged lands only. The total
12 recoverable oil reserve.....

13 SENATOR DOLWIG: What do you mean by "only the tideland
14 area"?

15 MR. HORTIG: Tract 1.

16 SENATOR DOLWIG: Tract 1?

17 MR. HORTIG: Yes.

18 SENATOR DOLWIG: Is that tract the upland area?

19 MR. HORTIG: The upland area is identified as Tracts
20 3 through 91, and the Alamitos State Beach Park is Tract 2. The
21 area in green, Senator, which is the granted tide and submerged
22 lands, is Tract 1; the passionate purple is Tract 2; and the yel-
23 low area is the upland private ownership; and this is a reproduc-
24 tion of the map which is in the document you have before you.

25 SENATOR DOLWIG: The proposed Unit Agreement covers
26 all these tracts?

27 MR. HORTIG: All but Tract 2. The proposed Unit Agree-
28 ment relates only at the present time to development of Tract 1
29 and those tracts, 3 through 91, in the upland. The unit did not
30 include Tract 2, the Alamitos State Beach Park parcel, in which
31 the oil and gas are under the jurisdiction of the State Lands

1 Commission. The manner of development of the State Beach Park
2 parcel is a matter of determination in the future.

3 SENATOR DOLWIG: In other words, development of that
4 is in the future?

5 MR. HORTIG: Yes.

6 SENATOR TEALE: To the east of Tract 2 on that map,
7 the heavy white line that goes out, what is that tract? Is that
8 under development or what is it known as?

9 MR. HORTIG: That area, Senator Teale, is a State lease,
10 P.R.C. 186, held at the present time jointly by Humble Oil and
11 Refining Company and Texaco Inc. This is a lease awarded by the
12 State Lands Commission under competitive public bidding, approxi-
13 mately in 1945. It is under development; it is under operation --
14 there are upwards of sixty producing wells on that lease.

15 SENATOR TEALE: Does that overlie a portion this?

16 MR. HORTIG: The heavy white line is a representation
17 by the City of Long Beach as the possible estimated productive
18 limits. This is not an interpretation by the State Lands Commis-
19 sion or State Lands Division staff.

20 SENATOR O'SULLIVAN: Mr. Hortig, what are returns
21 annually from the Humble and Texaco lease?

22 MR. HORTIG: I am sorry, Senator - - It is a variable
23 royalty rate, inasmuch as when the lease was awarded the bid
24 factor was the royalty schedule to be applied to the individual
25 production rate of each independent well, and it has ranged per
26 well between the ranges of approximately sixteen per cent to
27 something in excess of forty per cent royalty, Senator. We can,
28 of course, and will, prepare for you.....

29 SENATOR O'SULLIVAN: How much money did we get out of
30 it last year?

31 MR. HORTIG: Offhand, again, this being one of seventy-

1 odd leases which we have under operation, I would hesitate to
2 answer; but we will prepare a tabulation of the specific area.

3 SENATOR O'SULLIVAN: Over the period of the lease since
4 1945 -- the history of that?

5 MR. CRANSTON: Complete history.

6 SENATOR DOLWIG: Could we have enough copies to give
7 to the members of the Senate Committee here?

8 MR. HORTIG: Of this same report?

9 SENATOR DOLWIG: Yes.

10 MR. HORTIG: Yes, sir.

11 MR. CRANSTON: Frank, do you want to proceed?

12 MR. HORTIG: Under the Unit Operating Agreement the
13 City is designated as Unit Operator in view of the fact that the
14 City is the holder in trust of the majority of the area which
15 would be developed, as grantee of the tide and submerged lands.
16 The Unit Operator shall have, subject to the terms, provisions
17 and limitations expressed in the Unit Agreement and in the Unit
18 Operating Agreement, the exclusive right to develop and operate
19 any committed parcels -- in the first instance only Tracts 1 and
20 3 through 91, as previously explained.

21 The Unit Agreement will become effective as of 7:00
22 o'clock a.m. following the first day of the calendar month which
23 commences after all the following events have occurred: - -
24 which requires the commitment of Tract 1 as a committed parcel,
25 and that parcels which constitute sixty per cent of the surface
26 area of the Town Lot area have become committed parcels. There
27 are letters of intent and agreement already for far in excess of
28 sixty per cent of the Town Lot area to be committed; so that for
29 all practical intents and purposes, steps 1 and 2 already exist.

30 This would be followed by the City executing the Unit
31 Agreement and Unit Operating Agreement as Unit Operator; and

1 would require the City, as the Unit Operator and as to Tract 1,
2 to have entered into a contract with a Field Contractor for the
3 development and operation of the tract.

4 Finally, there would be the requirement, which is statu-
5 tory, that the Unit Agreement be approved by the State Oil and
6 Gas Supervisor, pursuant to the applicable provisions of the Pub-
7 lic Resources Code.

8 Unless the Unit Agreement becomes effective on or be-
9 fore January 1, 1964, or such later date as may be stipulated in
10 writing by the City and the participants of the Town Lot area,
11 but prior to January 1, 1965, the entire agreement would be of no
12 force and effect.

13 The principal matter, then, and the one of direct im-
14 port and of primary consideration by the Commission here today,
15 is as to the nature of the proposed Field Contractor Agreement,
16 which the City proposes to award after approval by the Lands Com-
17 mission to the highest bidder, pursuant to competitive public
18 bidding; and the mechanisms as provided in the Field Contractor
19 Agreement are detailed starting on Agenda Page 6, providing for
20 payment by the Field Contractor to the City at a rate at the op-
21 tion of the City of an amount that would be prepayment for three
22 years of an aggregate amount of fifty-one million dollars.

23 Of this fifty-one million dollars, fifty per cent would
24 go to the State of California -- at the present time to the Water
25 Fund, pursuant to the provisions of Chapter 29 of Statutes of
26 1956. It is anticipated in the contract that approximately at
27 the end of the three-year period, by which time aggregate pre-
28 payments of fifty-one million dollars have been made, net profits
29 from the operation, by reason of actually having developed oil
30 wells within the geographic limits of Tract 1 from four offshore
31 islands only, will exceed a million-dollar-a-month payment, which

1 the operator has been making up to that time as part of the
2 fifty-one million dollar aggregate; and thereafter, when such net
3 profits do exceed such payment, then the City's option to receive
4 the aforesaid monthly payments will cease and all subsequent pay-
5 ments will remain on the basis of the bid percentage of net prof-
6 its accruing under the agreement -- in other words, in accordance
7 with the bid percentage of the net profit that was offered by
8 the Field Contractor to whom the City awarded the contract pursu-
9 ant to competitive public bidding.

10 The Field Contractor Agreement also provides for the
11 City Manager to exercise close supervision over the Field Contrac-
12 tor's operations, including the power to control all unit opera-
13 tions and to compel the Field Contractor to perform in accordance
14 with the City Manager's determinations and approvals.

15 MR. CRANSTON: Frank, we might clarify -- we don't
16 there -- before we proceed. You referred to the fifty-fifty
17 division with Long Beach under present law of the advance payments
18 and all future royalties. I think it should be clearly under-
19 stood that that division, which has been subject to discussion
20 recently, is in no way embodied in this contract and has nothing
21 to do with the adoption of this contract. We can adopt this con-
22 tract quite apart from the fact that there is presently a fifty-
23 fifty division, or quite apart from the fact that there may be a
24 revision of that.

25 MR. HORTIG: This is correct, Mr. Chairman, because
26 under Chapter 29 of the Statutes of 1956, adopted by the Legisla-
27 ture in settlement of the Mallon case -- which I am sure Senator
28 O'Sullivan and the other attorney members will recall -- the
29 provisions are that the City remit to the State fifty per cent
30 of the value of the oil and one hundred per cent of the value of
31 the gas derived from any operations on granted tide and submerged

1 lands under any contract. Inasmuch as this has been applicable
2 to pre-existing contracts, the L.B.O.D. and Richfield contract,
3 this would equally be applicable to any contract now approved by
4 the City. The difference is that this is the first time since
5 Chapter 29/56 that the City has proposed to enter into a new con-
6 tract; and by the terms of the 1956 statute, the City may modify
7 or enter into a new contract only with the advance approval of
8 the State Lands Commission.

9 MR. CRANSTON: The point I want to make crystal-clear
10 is that at this time we can consider this proposed contract and
11 act on it whenever we wish to do so, wholly apart from what may
12 be done in the future on the fifty-fifty division.

13 MR. HORTIG: That is correct. The provisions of Chap-
14 ter 29 are wholly independent of any decision made now by the
15 State Lands Commission.

16 MR. SHAVELSON: In this connection, I might point out
17 that Section 11.5.2 of the Unit Agreement provides that the State
18 will receive that share of the production from Tract 1 to which
19 it is entitled under Chapter 29 judgment as may now or hereafter
20 be provided by law.

21 MR. CRANSTON: Thank you very much.

22 (Assemblymen Whetmore, Ashcraft and Deukmejian
23 introduced)

24 MR. CRANSTON: Frank, would you clarify one other point
25 if you can do it in a nutshell -- the difference between this con-
26 tract with the Long Beach City area and the normal procedures
27 which are purely under State jurisdiction, where we go to the
28 bonus payment in contrast to the net profit situation here. I
29 think that is important -- what we do in this situation and in
30 other situations.

31 MR. HORTIG: Under existing State law, as detailed
in Division 6 of the Public Resources Code, the State Lands

1 Commission may offer for lease tide and submerged lands and other
2 lands under the jurisdiction of the Commission pursuant to com-
3 petitive public bidding; but, limiting the offering to what is
4 considered oil and gas leases -- that is, authorizing the success-
5 ful lessee to remove the oil and gas at his cost and to compen-
6 sate to the State for such removal -- the manner of compensation
7 that can be offered can be elected in one of two directions at
8 the option of the Commission: Either, on specification by the
9 Commission, the bidders may offer to pay a cash payment or cash
10 bonus in consideration for award of the lease and commit them-
11 selves to pay royalty on any production actually achieved, in
12 accordance with the specifications in the lease; or the Commission
13 can elect the alternative of awarding the lease to any bidder who
14 offers to pay the highest percentage of royalty on the production
15 which might be achieved, without requiring any cash bonus payment.

16 SENATOR DOLWIG: Mr. Chairman, I think it would be help-
17 ful if Mr. Hortig would compare this proposed agreement with the
18 agreements you have at the present time, and point out how it
19 differs from existing agreements. I think it would be more
20 understandable.

21 MR. HORTIG: If I may, in response to Senator Dolwig,
22 go to the existent form of agreement as utilized by the City of
23 Long Beach and other areas under development and then compare
24 the new agreement as to its modifications, in that form it is
25 quite covered, Senator. In the case of the granted tidelands of
26 the City of Long Beach, where the City of Long Beach is the
27 operator for the State and the State is beneficiary in the pro-
28 ceeds of that operation only by reason of Chapter 29 of the Stat-
29 utes of 1956 that a portion of the revenues be paid to the State,
30 but that the City is the operator of these lands -- early in the
31 development program and before the first lease was issued, and,

1 indeed, leases were under consideration for offer in Long Beach
2 in the same general manner which is still used by the Lands Com-
3 mission, under Stat. law as I have just outlined a serious legal
4 question was raised in that in an oil and gas lease title to oil
5 and gas is conveyed to the lessee. The granting statutes for
6 the grant of the tide and submerged lands to the City of Long
7 Beach by the State of California prohibit the transfer or convey-
8 ance or alienation of any title by the City of Long Beach to
9 these lands and, therefore, the question was raised whether pos-
10 sibly issuance of an oil and gas lease might be such a degree of
11 conveyance of title as to invalidate the original tideland grant,
12 resulting in the entire granted area reverting to the State of
13 California.

14 So the City of Long Beach determined that the only
15 certain method, in their opinion, for securing development of
16 the area was not to issue an oil and gas lease but, rather, to
17 enter into the oil business -- to have the oil and gas developed
18 for the account of the City of Long Beach by what is effectively
19 a service contractor. This is used in the colloquial sense. I
20 hope the attorney members of the Legislative committees will for-
21 give the lack of precision, but I am simply trying to state these
22 things in their comparative perspective.

23 The Long Beach Oil Development

24 SEN.O'SULLIVAN: Do I understand this correctly? Title
25 to the oil and gas passes to the lessee, is that correct?

26 MR. HORTIG: That is correct.

27 SEN.O'SULLIVAN: At that point, would it become taxable
28 under the local county tax?

29 MR. HORTIG: Yes, and he pays the county mining tax
30 and he pays the tax on the leasehold, as well as all his capital
31 equipment.

1 SEN.O'SULLIVAN: Under this plan adopted by Long Beach
2 and the plan contained in the unit program and the other document,
3 the title to the oil does not pass to the original lessee?

4 MR. HORTIG: That is correct.

5 SEN.O'SULLIVAN: There is no tax revenue under the
6 property tax of the local district?

7 MR. HORTIG: Only to the degree that the ultimate
8 Field Operator-Contractor has capital equipment, which is taxable.

9 SEN.O'SULLIVAN: His equipment, but not the oil or gas
10 is taxable?

11 MR. HORTIG: That is correct. Having developed this
12 procedure for service contractors, both the parcels previously
13 identified as the Long Beach Oil Development operation and the
14 Richfield Oil Corporation operation to the west of the area under
15 consideration here today are being operated under such service
16 contracts for the City of Long Beach by L.B.O.D. and Richfield,
17 respectively, with the compensation to the service contractor
18 being a percentage of the gross cost of the operation.

19 SENATOR TEALE: Will you repeat that?

20 MR. HORTIG: The existent operations for development of
21 tidelands which are in existence in Long Beach today are being
22 conducted by an organization known as the Long Beach Oil Develop-
23 ment and by Richfield Oil Corporation; are being conducted under
24 service contracts which those organizations have with the City
25 of Long Beach to conduct the oil operation, the compensation to
26 the contractor from the City being a percentage of the gross
27 cost of the operation.

28 The bid of L.B.O.D. in round numbers originally was
29 that they would perform the service for a fourteen per cent pay-
30 ment of the gross cost of the operation and the contract was
31 awarded on that basis. The bid of the Richfield Oil Corporation

1 offered to do it for four point five, approximately five per cent,
2 of the total cost of the operation and for this the contractor
3 renders the service to the City of providing all the technical
4 personnel, the supervision, the processing, and handling of the
5 crude oil production and the provision of a market for the sale
6 of that crude oil; but the title to the oil has remained with the
7 City up to the time it is sold on account of the City by the
8 service contractor to whoever is the purchaser of the crude oil.

9 Now, the modification, primary modification, proposed
10 in connection with the application for approval for the east
11 Long Beach unit is that in the field service contractor agreement
12 which would be put out to competitive public bidding, in a similar
13 manner to that which was utilized for these prior service
14 contracts, the biddable element would be the offering of the
15 highest percentage of the net profit -- not related to the gross
16 cost of the operation, but as to the highest percentage of net
17 profits offered by the operating contractor to be paid to the
18 City of Long Beach as a result of having been awarded the contract
19 to develop the oil and gas within this Tract 1 area.

20 The first subdivision of this modification is that,
21 also, under the L.B.O.D. and Richfield Oil contracts, the capital
22 equipment -- the pipe, the pumping units, and so forth -- have
23 been purchased by the City and financed by the City; whereas,
24 under the current proposal, all capital costs for the entire
25 operation would be borne by the Field Operating Contractor.

26 SENATOR TEALE: In other words, a percentage of the
27 net profits...

28 SENATOR DOLWIG: What do you mean by "net profits"?

29 MR. HORTIG: This would be the biddable element. In
30 other words, the field service contractor who would be awarded
31 the bid under the proposal under consideration here would propose

1 to conduct the operation and pay the City the highest percentage
2 of the net profit.

3 SENATOR DOLWIG: Who determines the net profit?

4 MR. HORTIG: The manner of determination of the net
5 profit is spelled out in the Unit Agreement, as to what costs
6 are chargeable to the operation, and the costs are subtracted
7 from the oil produced -- the differential would be the net
8 profit; and of that net profit, the highest percentage offered
9 to be paid to the City would be the determinant in awarding the
10 contract.

11 SENATOR DOLWIG: Has the State entered into any con-
12 tract on any State-owned tidelands of a similar nature?

13 MR. HORTIG: Remotely similar, sir, in that we have an
14 oil and gas contract with Standard Oil of California for a por-
15 tion of the bed of the Sacramento River which flows through the
16 Rio Vista gas field, on which the State is being compensated at
17 the rate of approximately fifty-one per cent of the net profits.

18 ASSEMBLYMAN WHETMORE: Does this substitute the net
19 profit concept for the cost-plus concept?

20 MR. HORTIG: That is correct.

21 MR. CHAMPION: As I understand it, Mr. Hortig, we
22 could not, on a straight State lease, follow this procedure under
23 present State law.

24 MR. HORTIG: Under present State law, no.

25 SENATOR DOLWIG: Would you give me the answer to Mr.
26 Champion's question?

27 MR. GRANSTON: He said under present State law we
28 could not on State-owned tidelands operate under this kind of
29 procedure.

30 MR. CHAMPION: Only with Long Beach can we go into
31 this type of operation. The State could not enter them because

1 of our law on leasing.

2 SENATOR O'SULLIVAN: Does the State have any studies
3 showing the size of this field, the possible production, and
4 its present values?

5 MR. HORTIG: Only in general terms, Senator O'Sullivan,
6 for the reason that the area under discussion has yet to have
7 its first producing well drilled into it; and, secondly, the
8 only data that are available are a real scattering of core holes
9 which have been drilled from mobile marine equipment over the
10 area, which give a series of possible indications but nothing
11 to a degree of precision.

12 All estimates that have been published are necessarily
13 predicated on the assumptions, by and large, of these core holes,
14 the results of which have been made public, indicating that there
15 is a high potentiality for oil and gas accumulations to exist
16 over the majority of the area; the fact that the Wilmington Oil
17 Field, which is the largest oil field in California, adjoins and
18 lies immediately to the west; and the fact that the State has a
19 producing oil and gas lease with over sixty producing wells imme-
20 diately to the east -- giving an approximate basis for estimating
21 that if the averages from east to west should hold and consider-
22 ing the areal extent of the possible productive limits, up to
23 one and one-half billion barrels of oil could be producible under
24 repressuring methods of operation and using the technologies
25 which are, in fact, used in the oil fields today.

26 SENATOR O'SULLIVAN: Based on that, what would that
27 amount to?

28 MR. HORTIG: On top of the ground, and assuming for
29 ease of average three dollars per barrel -- three billion dol-
30 lars. This, of course, does not provide for the tremendous cost
31 of developing and producing this oil from under the harbor area

1 or the area adjoining the harbor -- the underwater area offshore
2 from Long Beach. Actual net return estimates have been made
3 ranging from a possibility of, again, a gross ultimate return
4 for the life of the field of a billion dollars to again a billion
5 and a half dollars net -- which, under the present distribution
6 formula under Chapter 29, would net to the State of California a
7 half billion dollars, as well as to the City of Long Beach; on
8 the higher estimate, seven hundred fifty million dollars each.

9 SENATOR O'SULLIVAN: Do those estimates include the
10 entire area lying within the heavy line?

11 MR. HORTIG: No, sir; they do not. These include only
12 that area down to the Alamitos State Beach Park parcel on the
13 east, as described.

14 MR. CHAMPION: To or through?

15 MR. HORTIG: To Tract 2, exclusive of Tract 2; and on
16 Tract 2, when developed and whatever it's potentiality is, the
17 benefits will accrue one hundred per cent to the State of Cali-
18 fornia, because this is not an area that is in the status of
19 granted tide and submerged lands as far as oil and gas is
20 concerned.

21 SENATOR O'SULLIVAN: In regard to the Alamitos parcel,
22 what is the value of that?

23 MR. HORTIG: We have no current estimate, Senator, that
24 I think we can quote because this is an area to be considered
25 for development either in conjunction with or separately from the
26 contracts under consideration here today, in the future; but
27 there definitely will be values and they will accumulate one
28 hundred per cent to the State.

29 SENATOR O'SULLIVAN: You would assume, though, that
30 that section there would approximately be per unit worth as much
31 as the one you previously referred to?

1 MR. HORTIG: It could well be.

2 SENATOR O'SULLIVAN: Or at least as much as the Humble-
3 Texaco deal?

4 MR. HORTIG: Well, Senator, together with everything
5 else being unique in California, particularly so is our geology,
6 and particularly in southern California and the area towards the
7 west, has at least seven separate fault blocks -- which, from
8 the standpoint of the engineer, are seven different worlds; so
9 the decision of what is actually going to happen as to unit
10 faults would be hazardous to make at the present time, before we
11 have further core hole and other data.

12 MR. CHAMPION: There are no core holes in the Alamitos
13 area?

14 MR. HORTIG: There are no core holes that have been
15 drilled in the State Beach parcel.

16 SENATOR O'SULLIVAN: Why haven't we drilled that --
17 core-tested it?

18 MR. HORTIG: Because of the nominal practice of the
19 State, dictated by the State law, that exploration results of
20 State-owned parcels may not be made public and, indeed, it would
21 be a misdemeanor for the State Lands Commission to do so pursuant
22 to the Public Resources Code. This section of the law does not
23 apply to Long Beach exploration -- to core holes on their granted
24 tide and submerged lands.

25 SENATOR O'SULLIVAN: The statute goes to making the
26 news public?

27 MR. HORTIG: The statute goes to withholding the news.

28 SENATOR O'SULLIVAN: The information has been gathered?

29 MR. HORTIG: No, sir; it has not -- because there has
30 been no exploration on the Alamitos State Beach Park parcel be-
31 cause title to the oil and gas was in litigation with the City of

1 Long Beach and this litigation was only resolved early last year;
2 and, as a matter of fact, almost concurrently with the develop-
3 ment or the modification of the anti-drilling ordinance by the
4 City of Long Beach; and all staff efforts have had to be devoted
5 to bring this proposal of the City of Long Beach to a point
6 where it could be presented to the Lands Commission.

7 SENATOR O'SULLIVAN: I don't mean to convey any
8 criticism by my questions.

9 MR. HORTIG: I appreciate that, Senator. I am just
10 trying to answer the questions as they occur.

11 MR. CHAMPION: In pursuit of the Senator's point, I
12 realize there can be no validity to this figure you have been
13 using in your calculations; but assuming there is the same kind
14 of potential in the Park area as the other, what order of magni-
15 tude are we talking about in terms of money?

16 MR. HORTIG: Well, actually, there are estimates of
17 so-called initial equity allocations as to what oil and gas
18 values may be contributed by the various parcels, which at the
19 present time range for guesstimating at eighty-five per cent of
20 the grand total would be contributed by Tract 1; five to seven
21 per cent by Tract 2; and the remainder of the one hundred per
22 cent by the upland areas. It is not only a surface area problem;
23 it is a matter of possible productive limits and complication of
24 productive capacity by these numerous faults which we do know
25 exist and, as I said, make every fault block to some extent
26 practically a different world so far as probabilities are
27 concerned.

28 SENATOR DOLWIG: Mr. Hortig has just given us the
29 estimated production on Tract 1. Mr. Chairman, do you have an
30 opinion from the Attorney General that this contract is legal?

31 MR. CRANSTON: The representative of the Attorney

1 General is here and can speak to that point.

2 MR. HORTIG: If I may point out, on page 7 of the
3 agenda item, Senator Dolwig

4 SENATOR DOLWIG: I have read that and would like it
5 clarified.

6 MR. HORTIG: Having paraphrased the Attorney General,
7 I pass it back to the Attorney General.

8 MR. SHAVELSON: Yes, Senator; without, of course,
9 expressing any opinion as to its efficacy or desirability, we
10 have determined that it is the type of contract that the Commis-
11 sion may approve if it determines it is to the best interests of
12 the State.

13 SENATOR DOLWIG: Mr. Hortig, you have given us the
14 estimated production of Tract 1, haven't you?

15 MR. HORTIG: Well, both on Tracts 1 and Tracts 3
16 through 91.

17 SENATOR DOLWIG: Eighty-five per cent for Tract 1....

18 MR. HORTIG: Eighty-five per cent of a billion and a
19 half barrels.

20 SENATOR DOLWIG: What are the limits of Tract Number 1?

21 MR. HORTIG: As shaded in green in the map to my right,
22 in Exhibit B to your right. This is described by metes and
23 bounds in the proposed Unit Agreement.

24 SENATOR DOLWIG: Has the metes and bounds description
25 been approved by the Lands Commission in Tract 1?

26 MR. HORTIG: This is one of the items under considera-
27 tion in connection with the approval by the State Lands Commis-
28 sion, and today is the first time that this matter is being pre-
29 sented to the State Lands Commission, so the State Lands Commis-
30 sion has not yet approved it. Additionally, of course, there is
31 the question

1 SENATOR DOLWIG: Pardon me, don't go off on that. Has
2 there been a metes and bound description of Tract 1?

3 MR. HORTIG: There is a proposed metes and bounds
4 description for the purposes of this agreement, but not to be
5 binding as or indicating that the location of the ordinary high
6 water mark is the shoreward boundary of the granted tide and
7 submerged lands.

8 SENATOR DOLWIG: Well, Mr. Chairman, is there a metes
9 and bounds description of Tract Number 1?

10 MR. HORTIG: Yes.

11 SENATOR DOLWIG: And has the staff done it or has Long
12 Beach done it?

13 MR. HORTIG: The City of Long Beach has developed it
14 and presented it for consideration of approval for the purposes
15 of this agreement only, in that it is provided also in the agree-
16 ment that if, in the future as a result of adjudication -- and,
17 as you are aware, Senator, there is litigation between the State
18 of California and the City of Long Beach as to the location of
19 the ordinary high water mark, as to the shoreward delimiting line
20 of the granted tide and submerged lands, but in the segment west
21 of the area under discussion here -- as and when the courts decide
22 and establish the criteria and determine where this dividing line
23 is located legally, if in the application of this criteria the
24 boundary line (the dividing line) would be found to be at a
25 location different than agreed to for purposes of this agreement,
26 there will thereupon be an adjustment of the description of
27 Tract 1 and a re-allocation of the equities and any other alloca-
28 tions that have been made on Tract 1 -- whether the line moves
29 shoreward or seaward.

30 SENATOR DOLWIG: Mr. Chairman, may I ask the Attorney
31 General what the status of that litigation is?

1 MR. CRANSTON: Yes. Jay Shavelson is representing the
2 Attorney General's Office.

3 MR. SHAVELSON: Yes, Senator. First of all, the area
4 in litigation is in the Long Beach Harbor District. It does not
5 include the lands that are involved in the Long Beach Unit. The
6 status of the Long Beach boundary litigation is that it is set
7 for a pretrial hearing at the beginning of July and is expected
8 to go to trial shortly thereafter.

9 SENATOR DOLWIG: Mr. Chairman, there is pending litigation
10 which raises the question of the problem between the Federal
11 Government and the State. Would this be involved at all in
12 Tract Number 1?

13 MR. SHAVELSON: No, Senator. The area here is undis-
14 putably City lands under the provisions of the Submerged Lands
15 Act, which provides it has quitclaimed to the State and its
16 respective grantees all lands within three miles of the coast.
17 We don't know where the coast is yet; but at least, since these
18 areas are always within three miles of the actual shoreline,
19 there is no problem as far as the Federal Government is concerned.

20 The Federal Government has the right of first purchase
21 of the oil and gas produced in both Tract 1 and 2; and as far as
22 Tract 1 is concerned, there is a specific provision in the pro-
23 posed contract recognizing that right.

24 MR. HORTIG: Might I add that first right of purchase
25 is restricted to times of national emergency only.

26 SENATOR DOLWIG: The only question that I raise, Mr.
27 Shavelson: If there is a question insofar as the seaward line
28 is concerned, this could involve the Federal Government; could
29 it not?

30 MR. SHAVELSON: I don't think so, Senator. The
31 three-mile line

1 MR. HORTIG: I can answer that.

2 MR. SHAVELSON: Go ahead.

3 MR. HORTIG: Senator, may I direct your attention to
4 this map? A line approximately three miles offshore is indicated
5 as the southerly boundary, City of Long Beach. The most seaward
6 description for Tract 1 is the line which terminates the green-
7 shaded area and it is inconceivable that a relocation of the
8 ordinary high water mark on judicial determination could be in
9 such order of magnitude as to actually move Tract 1 far enough
10 seaward that the outer boundary of Tract 1 would even approach
11 the southerly boundary of Long Beach, which is three miles off
12 the mainland.

13 SENATOR DOLWIG: There is no problem, then?

14 MR. HORTIG: There could be no practical problem.

15 SENATOR DOLWIG: Insofar as your other fields are con-
16 cerned, Alamitos field, and so forth, where you have agreements
17 with Long Beach have there been metes and bounds descriptions of
18 those areas by the City of Long Beach; and if so, have they been
19 approved by the State Lands Commission?

20 MR. HORTIG: There are metes and bounds descriptions,
21 Senator, and they were not approved by the State Lands Commission
22 because they were entered into before the State Lands Commission
23 had any authority to approve or disapprove because these other
24 contracts were all made prior to 1956.

25 SENATOR DOLWIG: Then you don't have metes and bounds
26 descriptions?

27 MR. HORTIG: There are metes and bounds descriptions
28 in the contract documents themselves, but they have not been ap-
29 proved and, of course, a portion of those lines are actually the
30 subject matter of the litigation on which Mr. Shavelson reports.

31 SENATOR DOLWIG: Was it inherent in that litigation?

1 MR. SHAVELSON: Not the boundary of the contract areas,
2 but the boundaries of the areas which are held in trust by the
3 City for the State. In other words, the contract areas are fixed
4 areas. With one minor exception, they are undisputed tide and
5 submerged lands.

6 SENATOR DOLWIG: The reason for my question, Mr. Chair-
7 man, is that this will affect the production and the amount of
8 money the State would get out of these various agreements.

9 My next question is: Is the status of Tract Number 1
10 different than the existing tracts now under lease or under
11 operating agreements?

12 MR. SHAVELSON: They are in several respects. One is
13 that the engineering determination of the tidelands is an easier
14 matter in the downtown area of Long Beach than it is in the area
15 of Long Beach Harbor District, where it is a highly complex prob-
16 lem relating back to the original Rancho grants and the statutes,
17 therefore, on the inland waters. Here we have a straight coast
18 line and the problem of determination is a much simpler one.

19 SENATOR DOLWIG: Mr. Shavelson, may I ask you, then,
20 do you understand on the basis of your review of these contracts
21 that there has been a metes and bounds description of Tract
22 Number 1?

23 MR. SHAVELSON: The description in the exhibit on
24 Tract Number 1 insofar as the landward boundary is concerned is
25 northerly into the mean high tide line.

26 SENATOR DOLWIG: I don't want to take up the time. I
27 am interested in the other boundary insofar as the ocean boundary
28 is concerned.

29 MR. SHAVELSON: That is in terms of distance from the
30 mean high tide line. I think I can give you a report on that
31 later on as far as metes and bounds; it is described.

1 MR. CRANSTON: Without giving the details, you can
2 state there is a metes and bounds description?

3 MR. SHAVELSON: Yes, it is definite to the extent that
4 it refers to the mean high tide line; otherwise it is metes and
5 bounds.

6 SENATOR DOLWIG: This is a matter which will be
7 reviewed by the Commission?

8 MR. SHAVELSON: Yes.

9 SENATOR DOLWIG: Thank you very much, Mr. Chairman.

10 MR. CRANSTON: Frank, do you want to continue?

11 MR. HORTIG: Now, in the review by the Office of the
12 Attorney General, as reported on page 7 of the agenda item, it
13 was suggested - - or it was stated that it was concluded that the
14 Commission may consider for review and approval the documents
15 which have been submitted by the City of Long Beach as being
16 legally sufficient, provided that the Commission secures addi-
17 tional commitments recommended and makes the necessary policy
18 determinations.

19 Now, the additional recommended commitments are set
20 forth in a separate agreement, approved by the Office of the
21 Attorney General and by the City of Long Beach, which are at-
22 tached to this agenda item as Exhibit A and do not purport to
23 vary the terms of the unitization agreement or the Field Contrac-
24 tor Agreement; but it is the opinion of the Office of the Attorney
25 General that these additional agreements are valid and enforce-
26 able as between the City and the State. These conditions, as
27 outlined on Exhibit A following the agenda item (following page
28 8) as you have it before you, relates to the subjects of provid-
29 ing for a minimization of distortion of the relative quantities
30 of oil and dry gas allocated to Tract Number 1 in connection with
31 changes in tract assignments; provisions relative to the use of

1 gas in connection with unit operations; provision to assure that
2 necessity of further Commission approval of agreements is not
3 affected as a result of approval of the basic contracts; provi-
4 sion for elimination of profit or loss from the one per cent
5 overhead allowance to the operator; and provision to give the
6 Commission a chance to study and criticize any development plans;
7 a specification providing that it is understood that the Commis-
8 sion approval in connection with these contracts, if granted,
9 extends only as to Tract Number 1 and, therefore, Tract 2, the
10 Alamitos State Beach Park parcel, is still to be determined as to
11 future development programs by the State Lands Commission; and a
12 specification of a series of operating standards for operating
13 procedures, to assure that operations will be conducted in order
14 to achieve the balanced goal of attaining the maximum quantity of
15 oil in accordance with good engineering practice; provision that
16 the State will be consulted and kept informed on proposed pro-
17 gramming on all matters concerning the City's relationship with
18 the Field Contractor; and an apparently minor, but possibly essen-
19 tial item, requiring the use of electric motors in the future in
20 connection with operations, so as to minimize the use of natural
21 gas for this purpose -- which natural gas might otherwise be
22 distributed through the Municipal Gas Department of the City of
23 Long Beach and result in an operating revenue of benefit to the
24 State of California.

25 In addition to these commitments recommended and agreed
26 to between the Office of the Attorney General and the City of
27 Long Beach, the staff feels that the Commission may wish to con-
28 sider the following:

29 First, the unit agreement is to become effective upon
30 commitment of sixty per cent of the Town Lot area. The City has
31 been assured that more than the required sixty per cent of the

1 participating Town Lot area will be committed to the agreement
2 and we do have a map and information here today that show that
3 this is the case, together with informal assurances that all
4 parcels of more than one acre whose commitment will be necessary
5 in order to carry out unit operations will be committed.

6 This matter was flagged in this item for Commission
7 consideration to indicate that it was a problem; and at the time
8 of preparation of the item, the substantiating data were not as
9 completely available as they have been brought to the meeting
10 today by the City of Long Beach; so that this item actually be-
11 comes one of report to the Commission simply that the require-
12 ments necessitated or brought about by the specifications in the
13 Unit Agreement apparently will be met, and can be met, and that
14 there are sufficient letters of intent, commitment, and so forth,
15 in anticipation of the approval of this agreement that this mat-
16 ter will not be one that will in any wise jeopardize the ulti-
17 mate execution of the agreement.

18 Also, it should be brought to the attention of the
19 Commission that, in accordance with the provisions of the Field
20 Contractor Agreement, the successful bidder will acquire control
21 of the production from Tract Number 1 -- or would acquire it --
22 which can ultimately represent a considerable portion of the
23 total possible California production. In view of the fact that
24 such bidder could already control substantial other production
25 within the State, it has been suggested that it might be desir-
26 able to consider the effect of this control over a large portion
27 of California production on the public welfare.

28 A possible solution suggested has been that a per-
29 centage of the oil allocated to Tract 1 could be made available
30 to small refineries pursuant to public bidding in a manner simi-
31 lar to that utilized by the United States Department of Interior

1 in the sale of its royalty crude oil. It is understood that
2 this procedure requires that these qualifying companies be those
3 independent refinery companies who can prove their need for
4 crude oil and whose total production does not exceed 30,000
5 barrels per day and whose total personnel does not exceed five
6 hundred.

7 Additionally, in order to provide for maximum industry
8 participation, it has also been suggested that the area included
9 in Tract 1 in the Field Contractor Agreement could be divided
10 for bidding purposes into four equal parcels, for example; hence,
11 a greater portion of the petroleum industry could share in the
12 production from Tract 1. One of the successful bidders could
13 become the Field Contractor for Tract Number 1, and the City
14 ordinance requirement for operation of the tract as a single
15 tract would not be violated.

16 However, in view of the highly complex administrative
17 problems which would be encountered, and in view of lower indi-
18 vidual oil allocations, it is doubtful if the cumulative City
19 and State revenues received in paragraphs 2. and 3 (two preced-
20 ing paragraphs) would be as high as those which would be re-
21 ceived pursuant to the presently formulated plan.

22 Maximum industry participation in a single parcel
23 offer could be afforded -- probably could be expanded -- by
24 consideration of establishing the bid period at not less than
25 six months, to provide adequate opportunity for any arrangement
26 of joint bids by any groups who may wish to avail themselves of
27 this opportunity.

28 In connection with, or following this review, and
29 based on this review, Mr. Chairman, we have received the follow-
30 ing letters, in which the senders have requested they be made
31 part of the record. With your permission, I will read them

1 for the record:

2 Long Beach Unified School District to State Lands

3 Commission:

4 "Gentlemen:

5 The Long Beach Unified School District owns
6 property within the proposed Long Beach unit area.
7 We foresee an important addition to the economy
8 of our District, as well as all of California,
9 through the expenditure of millions of dollars
10 to drill hundreds of oil wells and provide
11 hundreds of new jobs.

12 Also we are interested in the income we anticipate
13 from the 33 acres of District lands included with-
14 in the unit area, and of course in the additional
15 mineral rights tax which will bolster the exist-
16 ing tax base of the District.

17 We have had a representative at the Management
18 Committee meetings of the Long Beach unit and
19 we are impressed with the sound and economical
20 approach used in the formation of the Unit Agree-
21 ments and the proposed Field Contractor Agreement
22 in resolving the problem of producing oil without
23 risking subsidence or despoiling the beach.

24 Very truly yours,

25 Owen J. Cook " "
26 Assistant Superintendent (Business)

27 SENATOR O'SULLIVAN: Do they understand - - do you
28 think the writer of that letter understands they are not going
29 to get any tax revenue?

30 MR. HORTIG: I would not gather that. Inasmuch as
31 the City Attorney of the City of Long Beach is with us here
today, Senator O'Sullivan, and I am sure will be heard from
later, an interpretation of that specific question, I think,
would be helpful to all of us.

32 From Property Owners Oil Development Association,
33 Inc. to State Lands Commission:

"Gentlemen:

We request that this letter be read into the record
of the hearing of the State Lands Commission sched-
uled for February 28, 1963, concerning the proposed

1 "Field Contractor Agreement.

2 The Property Owners Oil Development Association,
3 Inc. of Long Beach, California, represents the
4 majority of the property owners in the Townlot
5 area of the offshore oil development of the Long
6 Beach Unit of the Wilmington Oil Field.

7 Being property owners we have followed oil devel-
8 opments in the Long Beach Shoreline Area closely
9 since the early 1950s when the first leasing
10 campaigns by the oil companies occurred. We
11 have seen the damage wrought by subsidence in
12 the Long Beach Harbor, and, above all, we wish
13 to preserve our beautiful shoreline and our superb
14 residential areas.

15 With these thoughts in mind we supported the
16 ordinance adopted by the people of Long Beach at
17 the election of February 28, 1962, which permitted
18 drilling but with safeguards and controls to pro-
19 tect us from subsidence and preserve our beaches
20 and residential areas.

21 We then participated in the many meetings from
22 which the Unit and Unit Operating Agreements
23 evolved. We are satisfied with the provisions of
24 these agreements.

25 We wish to praise the representatives of the City
26 of Long Beach for the astute and determined manner
27 in which they protected the interest of the State
28 and City without impinging upon the rights of the
29 private property owners.

30 In the course of the meetings we discussed the
31 operational problems of the Unit. It was obvious
32 that the Field Contractor would have to be under
33 the control of the City, as required by the
34 ordinance, as a safeguard against the dangers of
35 subsidence. It was also obvious that the most
36 economical and efficient method of operation would
37 be to have all operations under a single Field
38 Contractor. We believe the proposed Field Con-
39 tractor Agreement is an excellent solution to the
40 problem, and urge the State Lands Commission to
41 immediately approve it and the Unit and Unit
42 Operating Agreements so the development can
43 commence.

44 Yours sincerely,

45 Russell M. Brougher, President
46 Property Owners Oil Development
47 Association, Inc. "

48 Richfield Oil Corporation to State Lands Commission:

49 "Gentlemen:

50 This letter relates to "Unit Agreement, Unit Oper-
51 ating Agreement, Exhibits, and Field Contractor

1 "Agreement, Long Beach Unit, Wilmington Oil Field,
2 Los Angeles County," being calendar item 28 on
3 the calendar for the Commission's meeting of
4 February 28, and particularly to subparagraph 1
5 on page 8 of said calendar item 28.

6 Richfield Oil Corporation holds oil and gas
7 leases on 1,015 acres, or approximately 53%, of
8 the 'participating Townlot Area' referred to
9 therein.

10 Richfield participated in the negotiation with
11 the City and other parties holding leases in the
12 Townlot Area of the drafts of unit agreement,
13 unit operating agreement and exhibits above re-
14 ferred to, in the forms thereof respectively
15 submitted to the Commission, and we are willing
16 to commit all oil and gas leases that we hold in
17 the 'participating Townlot Area' to a unit so
18 constituted.

19 Furthermore, we have given consideration to the
20 form of field contractor agreement submitted to
21 the Commission. We believe that it is sound
22 and workable, and we intend to submit a bid for
23 the field contractor agreement if it is offered
24 for bidding in the reasonably near future."

25 Texaco Inc. to the State Lands Commission:

26 "Reference is made to Mr. T. W. Bell's letter
27 dated December 18, 1962, to you under the above
28 subject. We desire that said letter be made a
29 part of the public record at the hearing of the
30 State Lands Commission on February 28, 1963.
31 Enclosed are fifteen copies of said letter for
the use of the State Lands Commission and for
such other distribution as you desire to make "

Letter of December 18, 1962 from Texaco Inc. to

State Lands Commission:

"Gentlemen:

Texaco Inc. desires to go on record as objecting
to the form of agreement being offered by the City
of Long Beach covering its tide and submerged lands,
which agreement is entitled "Field Contractor Agree-
ment, Long Beach Unit, Wilmington Oil Field, Cali-
fornia." A few of our objections to this contract
are as follows:

1) The contract as now drafted does not provide
for any specific well spacing, time between wells,
location, or rates of production. The operational
features are entirely under the control of the City
of Long Beach. By this arrangement, the City
could control the number of wells drilled and the
production in the latter part of the 35-year con-
tract period, thus resulting in little or no net

1 "profits, and to the extent of making a more
2 favorable contract with someone else upon the
3 termination of the existing contract. All
4 existing facilities would then be turned over
5 to the new contractor who would benefit materi-
6 ally with only a nominal cash outlay.

7 2) The agreement provides that, after con-
8 struction of the offshore island, the contractor
9 shall undertake the drilling of a minimum of 40
10 wells including injection and producing wells,
11 and that at least ten of these wells be drilled
12 into the townlot area. The idea of injecting
13 water into the reservoir concurrently with ini-
14 tial development may not be a sound engineering
15 practice and could possibly result in premature
16 bypassing of oil. This feature could result in
17 a loss of revenue to all concerned.

18 3) The force majeure clause does not excuse
19 the monthly payments to be made by the contractor
20 pursuant to the provisions of the agreement. We
21 believe the contractor should be excused from mak-
22 ing these monthly payments when it is prohibited
23 from performing its obligations for reasons be-
24 yond its control, and

25 4) A strict interpretation of the Indemnity
26 and Insurance Provision of the Field Contractor
27 Agreement indicates that the Field Contractor
28 could be held liable for claims and lawsuits
29 arising out of alleged subsidence. Without a
30 voice in the contract, the contractor should not
31 be required to indemnify the City and other parti-
cipants against such a liability.

A project of this magnitude and the many facets
involved should provide a contract that is clear
and explicit in every detail. This is not true
of this agreement. The contract calls for many
controversial provisions and no two prospective
bidders will interpret certain provisions in the
same manner. One bidder may base its bid on a
literal reading of the contract, while another on
what it believes was intended. This is most un-
fortunate where a contract is being offered for
public bidding.

In summary we strongly believe that it will prove
equally important to the state, as the part owner
of the submerged lands involved, and to the pros-
pective bidder, that the contract proposed by the
City of Long Beach provide for a definite, speci-
fic plan for development of these large reserves.
Such plan should set forth those fundamental fea-
tures such as the wells, zonal spacing, time be-
tween wells, and the rates of production. With
regard to the timing of secondary recovery opera-
tions, including the drilling of service wells
and rates of water injection, the Contractor
should be required to formulate and submit such
plans in line with prudent operations and sound

1 "engineering practices. The contract as now
2 proposed leaves all of the operational features
3 under the future control of the City of Long
4 Beach. This makes it impossible at this time
5 to determine the rates of production to be ob-
6 tained and the amount of oil to be recovered
7 from this reservoir. Therefore, a prospective
8 bidder will not be sure of his estimates of the
9 net profits which might be realized from enter-
ing this contract. It is in the best interest
of the State to obtain the optimum development
of these reserves and to receive a bid which
will provide the State its maximum share of
income from this operation. We, therefore,
request that the form of agreement presently
submitted by the City not be approved by the
State Lands Commission.

10 Very truly yours,

11 T. W. Bell "

12 MR. HORTIG: (continuing) Mr. Chairman, certainly
13 not speaking for Texaco, who are represented here today and I
14 am sure will be heard from later, I would like to call atten-
15 tion of the Commission to the fact that as a matter of timing
16 and by the nature of receipt of clearance for reading this
17 letter into the record, which was prepared on December 18,
18 1962, Texaco did not have the advantage with respect to oper-
19 ating controls and specifications, of standards and conditions
20 so as to modify or include comments in line with the provisions
21 now included in the recommendation before the State Lands Com-
22 mission for control conditions to be directed and carried on
23 cooperatively between the City of Long Beach and the State
24 Lands Commission; and as to those phases, I would expect that
25 Texaco would expect to present some modifying statement.

26 As to the business aspects of their letter, I
27 would feel they are in the best position to indicate to the
28 Commission whether any of those require modification in the
29 light of the changed form of contract which is being consid-
30 ered by the Commission here today, as against the time this
31 analysis was originally prepared.

1 MR. CRANSTON: Does that complete your presentation,
2 Frank?

3 MR. HORTIG: Yes, sir; unless there are any further
4 questions from the Commission or the Committees.

5 SENATOR DOLWIG: Mr. Horig, is there a specific
6 reason that the agreement is proposed to include all the other
7 tracts and not just Tract Number 1 -- for the State to enter
8 into an agreement on Number 1 and not the other tracts?

9 MR. HORTIG: I believe, Senator Dolwig, the answer is
10 that under the existing ordinance and probably in compliance
11 with the other statutes relating to the development of oil and
12 gas, there could not be development of Tract 1 only, without
13 including Tracts 3 through 91, being the upland portion of the
14 operations.

15 SENATOR DOLWIG: Why is that?

16 MR. HORTIG: Because the people owning the oil and gas,
17 if any there be under the upland, at the present time would be
18 precluded from developing oil and gas beneath their property
19 because there is still an anti-drilling ordinance in the City
20 of Long Beach which preclude them from direct drilling in the
21 Town Lot area of Long Beach.

22 Therefore, if operations were undertaken by the City
23 of Long Beach for oil and gas, which would not result in ability
24 for the owners of the upland area to drill for their own oil and
25 gas, this would present a serious question. I expect the City
26 of Long Beach would be in court explaining why they should be
27 permitted to continue with an operation of that type.

28 Therefore, it is essential that the total area be
29 developed under a unit plan, so that every equity ownership in
30 the oil and gas has production, in fact.

31 As to Tract 2, the area at the eastern end of the

1 City, or the Alamitos Beach State Park parcel, this problem is
2 still to be resolved and to be presented to the State Lands
3 Commission as to whether to commit such tract into the unit
4 development along with Tract 1 in the future; and there is a
5 terminal date of January 1, 1964, up to which the State can or
6 could commit Tract 2 to the unit development, or such later
7 date that may be agreed to by the parties.

8 The other alternative, of course, that is still avail-
9 able to the Lands Commission, since the court determination
10 that the oil and gas in the Alamitos Bay State Beach Park parcel
11 are under the jurisdiction of the Commission, is to consider
12 whether to offer that parcel for separate development under a
13 separate oil and gas lease.

14 SENATOR DOLWIG: That's a policy decision?

15 MR. HORTIG: That is a policy decision.

16 SENATOR DOLWIG: I have one further question. Will
17 you tell us very briefly your understanding of how the State's
18 share of the revenue would be determined under these proposed
19 agreements, without going into the details?

20 MR. HORTIG: Yes, sir. From the known geology and as
21 modified by additional data which will develop from drilling
22 the producing wells in Tract 1, if the State Park parcel were
23 to be allocated as part of the unit, then the production poten-
24 tial of the State Park parcel would be calculated and oil would
25 be allocated to the State's credit in the same proportion that
26 it was calculated the State Park parcel was contributing to the
27 production capacity of the entire unit area; and one hundred
28 per cent of the revenue from that allocation of oil, which
29 would be sold by the City as the unit operator, if this were
30 authorized, or by the State's lessee who had committed the
31 tract to the unit operations -- one hundred per cent of the

1 value of the oil so sold would accrue to the credit of the State.

2 If the State Park parcel is developed under a separate
3 oil and gas lease, then one hundred per cent of the royalties
4 and bonus that might be collected for such award would be simi-
5 larly accrued to the State.

6 As to Tract 1, under existing State law whatever oil
7 is allocated in the unit operation -- which is now estimated will
8 amount to eighty-five per cent of the total production, roughly,
9 allocated to Tract 1 -- when sold and after the cost of opera-
10 tions have been paid and there is a remaining net profit, fifty
11 per cent of that net profit from the oil and one hundred per
12 cent of the net profit from any gas produced would be remitted
13 to the State, and the remaining fifty per cent net profit from
14 the oil would be retained by the City of Long Beach for trust
15 purposes.

16 SENATOR DOLWIG: What about this one per cent you
17 have mentioned in your exhibits?

18 MR. HORTIG: That one per cent is an overhead charge
19 for administration.

20 SENATOR DOLWIG: Does that come from the top or out
21 of the State's share?

22 MR. HORTIG: It is taken from the top, but there are
23 certain other specific limitations which were put in to keep it
24 from being applied to claims where it should not apply. Jay,
25 would you comment on that?

26 MR. SHAVELSON: Yes. We were concerned with that one
27 per cent in two respects. We didn't feel that the City, inso-
28 far as it was operating the tract, should make any profit on
29 that operation. If, on the other hand, its overhead cost would
30 exceed one percent, that would be a proper charge against the
31 oil revenues. So, against the agreement of one per cent to

1 other parties, as between the City and the State we prepared a
2 bilateral agreement, under which that one per cent will be ac-
3 counted to the State as oil revenue, that is fifty-fifty, and
4 then the City will be entitled to deduct its actual costs of
5 overhead for production -- which, under Chapter 29, it is allow-
6 ed to do.

7 So I believe the way it is set up now, there is no
8 chance of the City making a profit or suffering a loss from
9 this one per cent.

10 MR. HORTIG: Insofar as it is attributable to Tract 1.

11 SENATOR DOLWIG: So it is still in the contract?

12 MR. SHAVELSON: It is in the Unit Operating Agreement
13 and as against the other parties it will go to the City; and
14 then the City will account for it to the State, and then will
15 take a deduction of the actual costs for the matters for which
16 that one per cent was obtainable.

17 SENATOR DOLWIG: Thank you. Does the State Lands Com-
18 mission have a record of all payments made to the State since
19 1955?

20 MR. CRANSTON: Yes, we do.

21 SENATOR DOLWIG: Could we have a copy of all the
22 breakdown of all revenues accrued to the State and how they
23 were determined, and how much went to Long Beach?

24 MR. CRANSTON: Frank, is that available?

25 MR. HORTIG: Yes.

26 MR. CHAMPION: Frank, may I ask a question? Admitting
27 there are some imponderables here, but looking at the State pro-
28 cedure and the Contractor's Agreement proposal, if the necessary
29 legal adjustments were made, does it not now appear that it
30 would be much more profitable to the State in terms of its
31 ultimate revenue on Tract 2 to participate in the Unit Agreement?

1 MR. HORTIG: Emphasizing your opening premise, Mr.
2 Champion, that there are some imponderables, and neglecting
3 those for the moment, the answer to your question is yes.

4 MR. CHAMPION: In other words, that is the kind of
5 expectation to which we might very well look. We have got a
6 lot of things to see before we do it.

7 MR. HORTIG: That is correct. Of course, the situa-
8 tion really resolves itself to this -- as to there being no
9 choice as to a selection of procedures that could be applied to
10 this area in terms of one procedure being more desirable than
11 another. The service contract operation is the only way this
12 procedure can be carried forward by the City of Long Beach as
13 a trustee, and even though it could be shown, for example, that
14 an oil and gas lease under a procedure with cash bonus might
15 theoretically yield "X" additional dollars, this procedure is
16 not available for application in this area because of the
17 reversionary provisions in the tidelands grants.

18 So the actual benefits to accrue to both the City
19 and the State are not going to be determined by selection of
20 procedure so much as they are from affording the maximum oppor-
21 tunity for the best competitive bidding on the one type of
22 procedure which can be applied to this area -- which is the
23 service contract approach.

24 MR. CHAMPION: But these do happen to coincide as
25 to the greatest profit?

26 MR. HORTIG: Yes, and with the greatest probability
27 for the greatest profit.

28 SENATOR O'SULLIVAN: Mr. Hortig, why are you limited
29 to this method of bidding -- this type of agreement in the
30 Long Beach Parcel 1?

31 MR. HORTIG: This goes back to my earlier statement,

1 Senator O'Sullivan, that the tideland grant acts by the Legis-
2 lature to the City of Long Beach all prohibit transfer, convey-
3 ance, alienation, or any infringement on any portion of the
4 title as to the granted tide and submerged lands; and the only
5 other method generally available for oil and gas development --
6 as you know, sir, of course -- would be the normal form of oil
7 and gas lease, which it has been felt would convey title and
8 would raise a question.... I think the Attorney General's rep-
9 resentative, Mr. Shavelson, would like to amplify on that.

10 MR. SHAVELSON: Yes. At the time this was our be-
11 lief -- at the time of the original L.B.O.D. contract back in
12 1938 or '39. However, today I don't think the issuance of an
13 oil and gas lease by a grantee of Legislative-granted tide and
14 submerged lands would be an alienation of those lands or a
15 violation. As a matter of fact, we know, for example, that
16 the City of Los Angeles is using the lease procedure and I
17 don't think that they are violating their grant in doing so.

18 So I believe, just as a theoretical matter, the leas-
19 ing alternative would be available if they choose to use it.
20 I believe they feel that this method is a better one from their
21 standpoint. They were forced into it in the first instance;
22 now they think it is better.

23 SENATOR O'SULLIVAN: You are speaking here for the
24 Attorney General?

25 MR. SHAVELSON: Yes.

26 SENATOR O'SULLIVAN: And he is the chief legal
27 adviser of the State of California?

28 MR. SHAVELSON: Yes.

29 SENATOR O'SULLIVAN: And you feel the leasing method
30 would be legal?

31 MR. SHAVELSON: Yes.

1 SENATOR O'SULLIVAN: And your testimony is directly
2 contrary to what has been previously said by Mr. Hortig?

3 MR. SHAVELSON: I think what Mr. Hortig was saying --
4 he was talking about the L.B.O.D. and Richfield contracts, and
5 at that time there may have been some question.

6 In the case of City of Long Beach versus Marshall in
7 the California Supreme Court, it was indicated that the lease
8 would not be an alienation of the title on tideland grants.

9 SENATOR O'SULLIVAN: I meant no reflection on Mr.
10 Hortig in any way. I merely assume he is speaking from an
11 older decision of the courts.

12 MR. SHAVELSON: Not an older decision, but, rather,
13 the terms of the tideland grants themselves say that the City
14 cannot alienate these lands; and at one time I think there was
15 a substantial doubt as to what would constitute an alienation.
16 In my opinion - - I don't want this to be a final, binding
17 opinion of the Attorney General's Office -- but in my personal
18 opinion right now, issuance of a lease would not be an
19 alienation.

20 MR. CRANSTON: Without seeking to determine the legal
21 point, I would like to ask Mr. Hortig to comment on the rela-
22 tive merits of revenues in the two methods.

23 MR. HORTIG: Yes, Mr. Chairman. We previously report-
24 ed to the Commission on the relative merits and, in summary,
25 the finding was that for offering a given area of known quality
26 or even tentatively known quality, as has always been the case
27 on tide and submerged lands offered by the City of Long Beach,
28 that when proper accounting credit is given for all of the
29 economic factors that differentiate the percentage of the net
30 profits or percentage of the gross type contract of all State
31 oil and gas leases, that in whatever form oil and gas

1 withdrawal was authorized by a government agency pursuant to
2 public bidding, essentially the same ultimate net profit will
3 result to the lessor or the contractor -- whether it be by
4 percentage of the net profits route or an oil and gas lease.

5 Patently, the high bidder is offering to pay and com-
6 pensate the landowner in a maximum amount which he can afford
7 to pay, and whether he is going to pay this as a result of a
8 percentage of net profit or as a royalty percentage and/or
9 bonus, is going to be translated into either of those terms
10 by his electronic computer, and in accordance with his ability
11 to predict these imponderables in the future. So he offers to
12 pay the same gross amount of money ultimately, irrespective of
13 the form of contract offered to him.

14 Now, there are certain features that result in what
15 appear to be at first blush really high bids. For example,
16 one that is oft quoted -- this ninety-five per cent bid offered
17 to Long Beach for operation of one of the existing parcels.
18 This is not a net percentage when you realize that in that con-
19 tract the City has to advance all the capital and continues to
20 advance the capital for replacement of equipment that is becom-
21 ing obsolete and depreciated, and must be replaced, with the
22 result that a reasonable prediction can be made that by the
23 time that contract has developed the oil to exhaustion in this
24 particular area, the net to the City from that contract will be
25 much closer to fifty per cent than to any other value; and a
26 fifty per cent royalty from a State lease has been achieved
27 and, indeed, fifty per cent royalty rates on which an additional
28 cash bonus has been paid.

29 So the circumstances that require the selection of a
30 method, I think, are actually the determining criteria and not
31 which system is going to produce the most revenue.

AFTERNOON SESSION, FEBRUARY 28, 1963 - 1:25 p.m.

1
2 MR. CRANSTON: The meeting will please come to order.
3 Before proceeding with the presentation by Long Beach, Frank
4 Hortig will read two additional communications received from
5 interested parties into the record.

6 MR. HORTIG: Yes, Mr. Chairman. Actually, it is a
7 total of three. First, Standard Oil Company of California,
8 Western Operations, Inc., addressed Honorable Alan Cranston,
9 Chairman:

10 "Dear Sir:

11 This company holds oil and gas leases and other
12 oil and gas rights on about 147 acres, or approxi-
13 mately eight per cent, of the acreage in the
Town Lot Area within the proposed Long Beach
Unit Area.

14 At the invitation of the City along with other
15 upland owners, we have participated in the formu-
16 lation of the proposed Unit Agreement and Unit
Operating Agreement which have been submitted
for your approval by the City of Long Beach.

17 In our judgment, these documents represent a
18 sound and practical program for development of
19 the proposed Unit Area and for coping with the
possibility of 'subsidence' therein. We are
prepared to sign these documents if they are
approved by your Commission.

20 We have carefully analyzed the proposed Field
21 Contractor Agreement which has also been sub-
22 mitted by the City for your approval. We believe
23 it would satisfactorily implement the provisions
of the Unit Agreement and Unit Operating Agree-
24 ment, and we find nothing in it that would pre-
vent this company from bidding if it is offered
for bid in the form submitted to you.

25 Very truly yours,

26 H. G. Vesper "

27 Signal Oil and Gas Company, addressed to Honorable
28 Alan Cranston, Chairman:

29 "Dear Sir:

30 We have carefully considered subject documents.
31 (Subject documents being proposed Unit Agreement,
proposed Unit Operating Agreement, and proposed

1 "Field Contractor's Agreement, Long Beach Unit,
2 Wilmington Oil Field, California). In our
3 judgment, the Unit Agreement and Unit Operat-
4 ing Agreement represent a sound and practical
5 plan for the development and operation of the
6 proposed Unit Area. We are also of the opin-
7 ion that the Field Contractor Agreement appro-
8 priately implements the Unit and Unit Operating
9 Agreements. We urge that these documents be
10 approved.

11 Very truly yours,

12 Signal Oil and Gas Company

13 By

14 (Mr. Hortig continuing) I believe it is probably R. W. Heath,
15 Executive Vice President.

16 Telegram to Alan Cranston, State Lands Commissioner,
17 Capitol Building, Sacramento, California:

18 "Continental Eastern Corp. owner of approxi-
19 mately 115 acres approves the Long Beach
20 operating unit. Feel contract and present
21 supplemental agreements are fair and equitable
22 for all concerned. We believe it most econ-
23 omical plan to be devised. We feel that area
24 should be developed in one large unit rather
25 than split up into a number of smaller units
26 both for good oil field practice and economic
27 reasons. We intend to sign all present agree-
28 ments after their approval by State Lands
29 Commission. We believe it in best interests
30 of State of California, City of Long Beach and
31 on shore landowners and lease owners to begin
operation soon as possible.

Continental Eastern Corp. by
E. C. Simmons, President "

MR. CRANSTON: Is the representative from Long Beach
ready to come forward? Jerry Desmond, City Attorney, and
H. G. Lingle, Assistant City Attorney.

MR. DESMOND: Mr. Chairman, members of the Commission,
members of the Legislature, I want to note first the presence
here of a number of people that have worked very hard on the
contracts and the documents that are before the Commission for
approval. I'd like to mention, first of all, that we also have
here, representing the City Council, the former Mayor, Raymond

1 C. Kealer, who is the Chairman of the Council's Oil Committee,
2 a petroleum engineer himself, and has been on the Council for
3 approximately sixteen years.

4 In addition, Bert Bond, who is the Mayor Pro Tem for
5 the City of Long Beach, is also here; in addition, our City
6 Manager, John Mansell -- who, of course, has been living with
7 this matter for a good many months.

8 Beside me is Deputy City Attorney Harold A. Lingle --
9 who, together with Leonard Brock, who is also present, the
10 Petroleum Administrator of the City of Long Beach, is really
11 the author of these documents.

12 In addition, we have had advice and assistance from
13 the Harbor Department and their very fine Petroleum Division.
14 The Chief Petroleum Engineer of the Long Beach Harbor Depart-
15 ment, Doctor Manuel Mayuga, is also present.

16 Mr. Harry Fulton, the Special Assistant to the City
17 Manager, is also present.

18 I speak of the Long Beach people and I certainly want
19 to express appreciation at this time for that which they have
20 done certainly to the people themselves; and for the tremendous
21 cooperation and wonderful working relationship with Frank
22 Hortig and his entire staff, and certainly with Attorney Gen-
23 eral Mosk's Office and, in particular, Deputy Attorney General
24 Jay Shavelson, we are very appreciative.

25 We want to say, first of all, that the report which
26 is before you, I think, does in a very excellent manner sum up
27 some most complex and complicated written agreements, arrange-
28 ments, exhibits, and all of the rest. I think it sets it forth
29 clearly, accurately, and in an excellent manner.

30 The City of Long Beach hopes this year to undertake
31 development of the largest oil reserve in the State of

1 California, the huge east Wilmington Oil Field, which underlies
2 the shoreline area of Long Beach, as has been pointed out in
3 this exhibit, and extends over an area of approximately 6,500
4 acres. It includes 4,400 acres of tide and submerged lands held
5 in trust by the City of Long Beach; in addition, 1800 acres of
6 privately owned upland property; and 300 acres of tidelands in
7 the former Alamitos State Beach Park, in which, although the
8 property is in Long Beach, the minerals are owned exclusively by
9 the State -- which is known as Tract Number 2.

10 As Mr. Hortig pointed out to you previously, gentlemen,
11 the Alamitos Beach State Park is the area which was conveyed to
12 the City of Long Beach in 1961 by the State of California. How-
13 ever, there was a reservation of the minerals and those do belong
14 entirely to the State of California, as they have, incidentally,
15 since about 1932, although at that time it was known that there
16 was oil in the area.

17 Core hole drilling operations conducted by the City
18 during the past year confirmed earlier predictions of a large
19 field; the existence of six production zones was proven.
20 Petroleum engineers estimate that the East Wilmington Field,
21 the center of which is in the Long Beach Harbor District, will
22 yield about one and a half billion barrels of oil.

23 Orderly development of the field poses numerous prob-
24 lems and challenges. First, it is located in a subsidence dis-
25 trict and every effort must be expended to protect hundreds of
26 millions of dollars worth of private and public property from
27 land sinkage. In addition, the land underlies one of the most
28 scenic water areas along the California coastline. It is import-
29 ant that the natural beauty and utility of the area be preserved.

30 Proceeding in accordance with the State's subsidence
31 control law and in compliance with City ordinance requirements

1 for controlled drilling, the City of Long Beach has prepared a
2 development program for the East Wilmington Field.

3 May I at this point say that these documents have
4 been prepared by the City, but at all times I have already
5 mentioned the assistance and cooperation of both Mr. Hortig's
6 staff and the Attorney General's staff; and the representatives
7 of the State have been present during many, many meetings that
8 were held, particularly before the Unit Agreement, Unit Operat-
9 ing Agreement, came into final form.

10 The objective of the program is to produce the maxi-
11 mum amount of recoverable oil and gas, while at the same time
12 protecting the City from subsidence damage. Long Beach proposes
13 to achieve this objective by means of a unitized oil development
14 program under which waterflooding operations would be conducted
15 in the oil zones to maintain underground pressures, thereby
16 increasing oil recovery and preventing subsidence.

17 Similar unitized water injection programs currently
18 are being conducted in the Harbor portion of the Long Beach oil
19 fields with successful results. They have been highly success-
20 ful both in arresting subsidence and increasing oil recovery.

21 On February 27, 1962, a year ago yesterday, the voters
22 of the City of Long Beach by a three-to-one majority lifted a
23 ban against drilling in the City's offshore area and approved
24 drilling in the East Wilmington Field on a carefully controlled
25 basis.

26 As the Chairman has previously mentioned, it has been
27 known for quite a period of time there has been oil offshore.
28 The subsidence problem had to be corrected first. Certainly,
29 the citizens would not have removed the ban on drilling unless
30 first the problem had been corrected and, secondly, the con-
31 trols were placed in the new proceeding.

1 The City, right after the election in February of
2 last year, commenced preparation of the agreements providing for
3 development of the field as a single unit. The Unit Agreement,
4 Unit Operating Agreement, and related exhibits were drafted,
5 under which all owners of the oil and gas reserves would pool
6 their interests, contribute to the cost of the proposed water
7 injection program, and share proportionately in the oil recov-
8 ered. Involved in the negotiations to form the new Long Beach
9 Unit, in addition to the City, were seven oil companies:
10 Richfield, Superior, Standard, Signal, Union, Continental Eastern
11 and Jade -- which have Town Lot leases on nearly all of the
12 ten thousand parcels of Town Lot property located in the upland
13 portion of the field. Also represented at management negotia-
14 tion meetings were an Independent Property Owners Oil Develop-
15 ment Association, from which you heard this morning; the Long
16 Beach Unified School District; and representatives of the State
17 Lands Commission and the Attorney General.

18 May I mention at this time there was a question regard-
19 ing the School District letter and perhaps what appeared to be
20 a misunderstanding. The School District was represented at all
21 of these meetings. They do know, I am sure, their rights.
22 When Mr. Hortig was referring to there being no tax, he was at
23 that time speaking of Track Number 1. The thirty-three acres of
24 land which the School District informed you gentlemen about in
25 their letter, of course, are all located on the upland areas and
26 those are subject to the tax and that is the source of revenue
27 for the School District. The Long Beach Unified School District
28 covers not only schools in the City of Long Beach, but the City
29 of Lakewood, Signal Hill, Avalon, and some other county towns.

30 The agreements and exhibits were completed in Septem-
31 ber 1962, approved by the City Council and by the oil companies

1 involved, and they have been filed with you for final approval.

2 In compliance with the City's offshore drilling ordin-
3 ance, the documents confine oil drilling operations to not more
4 than four attractively landscaped drilling islands and require
5 that all related activity be conducted through the industrial
6 harbor district and not across the City's beach.

7 Mr. Lingle will now show a sketch, copies of which
8 will be made available to the Commissioners, of the type of
9 island that is proposed, has been designed by petroleum experts
10 in the field. From four islands located in the offshore area,
11 the entire field -- both the eighty-five per cent in Tract No. 1
12 as well as the balance, the fifteen per cent remaining in the
13 upland area as well as Tract Number 2, the former State Park
14 area -- could all be reached and fully and economically developed.
15 This is, as I have stated, one of the requirements of the City
16 ordinance, which otherwise prohibited drilling in any other
17 manner.

18 The documents give the City control with respect to
19 matters related to subsidence prevention.

20 Provisions of both State law and the City Charter of
21 Long Beach require that competitive bids be sought on the pro-
22 posed development. Consequently, a Field Contractor Agreement
23 also has been prepared and filed with you for approval, before
24 being put out for bids.

25 To encourage efficiency and economy in operations and
26 to produce the maximum economic quantities of oil, the contract
27 provides for only one biddable factor -- a percentage of net
28 profits. In fact, the bid form has been prepared and attached
29 to the bid form will be the contract itself, and there will be
30 one place where there will be an opportunity for the bidder to
31 act, and that is to put in the percentage of net profits.

1 This contract also requires the successful bidder to
2 advance payments against future production to the State and the
3 City's tidelands trust. These payments amount to fifty-one mil-
4 lion dollars within the first thirty-six months of operation.

5 Another basic part of the Field Contractor Agreement,
6 as proposed by the City, calls for contracting for development of
7 City-controlled tide and submerged lands as a single tract rather
8 than splitting the area up into parcels. The Unit Agreements pro-
9 vide for development of the private Town Lot area also by the
10 City's contractor, and Long Beach believes that the inclusion of
11 the State Park area in the unit under similar arrangement would
12 be the most efficient procedure -- and, of course, that is a mat-
13 ter you gentlemen will be concerned with at a later time.

14 Long Beach favors the development of the field as a
15 single tract for various reasons -- in fact, insists it would
16 have to be. This approach would, first of all, provide for the
17 highest and best bid; it provides the most effective means of pre-
18 venting subsidence; it best serves the principles of unitization,
19 whereby a single unified operation is needed to obtain the maxi-
20 mum efficiency and economic return from waterflooding. It is
21 apparent that substantial operating economies could be realized
22 through single parcel development.

23 Long Beach does not believe that the offering of the
24 area as a single offering would detract from bidding. It is un-
25 likely that any one company anticipates bidding, would be bidding,
26 for itself alone. The City anticipates the bidding would be by
27 various companies, and the contract provides for this. It is
28 felt that any individual or company qualified to bid on even a
29 reasonable portion of the contract can either join a group
30 interested in bidding, or organize one itself.

31 I think perhaps some of the historical review would be

1 of interest, because we have talked about the tidelands grant.

2 In the year 1911, following and observing the State
3 policy to encourage communities to build harbors, grants were
4 made to a number of cities. As a matter of fact, in that same
5 year, the City of Oakland, the City of Los Angeles, the City of
6 San Diego, and the City of Long Beach were all granted their
7 tidelands for development of the harbor.

8 This was an entire grant of the fee title; there is
9 no reservation of minerals for the State. The Long Beach
10 grant embraced 13,000 acres, or more than twenty square miles.

11 Subsequent statutes, particularly the grant in 1925,
12 which repeated the language of 1911, provided that the revenues
13 from the lands might also be used for parks, parkways, highways,
14 and playgrounds. These, however, must be on the tidelands,
15 and under later statutes the expenditures must be for matters
16 of statewide, rather than local, interest.

17 Even before the grant of 1911, Long Beach had com-
18 menced to improve the tideland area. It had started the devel-
19 opment of the Long Beach Harbor; the City bonded and taxed
20 itself to finance work on the development of the inner harbor;
21 but it was the discovery of oil on adjacent property in 1936
22 which touched off a fabulous era of expansion for the Port of
23 Long Beach.

24 All of the area, looking at the aerial photograph,
25 which is, generally speaking, to the south -- Long Beach, as you
26 know, faces south on San Pedro Bay -- all of it along the former
27 coastline, the harbor and the naval station, is entirely re-
28 claimed land outside the high tide line, and it has been devel-
29 oped since 1938.

30 The City has had a number of test cases -- one, I
31 believe in 1938 (I believe Mr. Shavelson mentioned it earlier

1 today) considered the matter and decided the City had the auth-
2 ority to develop oil therein; the City could use the money for
3 purposes of the grants from that oil production.

4 Piers built for harbor purposes also served as drill-
5 ing platforms and revenue derived from production was used to
6 build transit sheds and other harbor facilities.

7 Although they have brought great benefits to Long
8 Beach, the tideland grants and matters related thereto have
9 caused problems. First, came the fight against Federal owner-
10 ship of all California tidelands. Next came a loss of revenue
11 to the State of California. And third, and most important, came
12 a virtual life and death struggle against subsidence -- land
13 sinkage which accompanied the oil development.

14 First, now relating to the matter of the Federal claim
15 in 1947, United States versus California, the United States
16 Supreme Court ruled that the Federal Government had paramount
17 rights over the tide and submerged lands. Long Beach was quick
18 to assume a position of leadership in the fight of coastal
19 states to avoid Federal seizure.

20 Oil was the principal issue in the tidelands battle
21 with the United States and, because of its great stake as a
22 trustee for the State, the City fought for retention of its tide
23 and submerged lands. Long Beach supported the program of the
24 National Association of Attorneys General to restore the tide-
25 lands to the states, maintained representation in Washington,
26 D.C. to assist in the effort, and operated a national public re-
27 lations program designed to bring the truth of the State's cause
28 to the public.

29 The California Senate Interim Committee on Tidelands
30 reported in 1953, and I quote:

31 "Credit is due the City of Long Beach for refusing to

1 "accept proposals by Federal officials which
2 would settle the City's problems at the expense
3 of the State's cause...."

4 and there were many opportunities to do that. Long Beach was
5 assured they would have full protection and all sorts of
6 Federal grants and we would have full and entire control.

7 To go on with the quotation:

8 "Long Beach has consistently refused to make a
9 separate agreement covering just its own situation
10 and has stayed in the fight to preserve the con-
11 stitutional principles being jeopardized."

12 Unquote, from the Senate Interim Committee.

13 The controversy over ownership of the tidelands was,
14 of course, resolved with the signing of the Submerged Lands Act
15 of 1953, which recognized that title rested in the coastal
16 states and in their grantees.

17 Second: During the years of debate over ownership
18 of the tidelands, Long Beach voluntarily impounded more than
19 one hundred fifty million dollars from tideland oil production.
20 This was more than the City then required to meet its trust
21 obligation, so Long Beach in 1951 sought and received permis-
22 sion of the State Legislature to spend half of its tideland
23 income for public improvements.

24 Actually, the legislation in 1951, which passed the
25 Legislature without a negative vote, declared surplus one-half
26 of all of the oil income and also declared surplus one hundred
27 per cent of the dry gas income; and before the bill was signed
28 by the then Governor, Earl Warren, he first requested and was
29 given assurances that it would be spent by the City only for
30 public improvements of long range and of permanent nature,
31 rather than for the general housekeeping activities of the

1 City, but still on municipal matters.

2 The taxpayers' suit challenged the act and ultimately
3 in 1955, in the case of Mallon versus the City of Long Beach,
4 the Supreme Court held that such proposed use of funds would be
5 unconstitutional and ruled that half of the money should go to
6 the State. It ruled that the intent of the Legislature must
7 have been not to do an unconstitutional act in granting the
8 tidelands grant funds and making an unconstitutional gift; that
9 perhaps the Legislature meant to declare this surplus and that
10 it would be returned to the grantor.

11 The following year (that was in 1955 -- the Supreme
12 Court decision), in 1956, faced with prospects of further liti-
13 gation of more than ten years, the then Attorney General, Pat
14 Brown, advised the legislative committees at the time in urging
15 approval of a compromise that his estimate was such litigation
16 might continue for more than ten years' time; so the City of
17 Long Beach and the State effectuated an agreement, A.B. 77,
18 which became Chapter 29 in '56. Under that, the City immediately
19 paid over to the State \$120 million to date itself back, then,
20 to the declaration of surplus coming in 1951, and it is now
21 obligated to pay half of all future tidelands oil revenue and
22 all of the proceeds from dry gas to the State. The remaining
23 half is used by the City of Long Beach only for tidelands trust
24 purposes -- with a few exceptions only upon the approval of the
25 State Lands Commission with the advice of the Attorney General,
26 and only for projects which are first determined to be of state-
27 wide rather than of local interest. I will mention a few of
28 those in a few moments.

29 The largest of all the problems encountered by Long
30 Beach in the production of tidelands oil was the creeping disas-
31 ter known as subsidence. Sinking in the harbor district of

1 Long Beach was first noticed in 1940. The ground surface at the
2 center of the Wilmington Oil Field began sinking at a rapid rate
3 and, slanting out from this center, the subsidence eventually
4 covered a twenty-square-mile bowl-shaped area.

5 Before a solution to the problem was found, the center
6 of sinking had dropped to a depth of more than twenty-six feet,
7 damages totaled ninety million dollars, and properties valued at
8 five hundred million dollars were threatened with destruction.

9 The welcome answer to subsidence was water flooding to
10 increase underground pressures in the oil field. With the help
11 of the Attorney General's Office and the oil industry, Long Beach
12 succeeded in obtaining and using the subsidence law to ward off
13 disaster. This law enabled the City, the State, and private oil
14 operators to cooperate in the formation of units and flooding
15 cooperatives to repressure the oil field.

16 At the present time, three fault block areas in the
17 harbor area have been unitized, both upland and tideland areas --
18 just as is proposed in this Long Beach unit, both private and
19 public property involved. The Supreme Court of the State approv-
20 ed the unit agreement in early 1961. To date, 637 million bar-
21 rels of water have been injected under pressure into the Wilming-
22 ton Oil Field. At the present, the rate of injection is 535
23 thousand barrels of water per day.

24 Results have been phenomenal. Sinking has been com-
25 pletely stopped in all areas including the Long Beach Naval
26 Shipyard, downtown Long Beach, and the entire harbor waterfront.
27 Sinking at the center of the bowl now is less than three inches
28 per year, as compared to a peak at one time of two and a half
29 feet per year.

30 Also, the repressuring operations are greatly increas-
31 ing oil recovery. Since large-scale repressuring was started in

1 1958, secondary recovery, which would never have been recovered
2 by natural or primary means, already has paid for the program and
3 paid an extra ten million dollars to the Long Beach tideland
4 trust.

5 Since the start of tideland oil development in the
6 Wilmington Oil Field in 1939, Long Beach tideland leases have
7 produced a net revenue of more than \$360 million. The two City
8 contracts now in effect, both obtained through competitive bidding
9 are generally regarded as the best in the United States.

10 Quoting again from the Senate Interim Committee on
11 Tidelands:

12 "Revenues to the City are probably the highest of any
13 such contracts in the history of the oil industry.
14 Under one contract with Long Beach Oil Development
15 Company the City receives 85.85 per cent of the
16 gross revenues of the oil produced and under the
17 other contract with Richfield Oil Corporation, it
18 receives 94.1 per cent of the gross oil revenues."

19 I think those figures are not quite accurate, but in that respect
20 only. Further quoting:

21 "The City has netted over fifty-four per cent of the
22 gross revenues...."

23 This is "netted" according to the Senate Committee report - -

24 "Netted over fifty-four per cent of the gross revenue
25 on the L.B.O.D. parcel and over sixty-seven per cent
26 on the Richfield Oil Corporation parcel."

27 "Netted" sixty-seven per cent on the Richfield Oil Corporation
28 parcel. Further quoting:

29 "The committee commends the City of Long Beach for
30 the outstanding example it has set in this tideland
31 oil and gas development and improvement of its

1 "waterfront. The extremely high financial returns
2 the City is obtaining establishes a goal for the
3 State of California in its future development of oil
4 and gas resources in submerged lands." End quote.

5 Waterflooding operations now being conducted are expect-
6 ed to greatly increase profits from these two leases in the years
7 to come. Water injection is expected to quadruple the production
8 of oil during the remaining life of this tideland field.

9 The proposed new contract for the East Wilmington Field
10 incorporates various improvements over the two existing contracts.
11 Most important is the requirement to institute a water injection
12 program from the start of development, to guard against subsidence
13 and increase ultimate recovery. It is estimated that waterflood-
14 ing operations will produce six hundred million barrels of oil
15 over and above the nine hundred million that could be recovered
16 by normal, primary oil development techniques.

17 Second in importance is the feature of having the bid
18 based on a percentage of net profits. As Mr. Hortig very cor-
19 rectly stated, this is different and we feel it is very definitely
20 an improvement, because it will encourage efficiency and economy
21 on the part of the operator. We feel that putting it on a net
22 basis rather than gross, there is that incentive to develop in
23 the most economical manner.

24 Long Beach firmly believes that it has used its share
25 of the tideland oil money in the best interests of the State of
26 California. Not one cent of the revenue produced has been used
27 for non-trust purposes.

28 By far the biggest project undertaken by the City has
29 been development of Long Beach Harbor. Marshland and salt flats
30 just fifty years ago, today the Port of Long Beach is recognized
31 as the most modern harbor in the United States, serving not only

1 California, but seven western states. The port currently handles
2 approximately twelve million tons of cargo annually and leads all
3 other west coast ports in handling dry cargo -- that is, cargo
4 not carried in tankers. In keeping with the growth of Califor-
5 nia and the West, the Port of Long Beach will double in size
6 and increase tremendously in importance during the next twenty
7 years.

8 Transformation of the scenic Long Beach shoreline into
9 one of the world's finest water recreation areas is another ob-
10 jective of the City. Several individual projects already have
11 been completed, and others are in the advance planning stage.
12 Improvements already completed include the Long Beach Marina, a
13 haven for two thousand small craft. It is self-supporting, all
14 of the revenue going back to the tideland trust fund. Eighty-
15 one per cent of the boats moored in the Long Beach Marina are
16 owned by persons who reside outside of the City of Long Beach.
17 As I said earlier, projects must be of statewide interest, and
18 I think this is a very good example of just that -- eighty-one
19 per cent of the owners are not Long Beach residents.

20 A new Navy landing serving the Pacific Fleet and an
21 Armed Services Y.M.C.A. for sailors, soldiers and airmen of the
22 area are other examples of how tideland funds have been and will
23 be used for trust purposes.

24 Long Beach has transferred approximately \$200 million
25 dollars to the State of California from tideland oil and gas
26 incomes since 1956. The letting of the new offshore contract
27 will mean more than a billion dollars in revenue to the State
28 during the next thirty-five years.

29 Several other coastal California areas still have
30 prohibitions against development of oil reserves in their off-
31 shore areas. We are confident that Long Beach can demonstrate

1 to the rest of the state that oil development operations can be
2 conducted without detracting from the natural beauty and recrea-
3 tional use of the California shoreline.

4 This statement is signed by Edwin W. Wade, the Mayor
5 of the City; John R. Mansell, City Manager; Leonard W. Brock,
6 Petroleum Properties Administrator, and by myself. We believe
7 that action on the contracts that are before you will serve the
8 best interests of the State of California, and that it offers
9 maximum financial benefits to the State and the tidelands trust,
10 as well as complete protection to the City of Long Beach.

11 I'd like to make some informal remarks, jumping around
12 a bit. I had heard a question raised in Long Beach, and one
13 hearing it and not being informed might otherwise get the im-
14 pression that there was an oversight because there is no bonus
15 provided for.

16 As Mr. Hortig explained this morning, the objective of
17 the competitive bidding is to get the highest total return. If
18 we were proceeding under State law -- if we were talking about,
19 let's say, a wildcat area, unknown, and a substantial bonus of
20 fifty or a hundred thousand dollars was offered and then a re-
21 turn to the State of California of sixteen and two-thirds per
22 cent -- that would be understandable.

23 In this instance, in order to achieve the maximum re-
24 covery, as someone has said the bidder would have to have con-
25 trol of Fort Knox. The bonus required would be certainly some-
26 thing well over one billion dollars.

27 The contract has been drawn so that it will be most
28 attractive to the greatest number of bidders. We have contacted
29 more than eighty companies. In December, we asked for sugges-
30 tions, a letter going out to forty-three different companies we
31 thought might have some interest. Work has been done on the

1 contract for many, many months.

2 If this were drawn just for the benefit of small com-
3 panies, without regard to the subsidence problem, without regard
4 to what is the best return, perhaps this might otherwise be
5 split up into parcels; but that is an expensive way of proceed-
6 ing. The coordination would be lost; in the purchasing of
7 equipment duplication would be, I think, very important. This
8 type of operation was discussed at the time this was being
9 worked out, but experienced oil people, oil companies and others
10 agreed that, and urged, it be done on a single parcel basis.

11 I want to say, too, that also expensive would be this
12 matter of the suggestion of dividing the oil production. The
13 fact is, there is other oil available -- the City upland area,
14 the State Park area --former State Park oil, the Harbor area
15 oil -- all available. The State at the present time actually
16 does not sell its royalty oil separately.

17 We want to comment on the matter of control of a
18 sizable portion of production. I know that that has been men-
19 tioned in Mr. Hortig's report. Actually, the State requirement
20 is more than one million barrels of oil a day. That's the re-
21 quirement of the State. The production in the State is now per-
22 haps at around 800 thousand barrels a day; and, therefore, there
23 are imports. The production from this area would be, perhaps,
24 one hundred to one hundred fifty thousand barrels a day.

25 The City of Long Beach has a new tanker dock leased
26 to Richfield, where tankers holding a hundred thousand barrels
27 come in and unload in a day. So the amount of money, although
28 sizable, does not create any monopoly situation. Monopoly
29 would mean a control of the supply where there is no sufficient
30 demand. This is set up so that there will be joint bidding;
31 there will be combinations of companies, so actually the oil

1 production is going to be divided.

2 One of the most pressing problems before the City is
3 the fact that it has in the area that has been referred to a
4 number of times today a twenty-five year contract with the
5 Long Beach Oil Development, which expires one year from next
6 month, and March starts tomorrow. It expires in March of 1964
7 and that is not something about which the City can just turn a
8 switch and say, "Let's put that aside." There are wells produc-
9 ing; there are adjoining areas being produced which would con-
10 tinue to and which would drain the State oil; there are water
11 wells injecting water, the subsidence remedial program.

12 Obviously, for these reasons, this isn't something
13 we can just ignore; and unless action comes in the very near
14 future, the City will have to turn its attention entirely to the
15 matter of the Harbor area parcels, in which the State has a very
16 great interest. We cannot wait longer. The citizens have re-
17 moved the oil production ban in this controlled way, but that's
18 the situation at the present time.

19 We feel that the companies are interested in bidding
20 at the present time. They have moneys that they can't hold tied
21 up just indefinitely. I think if we just think of the interest
22 on the money that is represented in those barrels of oil not
23 taken out, I think this is going to be, would be, a very im-
24 portant figure.

25 I do not mean to be disrespectful in any way, but I
26 do not feel that the discussion about how to spend this "if"
27 money should be indulged in at this time, at the expense of pro-
28 ceeding on the contract. We realize that there are questions
29 raised, and proper questions. We do not feel that this matter
30 can be held off and in abeyance while there is discussion if
31 we develop it, will there be too much money for the City to

1 administer under the controls that are set up under Chapter 29.

2 I think of the cartoon that I saw once with a bone in
3 the bottom of a pool, and the dog fighting with his reflection
4 in that pool over whether which would go after the bone.

5 This is perfectly proper to discuss these things, yes;
6 but it should not be at the expense of proceeding on the con-
7 tract.

8 Finally, I want to urge the Commission to consider
9 the fact that we have already said and we say very seriously
10 we believe this is the best way to proceed. This is the way
11 it should be done. If we are proven wrong, it would be at the
12 time the bids are opened. If the bids are not good, they may
13 be rejected. The contract itself, the award of the contract,
14 must also be acted upon by the Lands Commission.

15 We definitely feel that a development of this nature
16 in this form will not only bring a great return to the State of
17 California, but it will also, as I mentioned earlier, be an
18 example for a number of other communities along the coast who
19 are fearful now about the spoiling of their beaches; and those
20 controls will be lifted and vitally needed resources will be
21 made available to the State.

22 Mr. Kealer, Councilman, is present and I believe was
23 going to speak to the Committee briefly, to advise that what
24 we have been discussing here is the thinking of the policy-
25 making body, the City Council of the City of Long Beach.

26 MR. CRANSTON: You might first see if there are any
27 questions that anyone wishes to ask.

28 GOV. ANDERSON: I have one. Jerry, I realize you are
29 fairly adamant on the idea of one operator, one unit handling
30 this; but before you came to this decision, did you go into
31 the alternative of breaking it into more than one lease, with

1 the thought of still being able to control it as one operating
2 unit, so that it would answer this charge we often hear that if
3 it is just one operator it is a monopoly?

4 MR. DESMOND: That was discussed. Mr. Lingle called
5 that to my attention just during the past week, about this be-
6 ing explored.

7 GOV. ANDERSON: How deeply did you explore it? Did
8 you find that it couldn't be done?

9 MR. LINGLE: It could be done. However, in the inter-
10 est of the maximum return to the State, when we considered the
11 tie-in of the unit, it was considered that one method you might
12 do is that you might have one operator operate one parcel and
13 another operator operate just for the City; and knowing our
14 past experience, and everybody else's experience, the over-all
15 loss of coordination and the over-all benefits of unitization,
16 we determined it was far more feasible and more economic to
17 control subsidence -- the amount of pressures, the amount of
18 water you put in, the amount of oil you take out must be co-
19 ordinated -- to have one operator for the whole unit.

20 GOV. ANDERSON: You are going to have this series of
21 islands. Won't you be able to determine to some extent the
22 amount that is taken out of each of these island operations?

23 MR. LINGLE: Let me get over to the engineer's role --
24 I have been around quite a bit. It's like putting straws into
25 a great big bowl of soup. It isn't like drawing a line on a
26 map and saying, "You operate this square and you operate
27 another square." Each one of these islands has to be operated
28 in conjunction with the other and all islands have to be co-
29 ordinated -- particularly in view of our subsidence problems;
30 to maintain the pressure, to obviate subsidence, they must be
31 coordinated.

1 GOV. ANDERSON: Couldn't that be coordinated as far
2 as the subsidence is concerned and still have two or three lease
3 operators?

4 MR. LINGLE: As I said, it could be; but at the expense
5 of somebody to do this coordination -- and I fear it is going to
6 come out of your pocket, Governor, and my pocket, in coordinating
7 it and we will not reap the benefits that we can if we have the
8 benefit of one operation.

9 GOV. ANDERSON: You don't think we have a chance of
10 better operation -- in breaking it up we will have more success-
11 ful bidders?

12 MR. LINGLE: That part, I don't know; but I am sure
13 the loss of coordination and the loss of economy in purchasing
14 would be a loss this way.

15 MR. CHAMPION: I have heard another reason advanced
16 for doing this and I'd like to have your comment on it -- that
17 there is a chance that you would have a larger bid regardless
18 of these expenses by virtue of having one ownership control take
19 a large pool. Do you believe that to be true, or is that an
20 economic factor?

21 MR. LINGLE: I suppose that is a possible economic
22 factor. However, the way this contract is written -- what we do
23 foresee it is going to cost, it isn't just advancing the fifty
24 million. It is going to cost an awful lot of money for three or
25 four years. Nobody is going to have any cash coming in. That's
26 why we designed the fifty million, which covers from this year
27 until we have some net profits. It takes a large amount of money
28 to take care of four islands, construct four islands, and drill
29 until the oil comes forth.

30 By enabling companies to go together, as the contract
31 permits, to form their own organizations in whatever manner they

1 want to, they then could pool their resources to take care of
2 this large expenditure of capital. Whether or not there is
3 some benefit to them by controlling all oil production, we
4 don't know. It might end up in benefits.

5 MR. DESMOND: May I add to that answer: We definitely
6 agree with Mr. Hortig's statement, that in view of the lower
7 individual oil allocations, as well as the complex administrative
8 problems, it is doubtful that the cumulative bids or the aggregate
9 City and State revenues would be as great as in this plan.

10 SENATOR ARNOLD: How have you effected repressuriza-
11 tion at the present time and what would be the difference under
12 your new series of contracts as compared with what you have
13 experienced so far?

14 MR. DESMOND: I think in a general way this could be
15 answered: The sinking that did occur was first really observed
16 (although going in the records it was noted just in passing even
17 earlier) in 1940; but actually the repressuring -- which also
18 has the wonderful asset, Senator Arnold, of having this great
19 additional return which would not otherwise come -- the repres-
20 suring really got under way in a large scale manner in the late
21 1950s, so that we were there acting on a bowl that had already
22 sunk a great deal before this started.

23 This, of course, is something the citizens of Long
24 Beach do not want ever to happen again. Therefore, because of
25 the great benefits that have come with the repressuring, we are
26 ordered, really, by the City ordinance to provide that the plan
27 will have this at the inception -- and this doesn't mean going
28 out and drilling water wells first or anything of the kind. It
29 has to be done in an orderly manner, and this, I think, is set
30 forth in the appendix in Attachment A -- "Done in an orderly
31 manner," and it will be done right at the outset; so that the

1 benefits of the secondary recovery will occur, as well as, we
2 believe, eliminate any chance for sinking in the area.

3 SENATOR ARNOLD: The problem then is secondary recov-
4 ery rather than repressuring?

5 MR. DESMOND: It is to avoid subsidence and also for
6 additional oil recovery.

7 SENATOR ARNOLD: But you are correcting subsidence at
8 the present time. How many leases do you have?

9 MR. DESMOND: There are two areas producing in the
10 Tidelands area of the Harbor District. The Long Beach Oil
11 Development has the contract which I mentioned expires a year
12 from next month; and the Richfield Oil Corporation, although its
13 wells are in the Harbor District -- it produces from just out-
14 side the Harbor District and over to the Pine Avenue area of
15 the downtown area of Long Beach. In those areas, the water
16 flooding is under way at the present time and, as I say, it has
17 stopped subsidence as well as bringing these tremendous addi-
18 tional quantities of oil; and we are not going to allow this
19 area, any new area, to sink and then go in and try to pump it
20 up again. We feel at the present time -- I mean, at the opening,
21 when a new area is developed -- it should have proper waterflood
22 programs instituted at that time.

23 SENATOR ARNOLD: My question was: What is the differ-
24 ence whether you had one lease, or three or four or five opera-
25 tions in this parcel Number 1 as far as repressuring is concerned?

26 MR. LINGLE: One problem, Senator, you run into --
27 which we believe we would run into -- is that if, as I tried to
28 point out, it would all be forced to be coordinated, you could
29 not

30 SENATOR ARNOLD: Let me ask you: Is it being coordi-
31 nated at the present time?

1 MR. LINGLE: The existing is, yes; the presently exist-
2 ing part of the field is being coordinated, when we had a series
3 of different contracts and consolidated those contracts so we
4 could coordinate them. One other thing -- we know the geology
5 of the present part of the field. We do not know the geology of
6 the unproved, undeveloped part of the field.

7 If I could go a little bit farther - - You can't just
8 divide this thing up and say, "Company A, you take this part,"
9 "Company B, you take that part," because Company A may have a
10 refinery that it's got for oil and it may have a desire to pro-
11 duce one part of the field at one rate; somebody else's economy
12 might want to develop another part of the field at another rate;
13 another company's economy might need something else. We would
14 then have to dictate to each one of the parcels at what rate
15 he would take this oil out.

16 GOV. ANDERSON: Won't you be doing that now, in a
17 sense?

18 MR. LINGLE: We won't have to act as a referee. If
19 we have one contractor, it for its own best interests will
20 develop the whole thing as it sees fit.

21 GOV. ANDERSON: Supposing its determination won't be
22 up to the best interests of the State and the City, won't your
23 man step in and tell them to step it up?

24 MR. LINGLE: Yes, he will; but he steps into one com-
25 pany and won't have to step into different motives of numbers
26 of them.

27 GOV. ANDERSON: Couldn't it be more difficult to push
28 one great big operator than two or three?

29 MR. LINGLE: I can't argue with that, but we don't
30 believe it would be more difficult. We believe their best
31 interests are going to be the same as our best interests, and

1 whatever the injection rates are for the whole field, we feel
2 it would be simpler for us to deal with one group.

3 MR. CRANSTON: Doesn't the contract give you the
4 power to control that?

5 MR. LINGLE: The contract does, and the City ordinance
6 requires that.

7 SENATOR DOLWIG: Mr. Desmond, have you obtained
8 permits and the necessary Federal authority for erection of
9 those islands?

10 MR. DESMOND: Not as yet. There has been contact made
11 with the Navy, also with the Corps of Engineers, to discuss with
12 them whether or not this would present any problems. We have
13 been assured -- the City has been officially informed that they
14 see no problems at all.

15 SENATOR DOLWIG: As far as getting permits?

16 MR. DESMOND: That is right.

17 SENATOR DOLWIG: I have one further question. I asked
18 this question this morning and I think you are perhaps in a
19 better position to answer it; and that is, I see by your unit
20 agreement you have working interests with Richfield and Jade
21 Oil. Who is Jade Oil?

22 MR. DESMOND: I do not know. I have been told that
23 they are on the board. I know ...

24 MR. LINGLE: Jade's president is a man by the name of
25 Mitchell. They have offices in Los Angeles and Houston. They
26 are listed on the Pacific Coast in the Los Angeles and San
27 Francisco exchanges.

28 SENATOR DOLWIG: Insofar as the working interests are
29 concerned, as I understand it the working interests have inter-
30 ests on your Town Lots?

31 MR. DESMOND: That is correct.

1 SENATOR DOLWIG: How are they going to participate in
2 this Unit Agreement? Are they going to produce oil on your Town
3 Lot on the map here and there?

4 MR. LINGLE: If I can describe this thing -- the unit
5 operator ends up in being the City, so under the Unit Agreement
6 all of the oil is produced by the unit operator. All we do
7 under the Field Contractor Agreement is to hire ourselves a set
8 of hands to do the work.

9 SENATOR DOLWIG: Pardon me. I want to understand it
10 as we go along. As far as your people that are mentioned here
11 that have working interests, what are these -- leases with
12 Long Beach?

13 MR. LINGLE: No, they are leases with the property
14 owners. That's the working interests.

15 SENATOR DOLWIG: Are they going to be involved in the
16 thing as far as this Unit Agreement is concerned?

17 MR. LINGLE: No, sir, not under the Unit Agreement.
18 Under the Unit Agreement, there is no bidding. The only thing
19 we are bidding is to get somebody to do the work for the City.
20 Those working interests are going to get an allocated share of
21 the over-all oil. There is a formula whereby you determine
22 under a certain acreage what ratio should be attributed to that
23 acreage as against all of it, and whoever has the lease will be
24 delivered that amount of oil.

25 SENATOR DOLWIG: Is this going to come within Long
26 Beach's share or the State's share?

27 MR. LINGLE: It's not coming out of either the City's
28 Share nor the State's share. This is oil attributable to the
29 private property on the uplands.

30 SENATOR DOLWIG: Let me get it straight. On the basis
31 of the testimony this morning, there is a Long Beach ordinance

1 against drilling on the uplands, the so-called Towr Lot area.

2 MR. DESMOND: That's correct.

3 SENATOR DOLWIG: In other words, as far as the upland
4 area, so we understand each other, we are talking now about the
5 Town Lot?

6 MR. DESMOND: Correct.

7 SENATOR DOLWIG: There can't be any oil drilling on it?

8 MR. DESMOND: There can be no surface locations there.
9 The oil there will be piped from these drilling islands extend-
10 ing beneath the uplands.

11 SENATOR DOLWIG: Is that what you call slant drilling?

12 MR. DESMOND: Yes.

13 SENATOR DOLWIG: How far are the islands?

14 MR. DESMOND: The closest island cannot be any closer
15 to Ocean Avenue than two thousand feet, so all of the uplands
16 can be reached by the islands by slant drilling.

17 SENATOR DOLWIG: Is this the reason you have them in
18 your Unit Agreement?

19 MR. DESMOND: Yes, so the uplands under the lease and
20 the citizens who are going to get a royalty, this way they parti-
21 cipate from the amount of oil from the uplands.

22 SENATOR DOLWIG: Are these provisions in the agreement?

23 MR. DESMOND: In the Unit Operating Agreement.

24 SENATOR DOLWIG: How are these citizens and working
25 interests going to determine what their revenues are going to be
26 under your slant drilling operation?

27 MR. DESMOND: As in any other unit -- we have other
28 units of the same type -- this is by a formula, how much oil
29 is attributable to a certain tract; and there is a formula
30 attached to the Unit Operating Agreement; then whatever amount
31 is assignable to the tract is then split up between the company

1 who had the lease and whoever the owner of the property is, in
2 accordance with the terms of the leases, many of which differ.

3 SENATOR DOLWIG: So we can understand this, we have
4 delineated how this is going to work as far as the State's
5 share. I am talking primarily from the standpoint of how you
6 are going to do your drilling.

7 MR. DESMOND: The surface locations will be on Tract
8 Number 1.

9 SENATOR DOLWIG: In other words, that's where they
10 are drilling and you are going to do slant drilling and go into
11 the upland area and take out oil from there.

12 MR. DESMOND: By directional drilling.

13 SENATOR DOLWIG: And you have your working agreement ..

14 MR. DESMOND: Correct.

15 SENATOR DOLWIG: And the people who have the working
16 agreement are going to get a certain percentage of the oil that
17 is going to be taken out under Tract Number 1?

18 MR. DESMOND: Correct.

19 SENATOR DOLWIG: Wait a minute. The gentleman over
20 there is shaking his head. I'd like to explore it.

21 MR. DESMOND: Similarly, the people in Tract Number
22 One

23 SENATOR DOLWIG: Pardon me. So we understand, so we
24 communicate, I am talking about the working interest as distin-
25 guished from the people who own the land that have the lease
26 agreements with the working interests. Let's keep that straight.
27 Let's not talk about them. Let's talk about these two different
28 entities.

29 MR. LINGLE: The City and State get a portion of the
30 oil inevitably from under the uplands, and the people who have
31 the working interests on the uplands will get a portion of the

1 oil on the tidelands.

2 SENATOR DOLWIG: How much, under this agreement?

3 MR. LINGLE: In accordance with the ratio. At this
4 point we estimate if you take the whole pool and put it to-
5 gether, the amount attributable to the City and State is eighty-
6 five per cent; the amount attributable to the uplands is approxi-
7 mately seven and one-half; the amount attributable to the State
8 Park area is seven and one-half -- regardless of where the oil
9 originally is in place.

10 SENATOR DOLWIG: On the seven and one-half per cent
11 is this firm in this agreement?

12 MR. LINGLE: In accordance with all of it, the ratio
13 of what you are going to get is from our information that we
14 gather as we drill. We aren't being arbitrary.

15 SENATOR DOLWIG: Maybe Mr. Desmond can answer this
16 question.

17 MR. DESMOND: I was going to say this is later ad-
18 justed. There has to be something firm to get under way.
19 Senator, this is really no different from the units which are
20 presently in operation. This is the same type of an agreement
21 whereby the Harbor area sections which are both upland and tide-
22 land, which are both private and public ownership, operate;
23 also, there, has there been an allocation under an equity
24 formula, which is later adjusted as the development proceeds.

25 SENATOR DOLWIG: Let's assume this allocation. Let's
26 take it a step further. Say seven and a half per cent goes to
27 the uplands. Of this, how much does the working interest get
28 and how much does the owner of the land get?

29 MR. DESMOND: We do not know what their leases are.
30 That is entirely up to them.

31 SENATOR DOLWIG: Depends on their lease?

1 MR. DESMOND: There has been quite a range. We have
2 been advised this leasing has been going on for some time.

3 SENATOR DOLWIG: Now, would you relate this to the
4 net profit matter? Where does this seven and one-half per cent
5 relate to it? In other words, what I am interested in is:
6 Where does the State come out in this?

7 MR. DESMOND: The State and the City will receive, we
8 assume at the present time, the oil attributable to that portion
9 of the pool which is represented by tide and submerged lands,
10 will be eighty-five per cent and so of the

11 SENATOR DOLWIG: Pardon me, we have gone over this.

12 MR. DESMOND: The net return will be divided.

13 SENATOR DOLWIG: What I am interested in is where does
14 the seven and one-half per cent come in insofar as the determina-
15 tion of the net profit is concerned?

16 MR. DESMOND: It does not.

17 SENATOR DOLWIG: It does not come in? Is that paid
18 off from the top?

19 MR. LINGLE: If their share of the oil were seven and
20 a half per cent, they also pay seven and a half per cent of the
21 expense and it does not enter into the field contract or the
22 agreement. If we could set the field contract and agreement
23 aside for a minute, everyone will pay expenses in the same
24 ratio as they have oil.

25 SENATOR DOLWIG: This is what I want to know. The
26 upland owners will have to pay their share of the expenses and
27 this is figured into the net profit. I think that straightens
28 that out. Now, you are familiar with the Marshall decision, I
29 am sure?

30 MR. LINGLE: Yes.

31 SENATOR DOLWIG: What effect does the Marshall decision

1 have, or does it have, insofar as these agreements are concerned,
2 if any?

3 MR. DESMOND: I would say that the basis for sharing
4 with the City -- that there is no violation of the trust in any
5 way in so using the tidelands for development of oil; that that
6 answer came from the Marshall case, and it is one of the founda-
7 tions upon which we base these contracts.

8 SENATOR DOLWIG: And you feel under the Marshall deci-
9 sion there would be no problem so far as using funds for trust
10 purposes under these agreements?

11 MR. DESMOND: That's right.

12 SENATOR DOLWIG: Are you familiar with the statement
13 the State Analyst made?

14 MR. DESMOND: You mean just recently in the budget
15 report?

16 SENATOR DOLWIG: Yes.

17 MR. DESMOND: Yes.

18 SENATOR DOLWIG: Are you in agreement or disagreement
19 with the Analyst?

20 MR. DESMOND: Well, now, he made several statements.

21 SENATOR DOLWIG: About the second one.

22 MR. DESMOND: I definitely disagree and I think perhaps
23 he must have been misinformed -- I know he must have been mis-
24 informed as to some of the items he mentions as being question-
25 able on expenditure of funds. As to that, I know he is wrong
26 entirely. He also said in that message that he believes that a
27 further look at the allocation of the funds between City and
28 State should be made. This is his recommendation to the Legis-
29 lature. We are not looking forward to that, but I imagine that
30 that is going to take place, that study, and we are ready to
31 cooperate with the Senate.

1 SENATOR DOLWIG: Mr. Desmond, would it be possible to
2 get an itemization of account of the moneys that Long Beach has
3 spent for trust purposes from 1955 until 1962?

4 MR. DESMOND: Certainly.

5 SENATOR DOLWIG: And also the projected expenditures
6 for trust purposes if this agreement is approved and consummated?

7 MR. DESMOND: We would be very happy to. As to the
8 first question, as to those expenditures already made, under
9 State law we do report annually to the State Lands Commission.

10 SENATOR DOLWIG: Mr. Desmond, I want you to know that
11 I asked this information from the Legislative Analyst and he has
12 indicated he has had a real problem, and I hope you will assist
13 me and we won't have any problem.

14 MR. CHAMPION: Aren't those available? They are fully
15 available in our proceedings.

16 MR. HORTIG: Our only problem is no one asked us.

17 SENATOR DOLWIG: I think I should clarify my statement,
18 then. I have not been able to get the information from the
19 Legislative Analyst. He consulted with the State Lands Commis-
20 sion staff and they do not have the information, and this is the
21 reason I am asking Long Beach to give it to me.

22 MR. CRANSTON: Senator, I believe it is appropriate
23 that the Lands Commission give it to you. We have these in our
24 possession and we will be happy to give them to you.

25 GOV. ANDERSON: Have you been asked for them, Mr.
26 Hortig?

27 MR. HORTIG: No, sir -- not for what Senator Dolwig is
28 now asking. The legislators have reviewed our records; the
29 Analyst has reviewed our records. All of them have been avail-
30 able, but we have never been asked specifically for what Senator
31 Dolwig has requested.

1 GOV. ANDERSON: Would we have cooperated with them?

2 MR. HORTIG: Of course.

3 MR. CRANSTON: Why don't we divide the burden? We
4 will give them the figures on what has occurred up to date, and
5 Long Beach will furnish figures on projected expenditures.

6 SENATOR O'SULLIVAN: Mr. Desmond, how much, in your
7 opinion, will that Parcel 1 yield over its lifetime?

8 MR. DESMOND: As Mr. Lingle said earlier, we are mov-
9 ing over to the engineering, particularly petroleum engineering;
10 but we do not disagree in any respect with the statements made
11 in Mr. Hortig's report, which indicated perhaps one and a half
12 billion barrels of oil -- one and a half billion dollars; one
13 and a half billion barrels of oil is expected to underly the
14 Town Lot areas and Parcel 1, - - Parcel 1, Parcel 2 and the
15 Town Lot areas are expected to yield a billion and a half
16 barrels.

17 SENATOR O'SULLIVAN: How much will Parcel 2 yield?

18 MR. DESMOND: That is estimated to be seven and a half
19 per cent of that amount.

20 SENATOR O'SULLIVAN: And Parcel 1?

21 MR. DESMOND: About eighty-five per cent.

22 SENATOR O'SULLIVAN: And the Town Lot area is the
23 balance?

24 MR. DESMOND: That's right -- about seven and a half
25 per cent.

26 SENATOR O'SULLIVAN: Now, who did the geophysical work
27 on it?

28 MR. DESMOND: Our petroleum properties administrator,
29 Mr. Brock.

30 SENATOR O'SULLIVAN: Is he here?

31 MR. DESMOND: Yes.

1 SENATOR O'SULLIVAN: Was this done under contract with
2 a private organization?

3 MR. DESMOND: The only - - There was a contract only
4 for the core exploration.

5 SENATOR O'SULLIVAN: All of the rest was done by em-
6 ployees of the City of Long Beach?

7 MR. DESMOND: I would say that this area has been
8 under study for many years and I wouldn't, I couldn't say off-
9 hand. Doctor Mayuga, the chief petroleum engineer of the
10 Harbor, made a considerable study and I think there were probably
11 consulting firms in the past years who have given information
12 on it.

13 SENATOR O'SULLIVAN: Mr. Brock is your petroleum
14 engineer?

15 MR. DESMOND: The petroleum properties administrator
16 for the City.

17 SENATOR O'SULLIVAN: And he is here?

18 MR. DESMOND: He is here, yes.

19 SENATOR O'SULLIVAN: As the Attorney for the City,
20 have you been relying on his opinion for these factual matters?

21 MR. DESMOND: Yes, sir.

22 SENATOR O'SULLIVAN: Will he be available throughout
23 the day.

24 MR. DESMOND: Yes.

25 SENATOR O'SULLIVAN: And at other times to furnish
26 information?

27 MR. DESMOND: Yes, sir.

28 SENATOR O'SULLIVAN: Now, the Unit Agreement doesn't
29 become effective until you have got the commitment from the
30 landowners on shore, is that right?

31 MR. DESMOND: From at least sixty per cent.

1 SENATOR O'SULLIVAN: Sixty per cent. Do you have
2 that commitment?

3 MR. DESMOND: They are not actually committed, but we
4 have assurances which we know are reliable that actually perhaps
5 ninety-five per cent, or maybe ninety-eight per cent, of the
6 area will be committed at the appropriate time.

7 SENATOR O'SULLIVAN: Well, you're a lawyer?

8 MR. DESMOND: Yes.

9 SENATOR O'SULLIVAN: They haven't signed anything yet,
10 have they?

11 MR. DESMOND: They have signed letters, in which they
12 have advised you gentlemen -- or, pardon me, I should say the
13 Commissioners, that they intend to sign as soon as they are
14 given that opportunity; and there was one letter read this morn-
15 ing from one of the companies that controls fifty-three per cent
16 of the area, fifty-three per cent of that necessary sixty per
17 cent, and it has suggested to the Commission as soon as this is
18 approved they are ready.

19 SENATOR O'SULLIVAN: Is there any danger of some of
20 them holding out?

21 MR. DESMOND: We are assured there is not. One of
22 those companies has been in this area and been paying the stand-
23 by rental for many, many years. They are very eager, and cer-
24 tainly their lessors are even - - well, they are equally inter-
25 ested in that company proceeding.

26 SENATOR O'SULLIVAN: Thank you. Did you want to add
27 to that?

28 MR. DESMOND: This is Mr. Lingle, the Deputy City
29 Attorney.

30 MR. LINGLE: This is a little different than an
31 ordinary unit, where somebody could drill from anyplace. The

1 only place they can drill is from these islands, and in order to
2 reap any benefit from the large amounts of delay rentals they are
3 paying, to get anything out of the oil, would be to get into the
4 unit. They haven't got any other drillsites where, on the Town
5 Lot, they can drill and frustrate us and drain the unit.

6 SENATOR O'SULLIVAN: Is this your opinion, Mr. Hortig?

7 MR. HORTIG: Yes, sir.

8 SENATOR O'SULLIVAN: There isn't any danger of anyone
9 holding out or bludgeoning ...

10 MR. HORTIG: Not in the majority.

11 SENATOR O'SULLIVAN: How about the minority?

12 MR. HORTIG: There could be a minority, could be a
13 small minority; but the small minority can't affect the applica-
14 bility and the development of the area, even though they do not
15 choose to join the unit.

16 MR. DESMOND: Out of this many parcels, if any unit
17 more than an acre would be considered, we have very definite and
18 satisfactory assurance from all except one or two, and we just
19 haven't heard; and those are very minor and could in no way block
20 the operation -- though we haven't heard one way or the other.

21 SENATOR O'SULLIVAN: Did you draft the operating
22 agreement?

23 MR. DESMOND: That was done, as I said earlier, Senator,
24 by Mr. Lingle. (Mr. Lingle shook his head) I admire his work -
25 I am prejudiced. The agreement was drafted -- I think Mr.
26 Hortig's report also mentions it and I had also -- there were a
27 great number of meetings held with the management committee;
28 there was a legal committee established; and I would say it was
29 very definitely a combination. I think that this unit, although
30 very complicated, in general is not very much different from the
31 unit agreements in the Fault Blocks II, III, and IV in the

1 Harbor District areas.

2 SENATOR O'SULLIVAN: Were the unit agreements drafted
3 in conference with oil companies?

4 MR. DESMOND: Yes, sir.

5 SENATOR O'SULLIVAN: Which oil companies?

6 MR. DESMOND: There were seven. I had mentioned this
7 earlier -- I think you were not in the room just at that time.
8 There were seven oil companies: Richfield, Superior, Standard,
9 Signal, Union, Continental, and Jade. In addition, represented
10 at the meetings were members of the staff; representatives of
11 the staff of the State Lands Commission and of the Attorney
12 General; also a very large group of property owners who have
13 formed themselves into the Independent Property Owners Oil Devel-
14 opment Association; and also, the Long Beach Unified School
15 District was present.

16 SENATOR O'SULLIVAN: Now, I am familiar with five of
17 those companies. What about -- I think we discussed Jade. How
18 about Continental Eastern?

19 MR. DESMOND: They did participate and because they
20 have leases in the area.

21 MR. CRANSTON: I think he wants to know who they are.
22 Do you know who they are?

23 MR. DESMOND: No.

24 SENATOR O'SULLIVAN: Mr. Lingle?

25 MR. LINGLE: I don't know that. Continental Eastern
26 is a corporation. It has had operations in the Long Beach area
27 for some time.

28 SENATOR O'SULLIVAN: Do you know anything about their
29 assets?

30 MR. LINGLE: No, sir; I don't.

31 MR. CHAMPION: These particular companies participated

1 because they all had working interests in the upland area?

2 MR. LINGLE: Yes, sir.

3 SENATOR O'SULLIVAN: So no other companies in the
4 upland area participated in the drafting of these agreements?

5 MR. DESMOND: That is true. The Unit Agreement and
6 the Unit Operating Agreement were worked out through a series of
7 meetings, with the working interest owners present and partici-
8 pating. That, of course, is separate entirely from the Field
9 Operator's contract.

10 SENATOR O'SULLIVAN: Now, that Field Operator contract,
11 how did that come about? Who did that?

12 MR. DESMOND: Mr. Lingle, I know, spent a great deal
13 of time on this, I would say. Mr. Shavelson, I know, is very
14 familiar with every line in that contract. It has been gone
15 over not only by him individually, but also there have been
16 great exchanges of correspondence. They have been of great
17 assistance to us. As I mentioned earlier, this draft has been
18 under development from about September of last year. We had
19 asked for suggestions, comments. We have been in contact with
20 as many as eighty different interested parties that had sugges-
21 tions.

22 Mr. Lingle has with him a letter which he sent out in
23 December, asking for any final suggestions of forty-three com-
24 panies at that time; so we have had, I'd say, a lot of people
25 looking at this and making suggestions -- but it is Mr. Lingle's
26 contract.

27 SENATOR O'SULLIVAN: This contract -- Field Contract,
28 Unit Agreement, Wilmington Oil Field, was discussed with forty-
29 three operators?

30 MR. LINGLE: That is not a fair statement. I sent out
31 a letter early in January saying that we were near the final

1 stages of this contract and the letter solicited any comments,
2 and it went to forty-three companies. Some responded and some
3 did not. We sought ideas, and we were willing to listen to any-
4 body who wanted to talk; but it is the City's contract.

5 SENATOR O'SULLIVAN: The first general notice of this
6 contract went out in January of this year?

7 MR. LINGLE: No sir, that is not right. It went out
8 as early as September last year. Along in January, we informed
9 people that we thought we were along toward a final contract and
10 if they had any additional suggestions, we were available for
11 consultation.

12 SENATOR O'SULLIVAN: Mr. Desmond, maybe you can answer
13 this question.

14 MR. DESMOND: Pardon me, Senator. Mr. Lingle does
15 have that letter, if it is of any assistance. I must have been
16 in error when I said the month of December. December 26, 1962,
17 a memo from Mr. Lingle to me, that he was mailing the following
18 letter to all companies who requested any information concerning
19 the Field Contractor Agreement, and it said:

20 "We anticipate that our proposed Field Contractor
21 Agreement for the operation and development of the
22 Long Beach Unit will be placed for bid early next
23 year. We are now in the process of final review of
24 the Field Contractor Agreement. If your company
25 has any final suggestions, we would welcome them
26 as soon as possible."

27 SENATOR O'SULLIVAN: Preceding that time -- preceding
28 the time when you drew your first draft of the Field Contractor
29 Agreement, had you conferred with any oil companies?

30 MR. LINGLE: We had not conferred with them as to the
31 form of the contract, no sir. In the course of the negotiations

1 as this Unit Agreement was developed, the principles behind the
2 Field Contractor Agreement had been discussed with many people --
3 how we were going to implement the Unit Agreement.

4 SENATOR O'SULLIVAN: So that prior to September of
5 last year you didn't contact or discuss the boilerplate that
6 went into this contract with any oil company?

7 MR. LINGLE: I don't believe so.

8 SENATOR O'SULLIVAN: And subsequent to September of
9 last year until the December letter, you did not call it to
10 their attention?

11 MR. LINGLE: No, sir. That isn't correct. Along in
12 September -- from September on, we put out several drafts. Each
13 time, I think we printed up a hundred of them and sent them to
14 anybody and everybody between the time we were drafting to people
15 who wanted them. We distributed our ideas at that time to any-
16 body who wanted them.

17 SENATOR O'SULLIVAN: Did you discuss this - - What
18 were the names of the companies who contacted you between
19 September and December?

20 MR. LINGLE: Well, among many - - let's see: Shell,
21 Union, Mobil, Standard, Richfield, Signal. In addition, besides
22 lawyers, we talked to Continental, Phillips, Humble if I haven't
23 mentioned them

24 SENATOR O'SULLIVAN: Did any of these companies show
25 an interest in this type of contract?

26 MR. LINGLE: Yes sir, they did.

27 SENATOR O'SULLIVAN: Did all of them?

28 MR. LINGLE: No sir, not all of them.

29 SENATOR O'SULLIVAN: Do you recall how many and which
30 ones?

31 MR. DESMOND: Senator, just at the opening of the

1 afternoon session, Mr. Hortig read into the record, I think, two
2 or three additional letters from companies that have expressed
3 interest in this and specifically say that they have read the
4 contract and they are satisfied, and there is no reason why they
5 should not bid on it.

6 SENATOR O'SULLIVAN: Well, how many companies to your
7 knowledge are interested in bidding on this? Can you tell me
8 their names? At this point, we are almost to a contract and I
9 think it would be of interest to the members of the Committee to
10 know.

11 MR. DESMOND: It's a little difficult. We, of course,
12 hope that there are a number of bidders. We realize, of course,
13 there's going to be combinations of companies. I have heard of
14 three different combinations -- the accuracy of which I couldn't
15 vouch for at all. We have been of the opinion that there would
16 be at least three different bids, by three different combinations
17 Whether those combinations will actually effectuate themselves
18 or not, I couldn't say with assurance.

19 SENATOR O'SULLIVAN: You can't list the names of the
20 companies that are interested?

21 MR. DESMOND: I think we have - - The companies who
22 have already written to the Commission are certainly among those
23 that we have heard: Standard, Richfield, Signal.

24 MR. HORTIG: Excuse me, Mr. Desmond. There are two
25 letters received today which were read into the record, in which
26 there is an affirmative statement that the company would be
27 interested in bidding; and, for example, quoting from the
28 Standard Oil Company letter:

29 "We find nothing in it (that is, in the agreements)
30 that would prevent this company from bidding if
31 it is offered for bid in the form submitted to you."

1 The same sentence is contained in the letter from Signal Oil and
2 Gas. A telegram was received from Continental Eastern Corpora-
3 tion. These simply urge approval of the documents before the
4 Commission, but do not make any specific statement with respect
5 to submitting a bid.

6 MR. DESMOND: We would hope that among the bidders - -
7 it's not for us to set up the agreements, of course - - we would
8 hope that among the bidders would be Humble and Mobil and
9 Standard and Signal, Richfield, Shell, and Union.

10 MR. CRANSTON: Senator, just as a point of information,
11 we have advised the industry of this hearing and asked if they
12 wished to have representatives here from the various companies
13 to tell us what they think of the contract in its present form,
14 and their views as far as the contract is concerned at the
15 present time.

16 SENATOR O'SULLIVAN: This matter will be covered in
17 the hearing?

18 MR. CRANSTON: Yes.

19 SENATOR O'SULLIVAN: How much, in your opinion, will
20 be required to finance this first five years under this particu-
21 lar agreement? Do you have any idea?

22 MR. DESMOND: I think that is something Mr. Brock or
23 Mr. Hortig would come in on. I do not have any thought on that.

24 MR. CRANSTON: I would like to ask one question relat-
25 ing to this: Have there been any objections up to this moment
26 from companies who were not consulted in the drafting of the
27 Unit Agreement, who were not presently involved in the Unit
28 Agreement now?

29 MR. DESMOND: No, there have not. Your reference was
30 to the Unit Agreement?

31 MR. CRANSTON: Yes.

1 MR. DESMOND: Yes, sir.

2 SENATOR DOLWIG: Is Tract Number 2 covered by your
3 Unit Agreement?

4 MR. DESMOND: It is not. However, it makes it pos-
5 sible to add it, too, if the State desires to.

6 SENATOR DOLWIG: Wouldn't it be possible from the
7 State's standpoint, if it were not included - - You indicated
8 there would be slant drilling. If Tract Number 2 is not in it
9 at this time, it could be a derogation to the State's interests?

10 MR. DESMOND: We feel the State will want to go in
11 this fine development. This does allow for that. This is
12 getting over to the Attorney General's field, but I understand
13 it is the opinion of the Attorney General that permissive legis-
14 lation should be enacted at this session, which would allow such
15 joining of the State area to the Unit.

16 SENATOR DOLWIG: Just one other question: This calls
17 for public bidding?

18 MR. DESMOND: Yes, sir.

19 SENATOR DOLWIG: Was it the L.B.O.D. that was
20 negotiated?

21 MR. DESMOND: That was a competitive sealed bid.

22 SENATOR DOLWIG: As I remember it, but I may be wrong -
23 as I remember it, you did put it to public bid but wasn't the
24 bidding thrown out and then negotiated?

25 MR. DESMOND: No sir. It was put out for bid a
26 second time.

27 SENATOR DOLWIG: And the highest bidder negotiated
28 the contract?

29 MR. DESMOND: Yes. That was in 1939, Senator, and I
30 don't remember the details. I have only read about them, but it
31 is my understanding - - I know the second contract, the contract,

1 was strictly on a competitive basis. That is what our charter
2 requires, and the State law.

3 MR. CHAMPION: Just to complete this question Senator
4 Dolwig raised, permissive legislation has been raised to permit
5 the State Tract 2 to join this Unit.

6 MR. HORTIG: To clarify that point, it is Senate Bill
7 298.

8 MR. CRANSTON: Jerry, would you like to clarify why the
9 City feels this method is preferable to the bonus-royalty method
10 used elsewhere?

11 MR. DESMOND: Yes. Under present State law, the pro-
12 ceeding is on the sliding scale basis, with as low as sixteen
13 and two-thirds per cent. I think this method, compared to the
14 neighboring area which is developed under State leases -- what
15 we still call the Monterey Island -- I think the return to the
16 State and to the City will be far greater than any of the perhaps
17 seventy leases developed, far greater; and, as I said before,
18 if it were put on that sort of basis with the bonus, in order to
19 make it come out anywhere near the same amount of return, some-
20 body would have to advance perhaps a million -- a billion to two
21 billion dollars at the most; and that has not been, of course,
22 suggested in Mr. Hortig's report nor by us.

23 MR. CRANSTON: Of course, the State approach is a
24 fixed bonus with a sliding biddable royalty, which would not re-
25 quire such a vast amount in the beginning. Would you comment on
26 that?

27 MR. DESMOND: Yes. I think the figure that I read,
28 just taking one of the two leases in the Long Beach area, under
29 the lease operating contract with Richfield there has been a net
30 of sixty-seven per cent. There is no State lease, I am sure,
31 that has ever come close to that royalty.

1 MR. CRANSTON: Any other questions? Glenn?

2 GOV. ANDERSON: Yes. I believe there was a letter
3 this morning that commented there should be a sort of minimum
4 schedule of production, sort of implying that the City manage-
5 ment towards the end of this proposed lease could control the
6 production downward, making it more beneficial to the new bidder
7 at the end of the period to bid higher than the present holder.
8 Would you take that up?

9 MR. DESMOND. Yes, and to take up Mr. Hortig's com-
10 ment on that, when that was written, that was December 18th.
11 Various points raised there have been, we believe, covered
12 since that time in the contract itself, and in the agreement
13 that has been entered into between the City and the State.

14 GOV. ANDERSON: So that the City management couldn't
15 really control the thing downward toward the latter few years
16 of the operation?

17 MR. DESMOND: This, again, is going to be on a net
18 basis, and I think that the interest of the City and the State
19 is going to be identical with that of the operator.

20 MR. CHAMPION: While Mr. Desmond is still before us,
21 I'd like to ask Mr. Hortig a question. The City becomes the
22 operator here and has the responsibility. However, the State
23 has at least a half interest. What, in the operation agreement,
24 controls, or what checks does the State have upon this operation
25 by the City? In what way can the State interest be brought into
26 the operation once it is approved?

27 MR. HORTIG: Well, Mr. Champion, one, by application
28 of the administrative requirements which are imposed on the
29 State Lands Commission by Chapter 29 of the Statutes of 1956 to,
30 in broad general terms, supervise and coordinate with the City
31 with respect to any operations in granted tide and submerged

1 lands in Long Beach, including auditing review of financial
2 disbursements on the operation; to give advance approval to any
3 operating contract changes which the City desires to make, which
4 must be considered and approved in advance by the State Lands
5 Commission; to review annually the expenditures by the City of
6 Long Beach of its share of the trust funds for trust purposes;
7 and then, in more specific detail rather than general, there is
8 attached to your agenda item today as Exhibit A a series of con-
9 tract conditions which would be agreed to between the City and
10 State as a condition of approval by the State Lands Commission,
11 which would build into the operation some additional review and
12 approval responsibility in the Lands Commission for all opera-
13 tions and future approvals within the framework of the operating
14 contracts considered here today and, particularly, the specifica-
15 tion of some operating standards to assure that all operations
16 will be conducted in accordance with the best engineering prac-
17 tice to accomplish the most effective development in the field
18 and the best long-range interest for the City and State, as a
19 matter of contract requirement between the City and State but
20 not as a contract requirement between the City and the operator
21 contract to be approved.

22 MR. CHAMPION: In your view in this particular aspect,
23 that is, the State's ability to review and to some extent have a
24 voice in the operation -- is this contract superior to, or the
25 same as, or inferior to the provisions under our present opera-
26 tions in the Long Beach area?

27 MR. HORTIG: It would be superior to our present opera-
28 tions in the Long Beach area.

29 MR. CHAMPION: For what reason?

30 MR. HORTIG: For the reason that this is the first time
31 that an operating contract has had to be brought to the Lands

1 Commission for advance approval and, therefore, for the first
2 time the staff has been in a position to suggest to the Commis-
3 sion these ancillary agreements for operating conditions with
4 respect to Long Beach and for control and supervision.

5 All the prior operating contracts on which we do have
6 a supervisory responsibility under Chapter 29 relate to only con-
7 tracts that the City entered into prior to Chapter 29; and, there-
8 fore, we can only supervise and recommend up to the point that
9 was provided in the contracts at that time. But this contract,
10 particularly with Exhibit A which is under discussion here for
11 additional agreements, we believe -- and I think the Attorney
12 General will concur in this, and this was the purpose of these
13 additional agreements -- was to assure the Lands Commission a
14 maximum control, which the Commission is entitled to under the
15 statutory authority of Chapter 29. This, of course, could not
16 have been written into contracts which were entered into before
17 the Long Beach situation was a responsibility of the Commission.

18 MR. CHAMPION: Speaking only to this aspect of the con-
19 tract, are you satisfied with the provisions so far as the Lands
20 Commission's relationship to the operating party and the City?

21 MR. HORTIG: We are satisfied that the proposals before
22 the Commission for approval constitute the maximum that can be
23 recommended in the State interest under the existing scope of
24 statutory law.

25 MR. DESMOND: May I just add, of course we realize the
26 work conducted by the State Lands Division and the staff has
27 more things proposed than they can now cover. We have already
28 advised Mr. Hortig -- and we mean this very sincerely -- that we
29 hope that the State in this kind of operation, as important as it
30 is to them, will have people who will be there side by side work-
31 ing. Now, we are the trustee; we are the manager; we are the

1 general partner; and we do have to make the decisions, but they
2 will be made in the open and we hope with full advice from the
3 State at all times. We will welcome it. We will feel better if
4 they are there rather than to attempt to cover things just by re-
5 ports and by correspondence.

6 MR. CRANSTON: Are there any further questions? If
7 not, thank you very much. Councilman Kealer, do you wish to
8 speak?

9 MR. KEALER: Very briefly, Mr. Chairman. First, I'd
10 like to express my appreciation for being given the privilege of
11 speaking here. Commissioner Cranston, Governor Anderson, and
12 Commissioner Champion, merely the Council has delegated me to
13 indicate to you the policy of the City, which you have been lis-
14 tening to for some time, and that is, the City wanted, first, the
15 very best type of contracts for the benefit of the City and the
16 State; and, secondly, that it could be done as expeditiously as
17 possible with all the proper safeguards in them.

18 I am Chairman of the Harbor Oil Industries for the
19 City and have seen a number of these drafts, and from time to
20 time suggestions were made. A few times I met with the staff of
21 the Lands Commission and the Attorney General's Office and the
22 Council, so we are very familiar with what this is all about.
23 After the final drafts were submitted to the Council, they did
24 adopt as their policy that these are the best things for the
25 City and the State, as well as for the Town Lot owners -- and
26 this was after endless conferences. We believe this is best.

27 We want the Commission to know we will do the very best
28 possible to get this on the road and get it going effectively,
29 and it is the objective of the Council that as long as we have
30 agreement we can go ahead for the best interest of all of us.

31 MR. CRANSTON: Perhaps as an engineer you can answer

1 the question that was asked by Senator O'Sullivan as to the ex-
2 pense involved.

3 MR. KEALER: If I did, it would be a guess. Let me
4 answer in another way to a question Senator Dolwig asked and
5 that is on the working interest of the Town Lot owners. To put
6 it in a practical oil field way -- the land, the oil people have
7 leased from the landowners, for which they pay a certain percent-
8 age of the production. Let's assume the upland Town Lot owners
9 have a ten per cent production based on sand count. Therefore,
10 the leasing companies will have to pay those royalty owners what-
11 ever their interest may be right off the top and whatever is left
12 is their working interest.

13 I believe when Mr. Brock testifies before you, Mr.
14 Chairman, he will be able to give you much more accurate informa-
15 tion about cost estimates, et cetera.

16 MR. CRANSTON: If there are no further questions, may
17 we ask Mr. Brock to come forward?

18 MR. CHAMPION: While Mr. Brock is coming forward, Mr.
19 Hortig, do you have any estimate of the development costs?

20 MR. HORTIG: No, sir. We have reviewed Mr. Brock's
21 estimates and I think under the circumstances he should report
22 on them first hand. Inasmuch as the City under this proposed
23 agreement is intended to be the operator, if so approved, we did
24 not put in any staff time other than in a review capacity and did
25 not prepare an independent estimate on this matter.

26 MR. BROCK: I believe the question now is capital
27 investment?

28 MR. CRANSTON: Yes. I think you wanted to know the
29 cost, Virgil, of the first three years -- the first five years.

30 MR. BROCK: I don't have those figures directly at hand
31 but as I recall it's someplace between sixty and seventy million

1 dollars that the contractor will be in the hole some time during
2 the first three years. In other words, as soon as there is oil
3 production, he is going to start recouping his funds and, natur-
4 ally, this depends on the rate of development -- how fast he
5 drills his wells, and whether all islands are to be built at once
6 or whether there is to be a delay between islands.

7 As I recall, including the advance payments, the deep-
8 est he would be in the hole would be right at seventy million
9 dollars.

10 SENATOR O'SULLIVAN: That's for the entire contract on
11 Tract 1?

12 MR. BROCK: That's for Tract 1 only. Everybody else
13 would be paying their own expenses during that time.

14 SENATOR O'SULLIVAN: Is there a rate at which the ex-
15 traction should be made? Who controls that?

16 MR. BROCK: The city manager.

17 SENATOR O'SULLIVAN: Will control how fast the oil will
18 be extracted?

19 MR. BROCK: That's right.

20 SENATOR O'SULLIVAN: Is there a criteria set up in
21 the agreements for that?

22 MR. BROCK: Good oil field practice, good engineering
23 practice. At present, that's about all we can do. That's all
24 we can do because we don't know how much oil is there, nor the
25 productivity of these zones.

26 SENATOR O'SULLIVAN: How much do you figure there is?

27 MR. BROCK: The figures which were quoted were by the
28 engineering committee, which was the engineering committee for
29 the unit. They were based on assumptions that the zones in this
30 area will be productive to the same rates and extent that the
31 same zones in Wilmington will be. We only have eight holes

1 scattered through sixty-seven hundred acres and this isn't very
2 much -- eight core holes; and this isn't very conducive to an
3 accurate estimate. We do believe that this figures of close to
4 one and a half billion barrels is a representative figure.

5 SENATOR O'SULLIVAN: Did the City finance putting the
6 core holes in?

7 MR. BROCK: Well, it came out of the tideland revenue
8 fund.

9 SENATOR O'SULLIVAN: How much did that cost?

10 MR. BROCK: Right at six hundred thousand dollars.

11 SENATOR O'SULLIVAN: Do you think it would be worth-
12 while to do any further investigation before you let the lease?

13 MR. BROCK: No, I don't think that anything is to be
14 gained at this time. Possibly after the contract is let, there
15 may be some additional work done solely to locate the islands.
16 I believe the figures that we have obtained from the core holes
17 are adequate for a bid.

18 SENATOR O'SULLIVAN: You have been the engineer on the
19 other Long Beach properties?

20 MR. BROCK: I have worked on them.

21 SENATOR O'SULLIVAN: How long have you been in Long
22 Beach?

23 MR. BROCK: I have been with the City since '53; I
24 was with L.B.O.D. three years prior to that, and I was foreign
25 one year.

26 SENATOR O'SULLIVAN: You don't think anything would be
27 gained by spending some more money to investigate that oil down
28 there, to find out how much is there?

29 MR. BROCK: No. I think when you get to a certain
30 range in magnitude of barrels, I don't think the bid is going to
31 be influenced very much whether there is another half of it or

1 another couple million less.

2 SENATOR O'SULLIVAN: Isn't it a fact that companies
3 spend a lot of money on exploration?

4 MR. BROCK: In what way?

5 SENATOR O'SULLIVAN: Companies spend a lot of money on
6 oil exploration, to find fields. They don't go out and drill
7 dry holes.

8 MR. BROCK: That's right. We know the field is here.

9 SENATOR O'SULLIVAN: Wouldn't the fact that you knew
10 there was another million dollars of oil mean you would have
11 better bids, or the bids would be higher?

12 MR. BROCK: I don't think it would be much higher --
13 the point being the contract is on the net profits. He makes
14 profits on the operations on a percentage basis, and the percent-
15 age profit on a billion and a half operation isn't going to be
16 any higher than it would be on a billion barrel operation.

17 SENATOR O'SULLIVAN: That's all.

18 MR. HORTIG: Mr. Chairman, may I suggest in behalf of
19 our secretary a short breather, if at all possible?

20 MR. CRANSTON: Let's take a five-minute break and we
21 can continue with other parties from Long Beach, or oil companies
22 and other parties.

23 (Recess 3:20-3:35 p.m.)

24 MR. CRANSTON: Will the meeting please come to order?
25 I think it might be advisable to have a show of hands now, as to
26 those who will desire to give testimony. (Three) We are ready
27 to take whoever wants to start and we will go on from there.
28 Mr. Scott, would you state your identification for the record?

29 This is a statement of L. E. Scott, Assistant to the
30 President of Pauley Petroleum Inc., objecting to the adoption by
31 this Commission of the City of Long Beach tidelands development

1 program as submitted this date.

2 Pauley Petroleum Inc., Los Angeles, California, is
3 presently engaged in offshore tideland operations in the State of
4 California, Louisiana, and Mexico. This company along with its
5 partners, has in the past few years paid to the State of Cali-
6 fornia an excess of 24.7 million dollars for tidelands leases.
7 We are presently engaged in the development and production of
8 these leases; therefore, we appear here today as an experienced
9 operator and one fully cognizant of the problems involved.

10 We recommend that the State Lands Commission reject the
11 proposal that is being submitted by the City of Long Beach for
12 the following reasons:

13 1. The State Lands Commission has not been submitted
14 adequate and sufficient information to permit it to make a final
15 decision involving an oil and gas reservoir containing in excess
16 of one and one-half billion barrels of oil, and worth somewhere
17 between four and one-half and five billion dollars. This is one
18 of the world's largest known oil reserves and will, in a very
19 short time, represent in excess of fifty per cent of all of Cali-
20 fornia's known oil producing reservoirs.

21 At the present time there are approximately 3.6 billion
22 barrels of oil known to be producible in the State of California.
23 The daily production in California is approximately 815,000 bar-
24 rels a day, which is about 300,000,000 barrels a year. At this
25 rate, in a little more than three years California will have de-
26 pleted its oil reserves by more than a billion barrels. All of
27 the oil producers in California, particularly the majors, are
28 frantically drilling their fee lands, inside locations which
29 ordinarily would not be drilled, in order to keep California's
30 production up. This is being done for many reasons which we will
31 go into later in this statement.

1 2. We object to this proposal on the grounds that, as
2 written, it is monopolistic in its inception, and monopolistic
3 and discriminatory as planned in the final results. This Commis-
4 sion should seek out, at a full public hearing, all of the factor
5 surrounding the preparation of these documents, and what they
6 really mean. We feel that the proposal, as written, is not in
7 the public interest of the State of California and must, there-
8 fore, be rejected.

9 A review of the documents submitted by the City of
10 Long Beach indicates that it is the desire of the City of Long
11 Beach, as well as some favored operators, to call for bids on
12 Tract Number 1 as a single parcel. Why is this monopolistic?
13 This will require the successful bidder, or consortium or combine
14 that acquires the bid on Tract Number 1, to obligate itself to
15 spend approximately 51 million dollars in recoverable bonus money
16 plus build up to four ten-acre islands, plus drill at least forty
17 wells in the first year after completion of the first island.
18 Reliable engineers have stated it will cost a company between
19 ninety and one hundred million dollars in initial investment to
20 carry out the development of Tract Number 1 as proposed by the
21 City of Long Beach.

22 It is our feeling that this tremendous investment re-
23 quirement is fully intended to eliminate competition and to chill
24 the bidding for the average offshore operator. I ask this Com-
25 mission how many companies in the United States can commit them-
26 selves to spend one hundred million dollars on any one project?
27 Your attention is directed to paragraph 23, page 21, of the Field
28 Contractors' Agreement, wherein the Field Contractor is not per-
29 mitted to pledge or hypothecate this contract without first se-
30 curing the consent of the City Manager of Long Beach. Here,
31 again, is an obvious effort to eliminate reasonable size offshore

1 operators from bidding. In other words, the bidder cannot go to
2 its bank or financial institution and secure adequate capital to
3 carry on this development program without first receiving the con-
4 sent of the City Manager.

5 Reference is also made to paragraph 32, page 32, en-
6 titled FORCE MAJEURE. Pursuant to said paragraph, an operator
7 must continue to pay the 51 million dollars over the three-year
8 period, even though he is shut down by court order or by injunc-
9 tion. Requiring an operator to make such substantial payments
10 when ordered to cease production or operations is unfair. This
11 is another effort to make it difficult for a reasonable size com-
12 pany to bid. How many companies can continue to pay out 50 mil-
13 lion dollars while they are not permitted to drill, operate, or
14 produce because of the provisions of the FORCE MAJEURE clause?
15 To make this requirement and not excuse payment while in litiga-
16 tion is unthinkable. This is just another method used to elimin-
17 ate competition and to allow certain companies to gain control of
18 a fabulous oil reserve at a non-competitive price.

19 3. Mr. Chairman, there is another major factor involved
20 in putting out the Long Beach property in one parcel. It is
21 obvious that certain oil companies desire to control all of Tract
22 Number 1 in order to monopolize and control the oil production,
23 oil prices and oil imports on the west coast for years to come.
24 Let's look at the daily production for October 1962 of many of the
25 California operators. These figures are taken from the Conserva-
26 tion Committee of California Oil Producers - Company Records of
27 California Oil and Gas Production - October 1962:

28 SUMMARY FOR OCTOBER 1962: Major Companies Actual Production B/D

29	Richfield Oil Corp.	69,551
	Shell Oil Company	61,513
30	Socony Mobil Oil Company	46,680
	Standard Oil Company	143,016
31	Texaco, Inc.	48,818
	Tidewater Oil Company	53,617
	Union Oil Company	68,308
	Signal Oil and Gas Co.	40,310

1 It will be argued that the award of Tract Number 1 to
2 any one operator or group of operators will not create a monopoly
3 of the crude oil market in the State of California. We wish to
4 point out that at the present time Richfield Oil Company produces
5 approximately 69,000 barrels of oil a day; Union, 68,000; Signal,
6 40,000; Standard Oil of California, 143,000; Texaco, 48,000;
7 Tidewater, 53,000. If any one of these companies is awarded
8 Tract Number 1 under the bidding procedure recommended by the
9 City of Long Beach, it would more than double their present daily
10 production in California. With the exception of Standard of Cali
11 fornia, it would be necessary to add together the daily produc-
12 tion of several of these companies to obtain the amount of oil
13 equal to the anticipated daily production from the Long Beach
14 Harbor Tract Number 1, which is estimated to be 150,000 barrels
15 a day.

16 It is my opinion that any time the daily production of
17 a major refiner is doubled, tripled, or quadrupled by virtue of
18 one bid, a very bad situation is being created which will lead
19 to the monopoly of the crude oil market on the west coast of
20 California and of the United States as a whole. At the same
21 time, it will permit the operators to process their own crude and
22 exclude the purchase of crude from other onshore and tidelands
23 operators in California not having refining capacity. We think
24 this is in violation of the public interest and welfare of the
25 State of California, of the oil industry, and of the nation as
26 a whole.

27 Last week a statement appeared in the trade journals
28 that oil and gas exploration in the United States is at a nine-
29 teen year low. If one company, or group of major refiners, con-
30 trol this oil, a great detriment is being done to the State of
31 California and to the oil producers who operate in this state.

1 Do you think for one minute that any one of these companies is
2 going forward with an aggressive exploration and development pro-
3 gram onshore in northern or southern California and look for oil
4 when they have, by one stroke of the pen and by one preconceived
5 contract, more than doubled, tripled, or quadrupled their daily
6 production in the State of California? Why should any company
7 continue to search for oil where risks are high when they can buy
8 it from Long Beach and, at the same time, gain control of produc-
9 tion, prices and imports in this state?

10 We must insist, Mr. Chairman, that this proposal be
11 rejected in its entirety and that the staff of the State Lands
12 Commission, the Attorney General of the State of California, and
13 representatives of the City of Long Beach be instructed to sit
14 down and attempt to work out some reasonable basis on which this
15 tremendous tidelands oil field can be put up on some equitable,
16 fair, impartial basis, where all operators can have a fair and
17 equal opportunity to bid on these lands.

18 4. We object to the price being paid for the crude oil
19 under the Long Beach proposal. In our opinion, it will permit
20 the sale of the Long Beach oil at a price lower than is presently
21 being required by the State of California for their offshore
22 tidelands oil. Under the Long Beach agreement, the contractor
23 will have the exclusive right to take any and all oil allocated
24 to Tract Number 1 by the Unit Operator or, at the option of the
25 Field Contractor, he may obtain a financially responsible pur-
26 chaser to purchase any or all allocated oil to Tract Number 1 by
27 the Unit Operator and to take delivery of such oil in accordance
28 with the Unit Operating Agreement. Any contract for such purpose
29 must be approved in advance by the City Manager. You will note
30 that the State Lands Commission has no control over the ultimate
31 prices paid for the crude oil under this proposal, nor has the

1 Commission any way to force the oil to be sold to anyone other
2 than the Field Contractor or his designated purchaser. This is
3 the key to the whole monopolistic plan.

4 The Long Beach Contract provides that the value of the
5 oil shall be on the basis of the price equal to the average of
6 the price to be posted and paid by continuing purchasers of sub-
7 stantial quantities of crude oil in the field for oil of like
8 gravity on the day such oil is run into Field Contractor's tanks
9 and/or pipelines (Page 9, line 17, of the Field Contractor's
10 Agreement):

11 "Except as otherwise herein provided, oil allocated
12 to Tract No. 1 shall be valued on the basis of a price
13 equal to the average of the prices posted and paid by
14 continuing purchasers of substantial quantities of crude
15 oil in the Field for oil of like gravity on the day such
16 oil is run into Field Contractor's or purchaser's tanks
17 and/or pipelines. 'Continuing purchasers of substantial
18 quantities of crude oil,' as used in this section, shall
19 mean purchasers who have, during the preceding twelve
20 (12) calendar months, purchased an average of at least
21 three thousand (3,000) barrels of crude oil per day. If
22 no such purchaser posts and pays a price in the Field on
23 said day for oil of like gravity, or if the only pur-
24 chaser or purchasers who so post and pay a price are the
25 Field Contractor or one or more of the persons compris-
26 ing the Field Contractor, then the price hereunder shall
27 be the arithmetic average of such prices as may be posted
28 on said day for oil of like gravity by Standard Oil Com-
29 pany of California, Union Oil Company of California and
30 Socony-Mobil Oil Company, Inc., or their respective suc-
31 cessors, in the following fields: Wilmington, Huntington
Beach, Signal Hill, and Inglewood. The above price shall
be computed to the closest tenth of each degree of grav-
ity and the closest tenth of a cent per barrel for the
pricing of each delivery of crude oil by applying the
price for each full degree of gravity to the even gravity
and interpolating upward for each tenth degree of gravi ty."

11 If Field Contractor, or one of the persons compris-
12 ing the Field Contractor, purchases oil from others in
13 the Field, the price of the oil taken by such person shall
14 not be less than the price paid by such person to others
15 for oil of like gravity in the Field."

16 What does this pricing formula mean insofar as Long
17 Beach and the State of California is concerned and how does it
18 affect other operators in the State of California?

19 This company has recently acquired an oil and gas lease

1 known as Parcel 9A, and referred to as State Lease 2933.1,
2 in the Santa Barbara area. (And I would like to say that it
3 cost us \$6,100,000.) The State Lands Commission in its lease
4 form provides as follows: (Paragraph 3, line 7, page 3)

4 "The Lessee agrees to account for and pay to the
5 State in money as royalty on oil a percentage, deter-
6 mined in accordance with the schedule attached hereto
7 marked Exhibit B, and by reference made a part hereof,
8 of the current market price at the well of, and of any
9 premium or bonus paid on, all oil production removed or
10 sold from the leased lands. The current market price
11 at the well shall be determined by the State and shall
12 not be less than the highest price in the nearest field
13 in the State of California at which oil of like gravity
14 and quality is being sold in substantial quantities,
15 subject to an appropriate allowance for the cost of
16 delivery of such oil to onshore storage and transporta-
17 tion facilities. Said money royalty on oil shall be due
18 and payable not later than the twenty-fifth day of the
19 calendar month following the calendar month in which the
20 oil is produced."

13 Under the Long Beach contract the Operator is going to
14 bid net profits on Tract Number 1 and will receive the average
15 posted price paid by certain companies. The companies that ac-
16 quire other oil and gas leases offshore throughout the State of
17 California (such as we did under Parcel 9A in the Santa Barbara
18 Channel area), must pay the State of California the highest price
19 paid for oil. This creates an unfair competitive situation since
20 the operators who own other tideland oil and gas leases are re-
21 quired to sell oil on parcels of tidelands lying outside of the
22 Long Beach area at the highest price. It means that the companies
23 who control the oil in the Long Beach area are going to buy their
24 oil cheaper than operators of other State-owned leases. How can
25 an independent producer compete with this sort of discriminatory
26 pricing? It seems to me that we must have one pricing formula
27 for all of the California tidelands. If we do not, we will have
28 a situation where oil from Tracts Number 1 and Number 2 are being
29 sold cheaper and making less profit for the State of California
30 and the City of Long Beach than the State is making from other
31 tideland parcels under their present pricing formula.

1 We are all aware of the situation which existed in Cali-
2 fornia a short time ago when one company posted a price for oil
3 of forty cents a barrel less than one of the other big producers.
4 If there is a forty cent differential in the price of crude oil,
5 then the average price received by Long Beach would be twenty
6 cents a barrel less than the highest price paid for the crude by
7 one of the major purchasers. What does this really mean, gentle-
8 men? Let's take a look at it. It means that any company posting
9 prices in any one of the fields set forth in the Long Beach con-
10 tract can either lower or raise the price, like a window shade in
11 a house, in those areas; or raise or lower the posted price for
12 crude under Tract Number 1, and thereby manipulate the price and
13 the profit the State of California and the City of Long Beach and
14 the Field Contractor (if it happens to be an independent producer)
15 are receiving from Tract Number 1.

16 What does a company have to lose that happens to be the
17 Field Contractor and also the purchaser and the refiner? The City
18 of Long Beach and the State of California will have a lower price
19 for their crude and will be receiving less money than they ordi-
20 narily would. The City of Long Beach and the State of California
21 will receive less net profits from Tract Number 1, but, at the
22 same time, if the Field Contractor happens to be the purchaser
23 AND the refiner, it will pick up that additional profit in his
24 manufacturing profits and would actually be given a windfall by
25 manipulation of the posted price.

26 This agreement, as now submitted by Long Beach to this
27 Commission, gives the exclusive control of this 1.6 billion bar-
28 rels of oil to the Field Contractor or to his designated purchas-
29 er. It does not give the City of Long Beach, nor the State of
30 California, any protection whatsoever in order to dispose of this
31 crude outside the contract. The contract is silent on whether or

1 not the Field Contractor must buy the oil even though he cannot
2 sell it. The draft as submitted to the State Lands Commission
3 staff in September 1962 had a firm obligation on the part of the
4 contractor to buy the oil or to dispose of it. That language has
5 now been changed insofar as oil is concerned. It is requested
6 that the companies who wrote this contract explain whether or not
7 it was the intention of the drafters of same to force the contrac-
8 tors to buy. There must be some provision in this contract for
9 the disposal of crude in the event the Field Contractor cannot
10 find a market. The Field Contractor is required to buy all
11 natural gasoline extracted from wet gas. We think this provision
12 is unfair because it places an impossible burden on the contrac-
13 tor when he doesn't have a market. This is just another device
14 to eliminate competition by placing an onerous market provision
15 upon operators who cannot market large quantities of natural
16 gasoline.

17 No one company can agree to buy all of this oil unless
18 there is a market. How many companies can actually absorb 75,000
19 to 150,000 barrels of oil a day in their refinery? To my know-
20 ledge, none of them. The only way this could be done is to cut
21 off purchases and stop buying oil from the balance of the produc-
22 ers in the State of California. We submit to this Commission this
23 is exactly the plan of action to be taken by certain companies in
24 the event they can monopolize the Long Beach Oil Field.

25 It is submitted to this Commission this is exactly what
26 will happen in the event you permit this complete parcel of land
27 to be put into the hands of one group of companies having control
28 of the pricing and the refining processes in this State. They
29 plan to reduce their purchases from independent producers through-
30 out the State of California which, in turn, will result in the
31 reduction of the posted price in all fields because the

1 independent contractor will be forced to sell his oil at lower
2 prices.

3 Once you have created a soft market for crude oil in
4 California, then the posted price will be lowered through manipu-
5 lation by the refiners and thereby the State of California, the
6 City of Long Beach, and the independent producers throughout the
7 State will receive less money for their oil, not only on the Long
8 Beach parcel, but on other California tidelands and on other oil
9 fields owned by the cities of this State. This is a monopolistic
10 plan in the crudest form.

11 Since the preparation of my presentation, the staff has
12 suggested that small refiners be permitted to purchase a portion
13 of the crude under competitive bidding every six months. What
14 this means is that 'hard-put' small refiners would have to pay
15 the highest price for his crude under sealed bids while the
16 majors, who tie up the balance of the Long Beach crude, would
17 pay the "average posted price" which they fix themselves. This
18 merely accentuates the unfairness of this whole contract.

19 It also means that, unlike the major refiners, the
20 small refiner cannot have a long range supply of crude in order
21 to plan capital investments and arrange for imports.

22 If the small refiners are required to bid for crude,
23 then we recommend that all of the crude under Tract Number 1 be
24 put out for bid on an annual basis. In this manner all companies
25 large and small, would be treated alike. Some may argue that the
26 State and City should not take the risk and gamble on the oil
27 market. The City and State are actually assuming all of the
28 risks under a "net profits" arrangement so a little more risk
29 should not matter. The only people who can lose would be the
30 citizens of California.

31 5. Mr. Chairman, the State Lands Commission has, since

1 1955, taken the position and adopted a policy of putting up
2 alternate, or every third, parcel in even the most risky wildcat
3 areas. Also, this Commission has limited the size of parcels de-
4 pending upon their potential productivity. This Commission has
5 always endeavored to cut up parcels in such a manner so as to
6 keep a complete geologic structure of any major size from being
7 acquired by any one company or group. We think this is a prudent
8 policy and strongly recommend that you continue to follow this
9 policy at Long Beach. Your attention is directed to the State
10 Public Resources Code, Section 6871.4, which limits the size of
11 the tideland parcels to 5,760 acres. It reads as follows:

12 "

13 SIZE OF PARCELS TO BE LEASED:

14 The Commission may divide the lands within the area
15 proposed to be leased into parcels of convenient
16 size and shape and shall prepare a form of lease or
17 leases therefor embracing not to exceed 5,760 acres
18 in any one lease. (Added by Stats. 1955 ch 1724,
19 18; amended by Stats 1957 ch 2166, 5.)

20 The Federal regulations for Federally-owned tidelands are similar

21 Why did the Legislature of the State of California and
22 the Federal authorities deem it advisable to limit the size of
23 even wildcat parcels? It is very easy to understand in that they
24 desired to prevent the monopoly of oil fields by any one company
25 or group. It is submitted that the Long Beach tract of land must
26 be divided into several parcels and put out to bid, one at a time,
27 in order to gain the full benefit of free competitive bids.

28 6. We would also like to call the attention of this
29 Commission to the provisions in the Field Contract Agreement
30 wherein the City of Long Beach and the State of California would
31 pay the Operator 3.75 per cent interest on any advance bonus pay-
ments. This is the first time in my experience that a landowner
has been required to pay the oil operator interest on the money
which the Operator paid the landowner. Here, again, is another

1 example of how some companies are trying to monopolize this tract
2 by raising the bid price so high it cuts out the competition.
3 The State of California, and certainly the City of Long Beach, ca
4 borrow money at much less than 3.75 per cent interest. We think
5 this is against the best interests of the State of California and
6 its citizens. We think this provision should be stricken.

7 7. It is also our feeling that the money payments set
8 forth in the Field Contract Agreement are bonus payments and
9 should be made payable twenty-five per cent at the time the Opera-
10 tor bids and twenty-five per cent on the anniversary date for the
11 next three succeeding years. We do not think the City Manager of
12 Long Beach should be given the discretion to call or not to call
13 for these moneys. If the City of Long Beach and the State of
14 California are entitled to the money, then they should receive it
15 at a specified time. This will create no hardship on industry
16 members in that it will permit them to arrange their financial
17 payments pursuant to contract.

18 A question has been raised as to what kind of payments
19 these are. Are they advance royalty payments or are they, in
20 fact, recoverable bonus payments which must be capitalized. If
21 they are advance royalty payments, then they can be written off
22 in the year payment is made. I understand that some competent
23 tax authorities state that these are bonus payments and must be
24 capitalized. If this is the case, it could be disastrous. This
25 is one of the most important and vital points that must be re-
26 solved and results made known to all bidders prior to the call
27 for bid. The question of whether or not these payments are ex-
28 pense items or capital items will materially affect the amount of
29 the bid of any company -- regardless of whether or not it be net
30 profit, bonus, royalty, or otherwise.

31 It is strongly recommended that this Commission instruct

1 the staff of the State Lands Commission and the Attorney General
2 to secure a ruling from the Internal Revenue Service on final
3 drafts of this proposed contract as to how these and other ex-
4 penditures are to be treated taxwise. It may be that one or
5 more of the companies involved in the preparation of these con-
6 tracts may be already secured a ruling from the Internal Revenue
7 Service. If this is the case, I suggest that they come forward
8 and advise the Commission in open hearing as to the results of
9 their findings and furnish the staff with a copy of the ruling.
10 This would save considerable time. If no one has received such
11 a ruling, then one must be received prior to the bidding date.

12 8. It should be pointed out to the Commission that if
13 Tract Number 1 is permitted to be controlled as one parcel by
14 major domestic refiners, it will vest control in these domestic
15 refiners of the import of foreign oil into the State of Cali-
16 fornia and to the west coast. Why is this the case? It is eas-
17 ily understood since the foreign import quotas are determined by
18 the amount of domestic oil put through domestic refineries. For
19 example: If a company has a refinery with an input of 150,000
20 barrels of oil a day, it will be permitted to bring in foreign
21 import of 10.5 per cent of the domestic refined input. Therefore
22 if a company, or group of companies, should control this estimat-
23 ed 150,000 barrels a day production from Long Beach, regardless
24 of whether or not they can make a nickel out of it, it will allow
25 these companies to bring in an excess of 15,000 barrels of crude
26 a day to the west coast. This will bring in more cheap oil and
27 ultimately reduce the posted price. It is recommended that the
28 State Lands Commission invite major oil importers to come for-
29 ward, in public hearing, and explain the import quota and how
30 much they make by virtue of being able to increase their imports
31 .

1 by gaining control of this Long Beach oil.

2 9. We understand it is anticipated that the
3 Operators will have to bid on this Long Beach proposal within
4 a very short time after the Commission approves same.

5 I have not gone into the many questions we have
6 regarding this contract as submitted today. It would take
7 hours to set forth the various and sundry problems that must
8 be resolved before any company can bid on these parcels.

9 Regardless of what this Commission does today, or
10 sometime in the future, it is strongly recommended that you
11 allow at least two hundred seventy days between the call for
12 bids and the date bids are filed.

13 It is also recommended that you instruct the staff
14 to hold public hearings on the form of the proposed contract,
15 as you will recall, Mr. Chairman, was done in 1955 on the
16 State lease form

17 MR. CRANSTON: That's what we are doing now.

18 MR. SCOTT: I don't just mean on general principles.
19 I mean what the contract means.

20 MR. CRANSTON: That's what we are having this
21 hearing for.

22 MR. SCOTT: I don't think anybody can tell you what
23 the contract means, the way it is written. I would like to
24 have each paragraph and every paragraph explained by the
25 people who wrote it, the City of Long Beach, so everyone knows
26 exactly what the obligations are.

27 I think the Texas Company letter went to that point
28 very vividly this morning, when it was read into the record,
29 that they don't know what it means. I don't know what it
30 means. It's just a bunch of phrases thrown together.

1 MR. SCOTT: (Continuing with statement) It is
2 also recommended that you instruct the staff to hold public
3 hearings on the form of the proposed contract in order that
4 all members of the oil industry may make a critique and learn
5 what the contract really says and means.

6 The present contract is difficult to understand and
7 interpret. A representative of one of the companies involved
8 in the preparation of this contract summed up the contract
9 proposal as follows:

10 "It is a hodge-podge of ideas to be submitted to
11 the State Lands Commission for approval."

12 I think no one could possibly describe this contract
13 any better.

14 Mr. Chairman, in conclusion, we would like to state
15 that we do not wish to oppose a program unless we are able
16 to offer a constructive way of doing it better.

17 We believe we have several alternatives in mind
18 which could permit the State Lands Commission to put Tract
19 Number 1 and Tract Number 2 out on an equitable, fair and
20 competitive basis, which will permit all companies to
21 participate.

22 At the same time, it will eliminate any possibil-
23 ity of monopoly or cartel arrangement which would put the
24 control of the oil business into the hands of a few operators
25 and refiners in this State.

26 These recommendations follow:
27
28
29
30
31

1 (a) It is our recommendation that the State Lands Com-
2 mission put Tract Number 2 up for bid immediately, using the old
3 form of lease and either calling for a cash bonus bid with a
4 fixed royalty formula; or, if the Commission prefers, put up
5 Tract Number 2 for bid on the basis of a fixed cash bonus payment
6 and let the operators bid on a royalty basis.

7 On February 25, 1963, this company formally requested
8 that Tract Number 2 be leased pursuant to present existing laws;
9 a copy of our request is hereby introduced as evidence as part
10 of this presentation. (Letter is as follows, addressed to State
11 Lands Commission, attention Mr. F. J. Hortig, Executive Officer,
12 Reference: Request for Call for Bid on California Tidelands
13 Parcel):

14 " It is requested that the State Lands Commission call
15 for bids pursuant to Section 6871.3 of the Public Re-
16 sources Code of the State of California and other
17 applicable statutes, laws, and regulations on the fol-
18 lowing described parcel which is also delineated in
19 red on the attached map and made a part hereof by
20 reference:

21 That certain parcel of land bounded on the northwest
22 by the southwesterly prolongation of the northwesterly
23 line of Block 50 of Alamitos Bay Tract, as per map
24 recorded in Book 5, Page 137, of Maps in the Office
25 of the County Recorder of said County; on the northeast
26 by the southwesterly line of said Alamitos Bay Tract
27 and the southwesterly line of Tract No. 5325, as per
28 map recorded in Book 58, page 54, of said Map Records;
29 on the southeast by the southeast boundary line of the
30 City of Long Beach; and on the southwest by the south-
31 west boundary line of the City of Long Beach.

Your attention is directed to the language of
Section 6871.3 which reads, in part, as follows:

"... or whenever a person who possesses the qualifica-
tions provided in this chapter makes written request
thereof, the Commission may, subject to the provisions
of Section 6871.4, offer the same for bidding at such
times and in such parcels as the Commission shall
determine to be in the best interests of the State."

It is further requested that this application be
called to the attention of the State Lands Commission
at its regular meeting in Sacramento on February 28,
and that appropriate action be taken at that time to
authorize a call for bids on such parcel under the only
statutory procedure presently authorized. "

1 Under the present statutes, the State Lands Commission
2 cannot put up Tract Number 2 under the Long Beach formula because
3 it is not permitted by the statutes. However, we think ample
4 language can be written into the lease contract which would re-
5 quire the successful operator to enter into a reasonable and
6 equitable unit agreement with the Long Beach people pursuant to
7 presently existing statutory authority.

8 We have just reviewed the recently introduced Senate
9 Bill Number 298 which permits the State of California, as Oil
10 Operator, to unitize Tract Number 2 with the tidelands in Long
11 Beach. We are strongly opposed to this bill since it not only
12 permits the unitization of Tract Number 2 with the tidelands in
13 Long Beach, but it socializes the oil business insofar as the
14 California tidelands are concerned and puts it under State owner-
15 ship and State control. This is against our free enterprise sys-
16 tem of government in this nation, and we oppose it completely and
17 absolutely. This bill has also been referred to by some as a
18 "two-page Proposition Four."

19 (b) It is recommended that the State Lands Commission
20 and the City of Long Beach cut Tract Number 1 into several par-
21 cels and put them out for bid, one at a time. This could be done
22 even though the bids are received only two or three hours apart.
23 It would permit reasonable size oil companies to participate in
24 these offshore bids, and at the same time, give the State of
25 California and the City of Long Beach the best possible bids.

26 It is also recommended that the City of Long Beach
27 and the State of California seriously consider fixing the roy-
28 alty and/or net profits which they want to secure and let the
29 companies bid on a cash payment, payable over a three-year period
30 with twenty-five per cent of the cash payment accompanying the
31 bid. Cash bidding has been used by the State Lands Commission

1 for the past seven years and has been eminently successful. One
2 condition of the bid could be that one of the parcels carved out
3 of Tract Number 1 would be designated as Operator-Field Contrac-
4 tor parcel, and the other parcels could be designated as Non-
5 Operating Field Contractor, or the Operator could be chosen by
6 lot upon award of contract on all parcels. We do not envision
7 any delay if you went this way in splitting these parcels, Mr.
8 Chairman. You put them out in one day, but you split them apart
9 so you know how much money you have invested.

10 I am fully aware of the provision intentionally placed
11 in the City ordinance which was passed by the voters of Long
12 Beach last year requiring the operation to be in a single tract.
13 We believe this problem can be taken care of very easily by a
14 properly drawn document. If it cannot, then the State Lands Com-
15 mission should, if its sovereignty is subordinate to the City of
16 Long Beach, reject this proposal until it is resubmitted to the
17 voters which would permit more than one company, or more than one
18 group of companies, to participate in Tract Number 1.

19 It is very interesting to note that this unit area has
20 about ninety parcels on shore that are owned by separate compan-
21 ies and individuals. You also have Tract Number 2 owned by the
22 State of California. This agreement very easily takes care of
23 the unitization of ninety-one parcels. If ninety-one divided
24 interest parcels can be unitized, then we see no reason why you
25 cannot make it one hundred parcels, or one hundred and one, or
26 one hundred and two.

27 It is imperative that the State permit participation
28 by all operators in the State of California and, at the same
29 time, assure the greatest return to the City and to the State.

30 (c) In the event the Commission does not want to
31 split these parcels up into separate divided tracts, then it is

1 suggested that they be split into undivided interests and put
2 out to bid, one interest at a time, two hours apart. We suggest
3 that one interest be for thirty per cent; one interest for twenty
4 per cent; three interests of ten per cent each; and four inter-
5 ests at five per cent each. The contract could designate the
6 company winning the thirty per cent bid as the Operating Field
7 Contractor. All other undivided participants in Tract Number 1
8 would be designated as Non-Operating Field Contractors. This
9 would permit the smallest to the largest company to participate
10 on an undivided basis, assume their proportionate share of the
11 risk, cost, and expense, and receive their proportionate share
12 of the profits. At the same time, it would permit the City and
13 State to secure the best possible bids. This was anticipated by
14 the City of Long Beach at the time they drew the Field Contractor
15 Agreement since this agreement provides that there may be more
16 than one Field Contractor and only one of them can be the
17 Operator.

18 It is suggested that the State set the net profits
19 and/or royalties and receive bids on a cash bonus payment, pay-
20 able over the three-year period with twenty-five per cent down
21 at the time of bid. The bonus payment should be free and clear
22 of any interest charges but would be recoverable, by the success-
23 ful bidder, out of their proportionate share of their oil in the
24 same way they would recover their proportionate share of the
25 cost in the event it were a net profits bid. Here, again, I see
26 no reason why undivided interest owners should not bid on a net
27 profits formula if the State so desires. The State and City
28 could fix the amount of cash bonus they want and let each bidder
29 bid on a net profit or royalty basis.

30 (d) It is strongly recommended also that the Commis-
31 sion consider receiving bids where a landowner's free royalty is

1 fixed, plus a per cent of the net profits, and call for bids on a
2 cash payment basis, as set forth in paragraph (c) above. The
3 State is in dire need of immediate cash and receiving cash bids
4 can generate hundreds of millions of dollars if the parcel is
5 cut up into reasonable sizes.

6 The State and City might also consider a type of con-
7 tract that fixes a free landowner's royalty and percentage of net
8 profits and have the companies bid on the cash bonus basis. The
9 bonus would be recovered the same as set forth above; or, if the
10 State and City prefers, they could set the amount of bonus de-
11 sired and the amount of net profits desired, and let each opera-
12 tor bid on the free royalty, or any combination, under this
13 formula.

14 Now, I believe Mr. Desmond said just a few minutes ago
15 they might generate a billion dollars here. I never thought it
16 would get that high. I thought you might generate from three
17 hundred fifty to four hundred fifty million dollars. It would
18 probably depend upon the royalty rates. Somebody will tell you
19 this is too much money to hit the industry for in one day. Your
20 attention is directed to the Louisiana sale in the Federal lands
21 last year. I believe forty-eight million dollars were paid in
22 a two-day period. I also believe there was five hundred million
23 dollars in cash returns to the losers. So I don't think you are
24 going to hurt these people if you bring these out on the bonus
25 bid basis. We would certainly like our opportunity to partici-
26 pate, where we can get a portion of this.

27 In conclusion, Mr. Chairman, we recommend that the
28 State of California reject the proposal as submitted and remand
29 it to the staff of the State Lands Commission and to the City of
30 Long Beach to work out a formula and contract which will permit
31 Tract Number 1 to be divided into numerous parcels where each

1 operator can have a fair and equitable opportunity to win a bid
2 under a free, competitive situation.

3 In the event the State of California and the City of
4 Long Beach cannot reach an equitable agreement permitting free,
5 competitive bidding by more than one company or group of compan-
6 ies, then it is recommended that the State Lands Commission refuse
7 to approve any bidding arrangements which would vest title to
8 Tract Number 1 in one operator, or one group of operators, and
9 refer this matter to the State Legislature in order that proper
10 legislation may be passed to accomplish this purpose.

11 There are many other problems which time does not per-
12 mit us to discuss completely here and we hope the Commission will
13 go into the following points at a later date:

14 1. Ad valorem and other taxes;

15 2. Question of why City of Long Beach should reimburse
16 pre-unit expenses of onshore operators. (We do not know how much
17 this obligation is, but it should be looked into).

18 3. Advisability of Unit Operator's authority to settle
19 claims up to \$250,000 without prior consent;

20 4. Does the Onshore Operator have a veto of bids on
21 Tract Number 1 by refusing to commit onshore parcels to the
22 Unit; (Now, that point was discussed a little earlier and we have
23 the letters here, I understand, that the operators will commit;
24 but if they haven't signed that Operating Agreement and Unit
25 Agreement at the time they open these bids, how do you know they
26 are going to be signed? I think the time for that signing is be-
27 fore bidding on Tract 1, so that is at least committed.)

28 5. Legality and advisability of including the Long
29 Beach Oil and Development Company lands in the Unit by consent of
30 Operators rather than through competitive sealed bids when that
31 contract expires next March.

1 That completes my presentation for the present time,
2 Mr. Chairman, unless there are any questions.

3 MR. CRANSTON: Thank you very much. Are there any
4 questions?

5 MR. CHAMPION: I have one. Without disputing the
6 argument, in two or three places you do indicate that there
7 would be great advantages to a single operator, both in import
8 position and so on. Do you think that would reflect itself in
9 the amount of money that came to the State or are the other fac-
10 tors involved going to reduce that amount?

11 MR. SCOTT: My objection is based primarily on the
12 City of Long Beach having one operator.

13 MR. CHAMPION: But what I am asking: You indicate that
14 due to price factors, and so on, having one operator would reduce
15 the amount of money the State would receive -- having just one
16 operator, or one group of operators.

17 MR. SCOTT: It has nothing to do with the operation --
18 it has to do with the price they pay for the crude.

19 MR. CHAMPION: That is right. Now, you say elsewhere
20 that there would be great advantages that would come to this
21 single company or this group of companies because of their import
22 advantages or other things. Do you think they would pay us a
23 substantial advantage to have those?

24 MR. SCOTT: Yes, they might, if they don't have com-
25 petition; but when you get six million barrels of oil, you would
26 have eliminated any competition on a reasonable basis and you
27 would actually get less money, in my opinion. If you cut this
28 up in smaller portions -- it's like if you've got a ten-thousand-
29 acre piece, you get so much for it and if you cut it up into ten
30 lots, you get much more.

31 MR. CHAMPION: I have one more question. You say we

1 would discourage exploration and that undoubtedly is true in
2 terms of the winning bidder. Wouldn't that lead other companies
3 to redouble their efforts in order to hold their place in the
4 California market?

5 MR. SCOTT: Not necessarily. You get one company to
6 come in and other companies come in -- the one company acts as a
7 catalyst; but you wouldn't have the incentive to drill unless
8 you have a solid market.

9 MR. CHAMPION: One thing I'd like you or Mr. Hortig to
10 comment on and that is the change which took place between the
11 September and December draft, on how to determine the price of
12 oil. What was the reason for that?

13 MR. SCOTT: It wasn't the price of the oil....

14 MR. HORTIG: It was to furnish a market.

15 MR. CHAMPION: Didn't you also make some reference to
16 the change, the difference between buying at the highest price
17 and the average price?

18 MR. HORTIG: That was not changed.

19 MR. CHAMPION: That was not changed?

20 MR. SCOTT: The price is the average posted price.

21 MR. CHAMPION: That was not changed?

22 MR. SCOTT: That is not.

23 MR. CHAMPION: But between our policy and the one
24 offered here there is a difference, and I'd like to know the
25 basis for that difference, too.

26 MR. SCOTT: Mr. Lingle is probably in the best position
27 to answer both the question of the market price and furnishing
28 the market, and, what is actually the second question, the bases
29 which went into consideration for establishing the method of
30 fixing the price for the oil on the market.

31 MR. DESMOND: I think he is, too, because of the

1 statement I made earlier. This was not prepared, despite several
2 comments by Mr. Scott, this was not prepared by a company. There
3 are inconsistencies - - he talks about going to the City and the
4 City is going to do this; at other times he talks about it in a
5 different fashion, as being prepared by the companies. This has
6 been prepared by Mr. Lingle and has not been dictated by any oil
7 company at all.

8 We have explained fully, including to the company that
9 Mr. Scott represents here today. They have been solicited for
10 advice. We have heard none of these comments previously from Mr.
11 Scott or anyone in that company, except some general talk about
12 a monopoly. If they can't get into it, it is a monopoly -- they
13 don't win.

14 MR. LINGLE: The question about selling the oil: Mr.
15 Shavelson and I discussed this several times. Rather than have
16 other contracts which have to be approved, in this field contract
17 we have the price schedule in here, and the Field Contractor has
18 to pay us for that oil at that price. Rather than worrying about
19 selling the oil as such and going around and getting the money,
20 the Field Contractor there is obligated to pay us for the oil at
21 the price fixed in the contract.

22 GOV. ANDERSON: Is that a fixed price or does it vary?

23 MR. LINGLE: It could vary. One thing I would like to
24 point out -- that this contract also provides that the City and
25 the State are paid on the tenths of gravity; they are not paid
26 on the even gravity method. The differential between the 22
27 gravity and the 23 gravity, the State and City will receive com-
28 pensation for.

29 MR. CHAMPION: The other question is as to the differ-
30 ence in the way in which the price was arrived at.

31 MR. HORTIG: Your reason for the average price.

1 MR. LINGLE: Our price is based upon the average posted
2 price and in the event that average posted price is controlled, we
3 would have other averages in the area to look to.

4 MR. CHAMPION: Why did you not use the other?

5 MR. LINGLE: Why did we not go to the higher price?

6 MR. CHAMPION: Yes.

7 MR. LINGLE: We thought we would limit competition that
8 way. In talking to various companies - - we have other City oil
9 fields which the State is not involved in. These are City uplands
10 We recently put one of these out and got a very fortunate bid of
11 sixty eight per cent of the net; and in the process of this it
12 was pointed out that certain companies would be reluctant to bid
13 on a contract whereby they had to pay the highest posted price.
14 They wished to pay on the basis of the average posted price, not
15 the higher price.

16 GOV. ANDERSON: Mr. Lingle, I am somewhat concerned
17 about this monopoly of the market problem, and I was just looking
18 at the discussion Mr. Scott made, I think (c) on page 13, where
19 if we feel that we could not split up the parcels into separate
20 tracts because of the ease of handling the unit that way -- did
21 you consider the possibility of separating it into interests of
22 thirty per cent, twenty per cent, ten per cent, and so on --
23 which I understand then would mean that it would be operated by
24 the Operating Field Contractor but that the production would be
25 distributed in proportion to shares of the individual share
26 owners? Did you discuss that?

27 MR. LINGLE: Yes. Mr. Brock and I and other City people
28 have discussed this and considered this. Again, the complexities
29 of coordinating all these things - - frankly, what we were worry-
30 ing about was the pockets of the City and State and how we could
31 draw the best contract. We did not worry about any particular

1 oil companies, what would benefit them best. What we wanted was
2 how we could get the most money, administered efficiently by the
3 smallest staff possible.

4 GOV. ANDERSON: Couldn't you have it administered
5 efficiently by the smallest staff with the ownership separated
6 as suggested there?

7 MR. LINGLE: I would have to look into this. We con-
8 sidered this, Governor; and frankly, we thought with separate
9 companies, whereby we would have to provide different shipping
10 facilities, and so on, it would cost us more than when it was
11 handled all alike.

12 GOV. ANDERSON: I think we want to get the most money
13 for the City of Long Beach and the State of California, and
14 efficient handling -- but I think, too, we have to be concerned
15 about the market.

16 SENATOR O'SULLIVAN: This question is addressed to the
17 Deputy Attorney General. Under this set of agreements, will any
18 ad valorem taxes come to the local districts in Long Beach or
19 anywhere else by reason of the sharing of the profits by the com-
20 panies that bid on this?

21 MR. SHAVELSON: Yes. The City of Long Beach has
22 recently enacted an Oil Production License Act. That is one of
23 the things you are referring to. Under that, the portion of the
24 tax equal to the percentage of net profit that will be retained
25 by the bidder will go to the City of Long Beach for general
26 municipal purposes, as presently contemplated. For example, if
27 the bid should be seventy-five per cent, then twenty-five per
28 cent of that tax would end up in the hands of the City. So I
29 think, to answer your question, at least as far as that tax is
30 concerned....

31 SENATOR O'SULLIVAN: Now, is that tax from the entire

1 receipts? Is that one of the costs that the State will retain
2 too?

3 MR. SHAVELSON: No, Senator, that will come completely
4 out of the share of the successful Field Contractor. It will
5 not reduce the money going to the State.

6 SENATOR O'SULLIVAN: Where do you say that?

7 MR. SHAVELSON: It is a mathematical matter.

8 SENATOR O'SULLIVAN: It does say it in there?

9 MR. SHAVELSON: That is the result. It does say it,
10 yes; but not in so many words.

11 SENATOR O'SULLIVAN: Will the State of California be
12 paying ad valorem taxes?

13 MR. SHAVELSON: Only to the extent that the State is
14 sharing, as in any situation where its lessee or contractor has
15 to pay taxes. In other words, this will be a factor which will
16 enter into their consideration in the amount of the bid they
17 are going to make. This is going to be one of their expenses,
18 but there will be no direct revenue that the State will not be
19 sharing otherwise because of these taxes.

20 MR. CHAMPION: The taxes will then be directed against
21 their net profit.

22 MR. SHAVELSON: Did I make myself clear on that?

23 SENATOR O'SULLIVAN: Yes - - well, not too clear, if
24 I can have a written explanation of that?

25 MR. SHAVELSON: All right.

26 MR. CRANSTON: Senator Arnold?

27 SENATOR O'SULLIVAN: I have several more. As I under-
28 stand it, there will be no ad valorem taxes levied as such, is
29 that correct? Under this set of agreements there will be no ad
30 valorem taxes as such levied.

31 MR. SHAVELSON: I don't quite understand.

1 SENATOR O'SULLIVAN: You know what an ad valorem tax
2 is, of course. You have just spoken of the license tax.

3 MR. SHAVELSON: Yes.

4 SENATOR O'SULLIVAN: A regular ad valorem tax. The
5 reason that the City had to enact this statute for the license
6 is that they couldn't enact an ad valorem tax.

7 MR. SHAVELSON: No, this is not on the State's immu-
8 nity from taxation. This is not a tax on the State at all; it
9 is on the contractor.

10 SENATOR O'SULLIVAN: The reason Long Beach did this
11 was because under this type of agreement there could be no ad
12 valorem tax collected on the share of oil which a company would
13 get because the company isn't getting a share of oil; isn't
14 that right?

15 MR. SHAVELSON: That is correct. The company has no
16 interest.

17 SENATOR O'SULLIVAN: So you answered my question.
18 There are no ad valorem taxes levied under this agreement.

19 MR. SHAVELSON: As far as the State's interest is
20 concerned.

21 SENATOR O'SULLIVAN: As far as anybody's interest is
22 concerned, because you have another type of tax substituted by
23 ordinance. Isn't that it?

24 MR. SHAVELSON: Essentially.

25 SENATOR O'SULLIVAN: Now, in regard to the contract on
26 land called the Long Beach Oil Development land, can that Long
27 Beach Oil Development land be included in the Unit here without
28 any further consent by any party to the agreement after it is
29 executed?

30 MR. SHAVELSON: If it should be decided to extend the
31 Unit to include the lands in the area of the Long Beach Harbor

1 division, there is a provision that requires the consent of
2 fifty-one per cent of the particular owners to that inclusion;
3 but in the event there is considered to be a subsidence problem,
4 then that provision can be waived.

5 SENATOR O'SULLIVAN: This is a field that has already
6 been pumped?

7 MR. SHAVELSON: Yes.

8 SENATOR O'SULLIVAN: It has been tapped -- they have
9 taken oil out of it?

10 MR. SHAVELSON: Yes.

11 SENATOR O'SULLIVAN: Now, after this Commission ap-
12 proves this set of agreements and subsequently, assuming they
13 were executed, at some future date that land which has already
14 been drained somewhat could be included in the Unit; is that
15 right?

16 MR. SHAVELSON: That's correct.

17 SENATOR O'SULLIVAN: Without any further action by the
18 State of California?

19 MR. SHAVELSON: Yes - - well, of course, it is in the
20 existing - - Did the Senator mean whether it will be included
21 in this Unit without further action by the State Lands Commis-
22 sion? The way the agreement is presently written, that would
23 be true.

24 SENATOR O'SULLIVAN: Now, that block of oil land has
25 already been tapped, hasn't it?

26 MR. SHAVELSON: Yes.

27 SENATOR O'SULLIVAN: On what basis will it share; or,
28 if it goes into this Unit, will it be on the same basis as the
29 other lands that exist there?

30 MR. SHAVELSON: There is a provision for negotiating
31 the amount of the tract assignment that will be attributable to

1 new parcels, whether they be to the east or to the west.

2 SENATOR O'SULLIVAN: But the State of California, this
3 Commission, will not be a party to those negotiations, will it?
4 Or to this set of agreements?

5 MR. SHAVELSON: Except to the extent that it will
6 participate in general under Chapter 29, that would be correct.

7 SENATOR O'SULLIVAN: What would be the control under
8 Chapter 29?

9 MR. SHAVELSON: Well, to keep track of what the City
10 is doing. This could be changed by a further supplemental agree-
11 ment to assure that the City did not negotiate the entry of new
12 lands into the unit without the consent of the State Lands Com-
13 mission; and I think that might be a desirable further agreement.

14 SENATOR O'SULLIVAN: So under the present agreement,
15 it is a fact that those lands could be included?

16 MR. SHAVELSON: That is correct.

17 SENATOR O'SULLIVAN: And if Unit 1, which has never
18 been tapped, or this passionate purple piece here

19 MR. HORTIG: That is Unit 2.

20 SENATOR O'SULLIVAN ... was included in the Unit, and
21 then this subsequent land that has been partially drained was
22 included on the same basis, the State could lose some interest
23 in the oil, couldn't it?

24 MR. SHAVELSON: If this area were unitized, no - - If
25 Tract Number 2 came into the Unit later or never came into it?

26 SENATOR O'SULLIVAN: If it was included in the Unit
27 and then later on you take in this unit that had been already
28 drained, if they didn't have anything to say about the agreement,
29 there is a possibility the State could lose some oil?

30 MR. SHAVELSON: Yes, that's correct.

31 SENATOR O'SULLIVAN: And that is under the draft of

1 agreement that we have here?

2 MR. SHAVELSON: Yes. There is one thing, Senator --
3 One of the side agreements that we have proposed is that the City
4 cannot enter into a further agreement authorized by the Unit
5 Agreement without consent of the State Lands Commission. Now, I
6 think that could very likely apply to this situation, but I think
7 before I make a definite answer in that respect it may be necess-
8 ary to make it a little more specific in that regard.

9 SENATOR O'SULLIVAN: Is this an agreement that is not
10 included here, though?

11 MR. SHAVELSON: It is in Exhibit A to the item.

12 SENATOR O'SULLIVAN: This is proposed changes to this
13 set of agreements?

14 MR. SHAVELSON: Yes, sir. This is a bilateral under-
15 standing between the City and the State, to make sure that the
16 City does not exercise its interests to the detriment of the
17 State.

18 SENATOR O'SULLIVAN: May I ask you -- Did you discuss
19 the advisability of the Unit Operator's authority to settle
20 claims up to \$250,000?

21 MR. SHAVELSON: Well, that was considered to be a
22 policy matter.

23 SENATOR O'SULLIVAN: That is included in the agreement?

24 MR. SHAVELSON: Yes, it is.

25 SENATOR O'SULLIVAN: And there is no limitation on who
26 the claims are against or who the claims are from?

27 MR. SHAVELSON: That is correct.

28 SENATOR O'SULLIVAN: Now, earlier I asked some ques-
29 tions about the onshore operators. I note here a question is
30 raised, Number 4 at the end of Mr. Scott's statement: "Does the
31 onshore operator have a veto of bids on Tract 1 by refusing to

1 commit onshore parcels to the unit." Does he?

2 MR. SHAVELSON: The agreement would never go into
3 effect, of course, unless sixty per cent of the Town Lot owners
4 consented to it; and if an owner of more than forty per cent, or
5 combination of owners of more than forty per cent, in the Town
6 Lot area should do this, the Unit Agreement and the Field Con-
7 tractor's Agreement would never go into effect.

8 SENATOR O'SULLIVAN: Have you been asked by anyone for
9 an opinion as to whether this was true or not?

10 MR. SHAVELSON: Well, we considered this question very
11 carefully. Of course, if the agreement never went into effect,
12 the owners of the Town Lot would never get any production from
13 their area; and yet, legally, it is required to have Town Lot
14 participation in the Unit -- so this is a difficult problem to
15 avoid.

16 SENATOR O'SULLIVAN: May I ask this - - I don't want
17 to monopolize all the time here, but I take it that this entire
18 transaction has been taken up and examined by the Trust Section
19 of the Attorney General's Office?

20 MR. SHAVELSON: Yes, we have consulted with them, and
21 in our opinion to the State Lands Commission that aspect has been
22 gone into in some detail.

23 SENATOR O'SULLIVAN: Let me ask you: Do you have an
24 opinion as to whether or not the statement here that the letting
25 of this bid under the facts and circumstances of the oil indus-
26 try may be a monopoly?

27 MR. SHAVELSON: We have asked the State Lands Division
28 staff to prepare, and they did prepare, a statement as to the
29 percentage of total production from California and from District
30 Five, the producing marketing area in which California is lo-
31 cated, and we also inquired as to the factors that went into

1 those estimates; and, actually, we concluded that it is unknown
2 and unknowable at this point to what extent the successful bidder
3 would have monopolistic control. There are so many imponderables
4 entering into that determination. Whether or not he would ac-
5 quire monopolistic control is a question -- and even if that
6 control were gained, there would not necessarily be illegality
7 unless it was either improperly acquired or there was an inten-
8 tion to exercise it.

9 We don't think acquiring it by open competitive bidding
10 would be an improper way to acquire it, and we further believe
11 the fact that the City Manager is going to have such a high de-
12 gree of control over these operations would certainly militate
13 against any finding that there was any intention to exercise any
14 monopoly.

15 MR. LINGLE: Could I inject one thing?

16 MR. CRANSTON: Yes.

17 MR. LINGLE: If I could have your permission, Senator --
18 With reference to this expansion east and west, we could not ex-
19 pand east. There is an existing contract with Richfield Oil Com-
20 pany adjacent here and before that contract could be modified,
21 before you could come into the Unit, we would have to come in to
22 the State Lands Commission. Similarly, on the L.B.O.D. parcels
23 to the west of it, the ones that we spoke of that will run out a
24 year from tomorrow, before those contracts could be amended in
25 any way, before we could put them in -- maybe there were some
26 terms to expand this way if you were willing, but the question is
27 the existing contract on this area; and this existing contract
28 would also have to be amended and we are required to come back
29 to the State Lands Commission and get consent before we can do
30 that. I think you agree with me?

31 MR. SHAVELSON: Yes, I do. I was thinking in terms

1 of whether or not in an expansion, the State Lands' consent
2 would be required for the expansion of this particular Unit.
3 I think you are correct as far as the inclusion of those.

4 SENATOR O'SULLIVAN: Yes, but the permission of the
5 Commission having been granted for the first question, the matter
6 being brought before the Commission would be limited to the sec-
7 ond question which you bring up, isn't that correct?

8 MR. SHAVELSON: In a practical sense, since this would
9 involve an amendment of the other fault block agreements, and
10 since they would require the consent of the State Lands Commis-
11 sion, the State Lands Commission could withhold that consent for
12 any policy reason it desired. It wouldn't be limited as to what
13 policy matters were taken into consideration.

14 MR. CHAMPION: Could it be limited in the restrictions
15 it could place on that with respect to this unitization?

16 MR. SHAVELSON: You mean the conditions?

17 MR. CHAMPION: Yes, the conditions.

18 MR. SHAVELSON: Well, it could just continue to with-
19 hold its consent until those conditions were inserted. I think
20 it could require conditions to be put in.

21 SENATOR ARNOLD: I have a question of Mr. Scott. I
22 believe you heard the discussion on repressuring -- as to wheth-
23 er you could put this in one parcel or more. Do you wish to
24 comment on that?

25 MR. SCOTT: No, I believe it can be repressured with-
26 out any trouble. I have never known sixty-five hundred acres
27 or sixty-three hundred to be repressured off one island or one
28 injection well, but I believe it can be - - it would require
29 further hearings and you would have to have competent experts
30 to answer that.

31 MR. CHAMPION: Mr. Scott, at one point, page 7, your

1 testimony says: "It is requested that the companies who wrote
2 this contract explain" and Long Beach has taken the position
3 that companies did not write the contract. What is the basis of
4 the statement?

5 MR. SCOTT: Well, to my knowledge several companies
6 participated in that and if they said they didn't, I would accept
7 their statement; but to my knowledge many people participated in
8 the preparation of the Field Contractor's Agreement. They can
9 answer that better than I.

10 MR. CHAMPION: Do you accept Mr. Lingle's statement
11 that he wrote the contract?

12 MR. SCOTT: From what I heard today, I won't accept it
13 completely but I just won't belabor the point.

14 MR. CHAMPION: You won't, however, assert flatly to
15 the contrary?

16 MR. SCOTT: No. If we can get involved to where we can
17 get under oath and under subpoenas, maybe we can appear from that
18 point out.

19 MR. CHAMPION: I have another question based on Mr.
20 Scott's testimony and it goes to the City of Long Beach, and
21 that's this question of the payment of interest. On what deter-
22 mination was that based -- this 3.75 percentage, as against no
23 interest at all?

24 MR. LINGLE: Under Internal Revenue statutes, there are
25 some ways - - When they pay a bonus such as the State requires,
26 this usually is required to be capitalized. Another method, which
27 nobody knows, but if you can get close to the Internal Revenue
28 Code or the Federal statutes -- which I am not an expert on - -
29 if you can have some of the elements of production payments in
30 one of those, a production payment is an advance payment and pro-
31 duction payments will be treated differently, and it will be

1 treated as though there was a loss. Therefore, we did put the
2 interest on it.

3 Now, one thing I want to be clear with Mr. Scott on:
4 Any time Mr. Scott wants to question me under oath, I am per-
5 fectly willing. As I said, we have consulted and I have asked
6 all those that I possibly could for suggestions; and there was a
7 suggestion that this was a way under which the production pay-
8 ments could be handled -- whereby there could be benefit to the
9 State and to the City, so that if these production payments, the
10 advance payments, could be framed under a certain framework, the
11 potential bidder could bid a higher figure and thus the State and
12 the City would be able to reap the benefit of a better tax basis;
13 and to get the benefits of that tax basis when we are paid we
14 would have to pay interest on it; and that's why the interest
15 rate is in it.

16 MR. CHAMPION: Why was the interest rate set at 3.75?
17 Presumably, any interest at all could have made this available.

18 MR. MANSELL: Mr. Champion, I can answer that question.

19 MR. CRANSTON: John Mansell, the City Manager.

20 MR. MANSELL: That was the average interest rate we
21 had been paying on bonds and the average we had on securities on
22 deposit, so we thought if we had this money to invest over a
23 period of time it would be a washout. I might say that we need
24 a million and a half for a new bus company. If Mr. Scott wants
25 to lend that to us, we will be happy to take it.

26 SENATOR O'SULLIVAN: Is this 3.75 chargeable to the
27 interest of the State of California?

28 MR. SHAVELSON: Yes, it is.

29 SENATOR O'SULLIVAN: Does anyone know what our inter-
30 est rate is now that we are paying?

31 MR. CHAMPION: On bonds?

1 SENATOR O'SULLIVAN: Any kind of money.

2 MR. CHAMPION: Well, the last time we sold, our bond
3 cost has been between 3 and 3.2; large amounts of bonds, around
4 3.2. I think the last hundred million sale was in that area,
5 general obligation bonds.

6 SENATOR O'SULLIVAN. And we would be paying 3.75 com-
7 pounded every month under this agreement?

8 MR. CHAMPION: I think there is a serious question about
9 this.

10 SENATOR O'SULLIVAN: I don't know what 3.75 compounded
11 monthly would amount to, but it would be substantial to what we
12 are paid.

13 MR. CRANSTON: If there are no further questions, thank
14 you very much. I assure you all of your remarks will be given
15 the utmost care and attention.

16 MR. SHAVELSON: Just one more thing before we leave
17 Mr. Scott's statement. I think there is possibly a misunder-
18 standing that has risen that I should mention; and that is the
19 remark on page 11 here that "The State Lands Commission cannot
20 put up Tract Number 2 under the Long Beach formula because it is
21 not permitted by the statutes."

22 Actually, the purpose of the pending legislation is
23 merely to give the State Lands Commission the alternative, should
24 it choose to exercise it, of putting Tract Number 2 into the Unit
25 as the owner of a working interest without executing a
26 lease.

27 I believe under present law and as specifically pro-
28 vided in Section 6832 of the Public Resources Code, the State's
29 lessee of Tract Number 2, should it be put out for lease, there
30 is no necessity for further legislation to authorize going into
31 Tract Number 2.

1 One thing, Senator, if I may get back to my other
2 correction. That took me sort of unawares -- on the joinder of
3 these lands. Since on these areas to the extent that they are
4 tide and submerged lands, already the State is getting fifty
5 per cent of the revenues, the detriment insofar as the State's
6 interest in Tract Number 1 wouldn't be significant at all; and
7 so I presume that you were talking about the detriment to the
8 State in Tract Number 2.

9 SENATOR O'SULLIVAN: Yes, 2 -- not Tract 1.

10 MR. SHAVELSON: I just wanted to get that clear.

11 MR. CRANSTON: Do you wish to appear now?

12 MR. CLARK: Please. Gentlemen, it is late and I will
13 try to be brief. I am Durland Clark, Shell Oil Company, Los
14 Angeles. Our views on the proposed contracts, briefly stated,
15 fall into three general headings: Operations, State of Cali-
16 fornia interest, and the industry at large.

17 Now, for the operations: These contracts adequately
18 cover the operating requirement for producing a known oil reserve
19 by well-known production techniques understood by any competent
20 operator. The size of the undertaking should not be equated to
21 any inherent difficulty of accomplishment. The contract lang-
22 uage relating to operations is well known to us and the scriven-
23 ers demonstrate considerable familiarity with oil and gas opera-
24 tions. The observed omissions are generally most favorable to
25 the industry.

26 Now, as to the State: These comments are directed to
27 the interest of the State of California in adopting the proposed
28 contracts. You appreciate that under a net profits format the
29 items covered under this heading are of only indirect concern to
30 an operator who merely charges them off against the value of
31 produced oil. They can, however, be of substantial monetary

1 significance to the State.

2 Now, as to Federal tax -- The Proposed field contract
3 provides that the so-called production payments constitute in-
4 stallments which must be paid by the contractor in all events
5 and cannot be avoided. This will require the contractor to ad-
6 vance approximately \$51,000,000 to the City over the first three
7 years.

8 The Internal Revenue Service has informally advised us
9 and others that as now drawn these payments constitute a bonus.
10 However, a comparison of projected profitabilities based on Fed-
11 eral income tax consequences to the Field Contract, that is,
12 advance payments treated (1) as a bonus or (2) as a bona fide
13 production payment, clearly demonstrates that a substantial mone-
14 tary difference exists in favor of a true production payment
15 approach. This difference arises from the Federal income tax
16 treatment of the income received by the Field Contractor and is
17 in the magnitude of two digit millions of dollars over the thirty
18 five-year life of the contract. A higher percentage bid to the
19 City would result if the contract was recast to reflect both
20 intent and actual creation of a production payment.

21 2. Ad valorem or property taxes: In considering the
22 influence of property taxes it had been indicated to us by the
23 Los Angeles County Assessor's Office that an assessment might be
24 made against undeveloped oil reserves. The Los Angeles County
25 Assessor held a conference with representatives of the oil in-
26 dustry on February 20, presumably to discuss this possibility.
27 Actually, the specific question was never answered, as an issue
28 of much greater significance developed.

29 The Assessor indicated that he is now giving considera-
30 tion under the De Luz Homes case to assessing the entire one
31 hundred per cent interest in the tidelands property rather than

1 only the net profits interest of the contractor. The De Luz
2 case -- now that is in the California Supreme Court 1955, con-
3 firmed in 1959 by the Supreme Court in Texas Company versus
4 County of Los Angeles -- the De Luz case held that in determining
5 full cash value of a lease for property tax purposes by the capi-
6 talization of income method, the rent specified in the lease could
7 not be deducted from gross income from the property. It is the
8 Assessor's view that there is no difference between rental and
9 the retained interest of the City; therefore, no deduction should
10 be made from gross income with respect to the governmental
11 interest.

12 If assessments are to be made against undeveloped oil
13 reserves and would be applicable to the full cash value of future
14 net operating income, then the impact of property taxes would
15 substantially increase the cash expenditures of the contractor and
16 the time of his payout. Consequently, the return to the City and
17 State would be appreciably reduced, since under the field contract
18 taxes are a chargeable expense.

19 We estimate that on a recovery of only 800 million bar-
20 rels of oil in a 35-year period at a per barrel rate of 20 cents,
21 which appears to be the current minimum rate of tax in the Wil-
22 mington Field, the property taxes would total \$160,000,000. This
23 is a substantial diversion of income from the State and the tide-
24 lands trust fund to local governmental jurisdictions. Anyone
25 urging a contrary view should, of course, be prepared to indem-
26 nify the City and State against this contingency in writing.

27 Now, Industry at Large: Without attempting to categor-
28 ize the following comments, we list a number of observations re-
29 sulting from the contract format.

30 1. The successful bidder must advance \$51,000,000 over
31 the first three years as an absolute obligation even in the face

1 of litigation striking at the very validity of the field contract.
2 This is an open invitation to specious law suits by taxpayers --
3 essentially blackmail in nature. One needs but a cursory glance
4 at the considerable history of Long Beach tidelands litigation to
5 conclude that our concern is hardly illusory. This inflexible de-
6 mand for advances suggests motives for employment of such funds
7 foreign to the subject at hand and is a cynical disregard of com-
8 mon business practice, where the seller is presumed to produce
9 the thing bargained for as consideration for payment. Clearly
10 these payments should be impounded in the event litigation arises.
11 Failure to so provide will reduce bid offers by some measurable
12 degree dependent upon the risk assessment of the individual bidder.

13 2. The contract contains three elements providing for
14 its own nullification.

15 First, we refer to the requirement of the commitment of
16 sixty per cent or more of the Town Lot tracts to the Unit for it
17 to become effective. We must have the advance written assurance
18 from those companies holding Town Lot leases that they will commit
19 their lands to the Unit irrespective of whether any one or more of
20 them qualifies as a successful bidder. Otherwise, they hold an
21 absolute veto power on legitimate bidders, a matter we must as-
22 sume escaped the attention of the drafters of this provision.

23 Secondly, we have serious reservations as to the provi-
24 sions in Article 16 of the Unit Agreement relating to relief from
25 unit obligations. As applied to the City, we question whether
26 these provisions may not involve a violation of the prohibition
27 against alienation contained in the trust under which its tide
28 and submerged lands are held.

29 Lastly, what of the rule against perpetuities, which in
30 effect directs that twenty-one years shall be the maximum permis-
31 sible period for the vesting of future property rights? The

1 option rights contained in the Unit Agreement (whereby continuing
2 participants may elect to acquire the working interest of a
3 withdrawing participant) must become suspect under the perpetui-
4 ties rule, since there is no express limitation on the period
5 within which such options become exercisable.

6 3. We are opposed to such provisions of Article 6.3
7 of the Unit Agreement as provide for the addition of public lands
8 to the Unit by resolution of the City Council of the City of
9 Long Beach. Such a procedure is in reality an amendment of the
10 term of existing contracts covering lands that would otherwise
11 be subject to future competitive bidding and substitutes the
12 closed negotiation process for the independent bidding evaluation
13 of the entire industry. This clause, if left unchanged, could
14 deprive the City and State of substantial future income and
15 favors certain operators over others. Again, the drafters of
16 these papers must be presumed to have overlooked this potential
17 windfall.

18 4. The crude oil pricing provisions are most inter-
19 esting. Unlike competitive State of California oil and gas
20 leases, the price of crude oil is tied to the average of posted
21 prices rather than the highest posted price. This usually re-
22 sults in the State receiving less for its oil and has an unusual
23 side effect. Consider the case of the three companies presently
24 posting prices in the Wilmington Field. Could all or any two
25 safely become joint bidders without incurring the accusation of
26 price collusion irrespective of whether the prices posted by
27 them are identical or dissimilar? Further, does not a similar
28 risk attach to any Field Contractor who attempts to post prices
29 in the Wilmington Field?

30 5. Time permits just the briefest mention of certain
31 collateral effects growing out of the contracts. The situation

1 at hand is far removed from the casual offering of a relatively
2 small piece of land under competitive conditions. You are being
3 asked to place under development the largest uncommitted oil re-
4 serve in the world. The development of this reserve will trigger
5 a series of complex events which will have regional, national and
6 international force. This stems from the economic power that
7 will result from the acquisition of a one and one-half billion
8 barrel reserve in a single parcel by a single operator or even a
9 combination thereof.

10 The problem that concerns us is the anti-trust implica-
11 tions of this offering in a single contract. We agree that the
12 proposal before us differs markedly from the usual private trans-
13 actions which are so subject to attack by the Department of
14 Justice in that here the City and State by their own actions are
15 making an offer to the industry. The aspect of this that is so
16 bothersome is whether or not the City and State make this deci-
17 sion independently.

18 If this cannot be demonstrated, we have no assurance
19 that the offered contract will not be the subject of immediate
20 anti-trust investigation by the Department of Justice or even
21 the State itself. We should note that demands for such an in-
22 vestigation could emanate from this or any of forty-nine other
23 jurisdictions far beyond the control of forces within this State.
24 It seems to us almost elementary that this Commission, after full
25 investigation, must make a finding to the effect that the ulti-
26 mate format will encourage maximum participation in a free and
27 open bidding competition, thereby minimizing any suggestion that
28 it is designed to effect a concentration of economic power.

29 To avoid any aspect of the above problem, to offer
30 wider participation to the industry in the offered oil reserve
31 and to afford the City and State the opportunity for greater

1 return, we strongly recommend that the offshore tract be sub-
2 divided into several parcels. Such an approach was recommended
3 by the Harbor Department of the City of Long Beach and appears to
4 have been endorsed by your own staff. This in no way would inter-
5 fere with the unit plan of operation, as such offerings could be
6 made fully subject thereto.

7 We further recommend that prior to any offering, the
8 so-called pre-unit expense agreement, which Article 9.1 of the
9 Unit Operating Agreement describes as an agreement between the
10 City and certain unidentified working interest owners, be made
11 public. This is one of the most unusual provisions we have ever
12 encountered for it clearly implies that prior private investments
13 offering economic advantage in this bidding situation are to be
14 charged against the efforts of the successful bidder with conse-
15 quent reimbursement out of public funds. Even if this almost
16 ludicrous provision is allowed to remain, the State and all
17 potential bidders should be fully informed as to the extent to
18 which their own efforts and public funds are being committed to
19 reimbursement of private risk. This provision suggests a pork
20 barrel of potentially significant proportions and distorts the
21 equality of opportunity that is inherent in a truly competitive
22 offering.

23 In summary, we can state our opinion as to the con-
24 tracts very briefly: First, we find them acceptable as to oper-
25 ating features. Secondly, we find them unpalatable as to a number
26 of features related to equality of bidding opportunity and expos-
27 ure to excessive legal risks. And, finally, while actually not
28 of direct concern to us, we would suggest that this Commission
29 must necessarily consider whether the present posture of the pro-
30 posed offering is such as to reasonably assure the maximum econ-
31 omic return to the State.

1 We will make no decision as to whether we will even
2 offer a bid until we have had a chance to evaluate further action
3 by the State Lands Commission. We can say without any equivoca-
4 tion that the contract in its present form prevents our offering
5 the maximum bid that we might otherwise make.

6 We urge the Commission to hold further hearings on the
7 contracts with a view toward offering these lands on a more
8 advantageous basis to all concerned. Once this is accomplished,
9 we would expect to be a highly competitive bidder for the
10 operating contract.

11 MR. CRANSTON: Thank you very much.

12 MR. CHAMPION: Are copies of this statement going to
13 be available?

14 MR. CLARK: They will be. I don't have any now.

15 GOV. ANDERSON: I take it from your opening remark
16 that if any contracts are entered into, the upland areas, or
17 sixty per cent, should be signed up, so they couldn't hold it up?

18 MR. CLARK: Yes.

19 GOV. ANDERSON: I think it was reported earlier that
20 one operator had fifty-three per cent, so that one operator
21 could hold everything up.

22 MR. CLARK: That's right. There is an absolute veto.

23 MR. SHAVELSON: I might point out that the obligation
24 of the successful bidder would not arise until the Unit Agree-
25 ment became effective, because the Contractor Agreement does not
26 become effective until the Unit Agreement becomes effective --
27 in case anybody has the idea that the successful bidder would be
28 compelled to make production payments even while someone was
29 holding up the agreement.

30 MR. CLARK: That's our least concern. We are exposed
31 to all sorts of things. I think this is absolutely terrible --

1 to launch a contract which could only work at the choice of
2 certain people that are also competitive bidders.

3 MR. CHAMPION: May I ask , Mr. Shavelson, at what
4 point do you interpret this agreement - - or was there any point
5 that these agreements would be in writing, or was it your under-
6 standing there would not be any agreement until bids had been
7 made?

8 MR. SHAVELSON: It is my understanding that until the
9 Unit Agreements had been approved by the Lands Commission, there
10 would be no attempt to execute them.

11 MR. CHAMPION: Would you offer for bid before that
12 point? At what point would you insist on the commitment and
13 what relation would that have to this problem?

14 MR. SHAVELSON: The way the agreement is drawn up,
15 there is no necessity of the Unit Agreements being effective
16 before the date of offering. Now, as to exactly what has been
17 contemplated by the parties, I do not know.

18 MR. CHAMPION: Would there be any bar to any
19 commitments?

20 MR. SHAVELSON: No.

21 MR. CRANSTON: Any other questions at this time? (No
22 response) We would all like a copy of your comments. We would
23 deeply appreciate it. I assure you we will give your statement
24 most careful consideration.

25 I believe there is one more person here who wished to
26 testify. (No response)

27 I think that we will at this time take this matter
28 under advisement. I remind you that there are other matters
29 pending on our calendar.

30 MR. HORTIG: Mr. Chairman, may I note for the record
31 another telegram addressed to Alan Cranston, State Lands

1 Commission:

2 "Jade Oil and Gas Co. is prepared to execute the
3 unit operating agreement and all other agreements
4 immediately after approval by the State Lands
5 Commission.

6 Delays in approval of this unit will automatically
7 cause a loss of income to my company, my royalty
8 owners, the City of Long Beach, and the State of
9 California. The unit is presently being drained
10 by off-set operators and we feel it is imperative
11 that action be taken to approve this unit as soon
12 as possible.

13 Jade Oil Co., a small independent, chartered in
14 California in 1908, attended all unit agreement
15 meetings and I can assure the State Land Commis-
16 sion that the final conclusions to these agree-
17 ments were accepted as the best possible measures
18 to operate efficiently in this Wilmington pool.

19 Jade Oil Co. owns more than 800 leases in the
20 onshore unit comprising of approximately 150
21 acres. We feel that the present plans to unitize
22 the offshore and onshore units into one unit is
23 the only logical method to properly develop this
24 reservoir. I feel sure that the other owners of
25 the onshore leases will agree that this unit
26 should be one large, properly-developed unit.

27 I understand that there are other disinterested
28 companies who, through their lack of ability were
29 unable to secure onshore leases when the oppor-
30 tunity to secure them was available. It is my
31 understanding that these companies want to divide
the offshore into several parcels. It is my firm
conviction that to be included in the unit of an
incompetent operator if the offshore is divided
and if so, not only is Jade Oil Co. affected,
but so are my royalty owners.

We sincerely hope that the State Land Commission
uses its best judgment and requires that the
Wilmington unit remain as one big major unit,
properly drilled, properly engineered and one
which will earn the State of California and other
interested parties maximum recovery at a minimum
of cost, which is vitally essential to all of us.

Johnny Mitchell, President
Jade Oil and Gas Co. "

MR. CRANSTON: (To Senators and Assemblymen present)

We will be in touch with each of you and thank you very much.

(End of Long Beach Wilmington Oil Field item)