

1 TRANSCRIPT OF  
2 MEETING  
3 of  
4 STATE LANDS COMMISSION

5 SACRAMENTO, CALIFORNIA  
6 SEPTEMBER 30, 1963

7 PARTICIPANTS:

8 THE COMMISSION:

9 Hon. Hale Champion, Director of Finance, CHAIRMAN  
10 Hon. Alan Cranston, Controller

11 and

12 Representing Hon. Glenn M. Anderson, Lieutenant Governor:

13 Mr. Alan Sieroty, Executive Secretary

14 Mr. Douglas Baker, Administrative Assistant

15 Mr. F. J. Hortig, Executive Officer

16 OFFICE OF THE ATTORNEY GENERAL:

17 Mr. Howard S. Goldin, Assistant Attorney General

18 SENATE PERMANENT FACTFINDING COMMITTEE ON NATURAL RESOURCES:

19 Senator Virgil O'Sullivan

20 CITY OF LONG BEACH:

21 Mr. J. C. Spence, Jr., Assistant City Attorney

22 Mr. M. D. Hughes, Director of Petroleum and Subsidence  
23 Control Operations, Long Beach Harbor Department

24 Mr. W. A. Smith, Assistant Chief Petroleum Engineer,  
25 Long Beach Harbor Department

26 Mr. Harold A. Lingle, Deputy City Attorney

INDUSTRY REPRESENTATIVES:

Mr. William R. Gardner, Humble Oil and Refining Co.

Mr. J. Barton Hutchins, Pauley Petroleum, Inc.

NOTE: THIS TYPED TRANSCRIPT INCLUDES ONLY CALENDAR  
ITEMS TWO AND THREE. CALENDAR ITEM ONE HAS BEEN  
REPRODUCED SEPARATELY IN MIMEOGRAPHED FORM.

I N D E X

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CALENDAR ITEM

PAGE

- 1 - Drilling and Operating Contract, Long Beach Harbor Department Tidelands Parcels IN MIMEO-GRAPHED FORM Pages 1-53
- 2 - Approval of documents settling case of U.S. v. Anchor Oil, et al 4
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- Statement re Long Beach Fair 1
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1 MR. CHAMPION: The meeting will please come to  
2 order. Lieutenant Governor Anderson is absent on a trip to  
3 the Far East. Did I see Mr. Baker here a minute ago? Mr.  
4 Baker will sit with the Commission without a vote.

5 We have before us three items on the calendar, but  
6 before we begin that calendar Mr. Cranston has been looking  
7 into another matter for the Commission and will make a state-  
8 ment for the Commission at this time.

9 MR. CRANSTON: This statement is in regard to the  
10 Long Beach Fair. This fair could be a great economic and  
11 cultural asset to the State of California under proper circum-  
12 stances. There is a large degree of confusion about the fair  
13 and the relationship of the Lands Commission and tidelands  
14 oil in financing this fair, and therefore at this time it  
15 would seem appropriate to clear the air a bit on this matter  
16 and so I have a written statement on the subject.

17 I believe it should be noted for the record that  
18 no matter concerning the Long Beach International Exposition  
19 is or has been before the Lands Commission for official con-  
20 sideration or action.

21 Despite the repeatedly expressed concern of the  
22 Commission that premature reliance was being placed upon a  
23 financing plan open to major legal objections and subject to  
24 possible disapproval by the Commission on other grounds, the  
25 Exposition's management has apparently continued to act on  
26 the assumption of eventual approval without ever making a

1. formal request to the Commission for approval.

2           The fact is that we have been advised only that at  
3 some future, unspecified date a plan will be submitted to us  
4 which in effect would underwrite the financing of the fair by  
5 pledging tidelands oil ~~trust~~ funds against any loss that  
6 might be sustained by entrepreneurs who are now putting risk  
7 money into this venture.

8           We are aware, too, that a ballot proposition has  
9 been submitted to the people of Long Beach, and been approved  
10 by them, which would authorize the actual investment of tide-  
11 lands oil revenues in the fair. This could not be done with-  
12 out Lands Commission approval.

13           In order to avoid misunderstanding and to expedite  
14 clarification of these matters, whether they are brought to  
15 us officially or not, we have asked the Attorney General for  
16 his opinion on the legality of any proposal to use tidelands  
17 funds for these purposes.

18           The legal question is not the only possible basis  
19 for disapproval by the Lands Commission, however. Unfavorable  
20 and unverified reports have been reaching our ears for some  
21 weeks concerning the operation and financial condition of the  
22 proposed World's Fair. We have heard stories that management  
23 representatives, or individuals allegedly speaking for manage-  
24 ment, have implied that Commission approval of whatever plan  
25 is ultimately submitted by the Fair is a certainty. That is  
26 far from the truth.



1 Outside the area of unverified reports, there is  
 2 the factual analysis by the City Auditor of Long Beach of the  
 3 Fair management's bookkeeping methods and procedures. This  
 4 report reveals certain highly unsatisfactory conditions and  
 5 is of deep concern to us.

6 I have made this statement in order to clarify the  
 7 present situation and to serve public notice that this Commis-  
 8 sion has not only not approved -- either formally or informally--  
 9 any financing plans of the Long Beach International Exposition,  
 10 but that it feels there are critically important questions of  
 11 legality, management and public policy yet to be answered.

12 MR. CHAMPION: Senator O'Sullivan is sitting with  
 13 us here today by invitation. As you know, there was a Senate  
 14 subcommittee established during the last session to look into  
 15 the whole problem of new tidelands leasing; also the related  
 16 question of the replacement of the present L.B.O.D. contract.  
 17 Senator O'Sullivan is sitting with us today informally to  
 18 participate in the discussion of these matters.

19 Is there anyone here from Long Beach who would like  
 20 to ask any questions on this statement by the Commission on  
 21 this International Exposition at Long Beach, or would like to  
 22 make any comment on it?

23 MR. SPENCE: I believe not, Mr. Chairman.

24 MR. CHAMPION: All right. I believe in order to  
 25 expedite the discussion this morning, I think we will take up  
 26 the other two items -- which I think will be very brief --

1 with regard to U. S. versus Anchor; then we will proceed with  
2 full discussion on the Long Beach matter.

3 Do you want to take those up?

4 MR. HORTIG: Yes, Mr. Chairman. On Item 2, starting  
5 on page 4 of the Commissioners' calendars, the exhibits there-  
6 in referred to are being distributed to you by Mr. Kreft  
7 currently. This method of presentation was adopted because  
8 there are numerous exhibits in connection with the other  
9 agenda items and we felt it desirable to keep them separated  
10 for matters of clarity.

11 In essence, pursuant to the authorization by the  
12 Legislature under Chapter 1847 of the Statutes of 1963, which  
13 authorized a settlement of the case United States of America  
14 versus Anchor Oil Company, et al, certain documents have had  
15 to be prepared in connection with or preliminary to presenta-  
16 tion to the court, at which time a dismissal with prejudice  
17 of this action is to be received as against the United States  
18 of America in the compromise of this litigation.

19 The documents consist of stipulations as noted --  
20 stipulations one and two respectively: One, for judgment of  
21 settlement between plaintiff and defendants; and, two, for  
22 "Judgment Vesting Title in that Certain Condemnation Action  
23 to be Filed," the area to be condemned to be part of the area  
24 required by the United States Navy in connection with the  
25 U. S. Naval Shipyard, and the acquisition of these parcels  
26 for a nominal value, being reflected as a real value in the

1 settlement of the Anchor litigation and as part of the stipu-  
2 lation for dismissal of Anchor litigation.

3           These stipulations have been approved by and actu-  
4 ally prepared by the Office of the Attorney General as a  
5 settlement of the action. However, various co-defendants,  
6 that is private defendants, in the matter have insisted on  
7 the acceptance of these documents by the Lands Commission  
8 over and above the preparation and approval of the stipulations  
9 by the Attorney General.

10           A full set of the settlement documents, including  
11 the proposed judgment of settlement and the proposed complaint  
12 and judgment vesting title in the condemnation action, have  
13 just been delivered to you gentlemen and have been reviewed  
14 by the staff of the Lands Division. Both the Attorney Gener-  
15 al's Office and the Commission staff advise the settlement  
16 documents are in compliance with the settlement authorized by  
17 Chapter 1847 of the Statutes of 1963.

18           In addition, the same statutes authorize the City  
19 of Long Beach to withhold the sum of \$1,200,000 from oil and  
20 dry gas revenues otherwise due and to become due to the  
21 State, and to remit this amount to the United States as the  
22 State's share of the settlement. The City has asked the  
23 Commission for authorization for the release of so much of  
24 the money accumulated to September 30, 1963 and the balance  
25 of any moneys owing to be remitted from revenues which will  
26 be accumulated in October 1963.

1           On these bases, it is recommended that the Commis-  
2 sion approve the form and content of each of the Anchor  
3 settlement documents, including the aforementioned stipula-  
4 tions and agreement, to be signed by the Attorney General in  
5 effectuating a settlement of the Anchor case; and, in con-  
6 formity with the Statutes of 1963, Chapter 1847, the City of  
7 Long Beach be authorized to remit forthwith to the United  
8 States oil and dry gas revenues from tide and submerged lands  
9 due to the State on September 30, 1963, and that said City  
10 be further authorized to deduct from similar funds due to  
11 the State for the succeeding "month" (this was a typographical  
12 error and "month" was substituted in the copy before you) and  
13 remit to the United States on November 1, 1963, the balance  
14 of any moneys owing to the United States by the State under  
15 said Anchor settlement.

16           MR. CHAMPION: Now, all of these documents entirely  
17 conform to the settlement that the Commission previously  
18 agreed to by resolution?

19           MR. HORTIG: And to the statute which finally  
20 authorized the settlement.

21           MR. CHAMPION: During the '63 session of the  
22 Legislature?

23           MR. GOLDIN: That is right, sir.

24           MR. HORTIG: That is right.

25           MR. GRANSTON: Noting the amendment correcting  
26 that error, I move approval of the staff recommendation.



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MR. CHAMPION: If there is no further comment or question, the resolution stands approved unanimously.

Do you want to take up the third item?

MR. HORTIG: Calendar Item 3 appears on page 6 and exhibits thereto will be delivered to you gentlemen again. As the Commissioners will recall, on September 16, 1963, the Commission approved the form and content of two deeds conveying the State's reversionary interest in certain parcels of tide and submerged lands to the United States as part of the settlement of that same Anchor case.

These deeds had been reviewed by counsel for the United States -- at least special counsel at Los Angeles had indicated satisfaction with them prior to their presentation to the Commission. In subsequent review by higher authority in the United States Department of Justice, it was felt incumbent that three words be added in the middle of a paragraph in one of the deeds. It is the paragraph which relates to Parcel U and Parcel U is defined therein in practically every sentence except one. It is the desire of the United States that this be amended to include in that one sentence the additional words "to Parcel U." It is not felt that there is any change in the form of the deed; that there could not have been any misunderstanding. On the other hand, this will satisfy the United States and, therefore, it is recommended that the Commission by resolution approve the amendment hereinabove requested and, as amended, the form

1 and content of the deed of conveyance attached thereto, just  
 2 delivered to you, as conforming to the provisions of Chapter  
 3 1847, Statutes of 1963, Section 2(c); and approve the forward-  
 4 ing of the amended deed to the Governor in lieu of the deed  
 5 heretofore approved on September 16, 1963, to be executed by  
 6 the Governor in the manner prescribed by the aforementioned  
 7 statute.

8 MR. CHAMPION: Is there any question or comment  
 9 on this?

10 MR. CRANSTON: I move approval.

11 MR. CHAMPION: I'll second it and it will stand  
 12 approved.

13 MR. CHAMPION: Now to turn to the major business  
 14 of this particular hearing, which is the matter of the drill-  
 15 ing and operating contract on the Long Beach Harbor tidelands  
 16 parcel.

17 (Calendar Item 1 -- Drilling and Operating Contract  
 18 Long Beach Harbor Department Tidelands Parcels,  
 19 Board of Harbor Commissioners, City of Long Beach,  
 20 Wilmington Oil Field -- L.B.W.O. 10,190 --  
 21 Discussion on this item has been reproduced in  
 22 mimeographed form, pages 1 through 53)

23 MR. CHAMPION: Is there anything further to come  
 24 before this meeting?

25 MR. CRANSTON: I'd like to ask, as a matter of  
 26 information, if there is anything to report on the East

1 Wilmington Oil Field.

2 MR. LINGLE: Last Tuesday the City Council, after  
3 its Oil Committee had considered all of your suggestions on  
4 it, adopted a position firming the contract which the  
5 City had originally presented to the Lands Commission, with  
6 the exception that they looked with favor upon the 12 1/2%  
7 selloff.

8 MR. CHAMPION: Is this a firm position which is now  
9 ready to be reported to us, or is there to be further discus-  
10 sion in Long Beach?

11 MR. LINGLE: There was a resolution adopted, which  
12 the City Clerk mailed to the Lands Commission, so as far as  
13 I am concerned it is a firm position.

14 MR. SIEROTY: Mr. Champion, there was an article in  
15 the paper which stated that one of the reasons why the City  
16 Council took this position was they had not been formally  
17 aware of the State Lands Commission's position. If they  
18 haven't been formally aware of our position, maybe we should  
19 adopt some resolution or something.

20 MR. HORTIG: May I comment on that? The Lands  
21 Commission's communication with the City Council has, all  
22 during the period of negotiation on all these contracts, been  
23 through the City Attorney's Office of the City of Long Beach.  
24 The City Council was fully aware of all the documentation and  
25 all the reports of the Lands Commission through the City  
26 Attorney's Office; but this press report quotes two councilmen,

1 who suddenly personally feel that possibly some other type  
2 of communication channeling should have been invoked. This  
3 was news, I think -- I'll ask Mr. Lingle -- it was probably  
4 news to him and it certainly was news to us that there was a  
5 feeling of lack of communication.

6 MR. LINGLE: Obviously, I can't report on what  
7 individual councilmen thought; but the resolution that the  
8 City Council adopted made no mention about this problem. It  
9 was discussed, and I having been here and there did my best  
10 to relate what I thought was the Lands Commission's position  
11 and all I can say is, although there was discussion at the  
12 time, that the resolution which they adopted makes no mention  
13 about any channels of communication.

14 MR. CHAMPION: Does it provide any reasons for  
15 refusing to consider the Lands Commission's position in this  
16 matter?

17 MR. LINGLE: No, sir. I think that went on in  
18 their own minds. The staff of the City had gone into lengthy  
19 consideration of your proposals and there was discussion and  
20 recommendations as to which of the proposals could be accomme-  
21 dated and which could not; and when the City Council deliber-  
22 ated on it, as was their duty, this was the ultimate outcome  
23 of their deliberations -- but they themselves individually  
24 did not express whatever their reasons may have been.

25 MR. CHAMPION: And there was no statement that  
26 certain conditions were acceptable and certain others were

1 not in terms of their final action?

2 MR. LINGLE: Yes, there was the one condition of  
3 the 12½% selloff.

4 MR. CHAMPION: Where do you or the City Council now  
5 consider the matter rests?

6 MR. LINGLE: I don't know.

7 MR. CHAMPION: That would have been my answer if  
8 you had asked me. Let me make a suggestion, if I may, in  
9 regard to the channel of communication to the City Council of  
10 Long Beach. I think it would be very useful for the Lands  
11 Commission to have an exchange of views -- perhaps for us to  
12 make clear some of the reasons for what we proposed to do;  
13 perhaps for them to make clear those problems which, in their  
14 minds, make it impossible for them to accept our proposals --  
15 either with the Council or, perhaps, in the first instance we  
16 might do it with the Oil and Gas Committee if that is the  
17 committee which is concerned with these matters.

18 I would be glad to invite them to meet with the  
19 Lands Commission for a public discussion and I think probably  
20 the Lands Commission would be willing to have that in Long  
21 Beach or the Los Angeles area, in order to discuss fully the  
22 issues involved as between the two proposals.

23 Would you relay that invitation and see what  
24 response you get?

25 MR. LINGLE: Certainly I will.

26 MR. CHAMPION: Thank you very much. Anything further  
to come before the Commission? If not, we stand adjourned.

ADJOURNED 12:40 P.M.



CERTIFICATE OF REPORTER

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2  
3 I, LOUISE H. LILLICO, reporter for the Office of  
4 Administrative Procedure, hereby certify that the foregoing  
5 eleven pages, plus pages one through fifty-three on Calendar  
6 Item 1 (Drilling and Operating Contract Long Beach Harbor  
7 Department Tidelands Parcels - L.B.W.O. 10,190) which have  
8 been reproduced on stencils in order to be mimeographed,  
9 contain a full, true and correct transcript of the shorthand  
10 notes taken by me in the meeting of the STATE LANDS COMMISSION  
11 held in Sacramento, California on September 30, 1963.

12 Dated: Los Angeles, California, October 4, 1963.

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14 Louise H. Lillico  
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STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

SEPTEMBER 30, 1963

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ITEM 1 -- DRILLING AND OPERATING CONTRACT (LONG  
BEACH HARBOR DEPARTMENT TIDELANDS PARCELS), BOARD  
OF HARBOR COMMISSIONERS, CITY OF LONG BEACH,  
WILMINGTON OIL FIELD - - L.B.W.O. 10,190

TRANSCRIPT OF THAT PORTION OF THE MEETING OF THE STATE LANDS  
COMMISSION HELD IN SACRAMENTO, CALIFORNIA ON SEPTEMBER 30, 1963  
CONCERNING:

ITEM 1; DRILLING AND OPERATING CONTRACT (LONG BEACH HARBOR DEPARTMENT  
TIDELANDS PARCELS), BOARD OF HARBOR COMMISSIONERS, CITY OF LONG BEACH,  
WILMINGTON OIL FIELD -- L.B.W.O. 10,190.

PARTICIPANTS:

THE COMMISSION:

Hon. Hale Champion, Director of Finance, Chairman  
Hon. Alan Cranston, Controller  
Mr. Alan Sieroty, representing Hon. Lieutenant Governor  
Anderson

Mr. F. J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL:

Mr. Howard S. Goldin, Assistant Attorney General

APPEARANCES:

CITY OF LONG BEACH:

Mr. J. C. Spence, Jr., Assistant Attorney,  
City of Long Beach

Mr. M. D. Hughes, Director of Petroleum and Subsidence  
Control Operations, Long Beach Harbor Department

Mr. W. A. Smith, Assistant Chief Petroleum Engineer,  
Long Beach Harbor Department

Mr. Harold A. Lingle, Deputy City Attorney,  
City of Long Beach

SENATE PERMANENT FACTFINDING COMMITTEE ON NATURAL RESOURCES:

Senator Virgil O'Sullivan

INDUSTRY REPRESENTATIVES:

Mr. William R. Gardner, Humble Oil and Refining Company

Mr. J. Barton Hutchins, Pauley Petroleum, Inc.

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1 CALENDAR ITEM 1 -- DRILLING AND OPERATING CONTRACT (LONG BEACH  
2 HARBOR DEPARTMENT TIDELANDS PARCELS), BOARD OF HARBOR COMMIS-  
3 SIONERS, CITY OF LONG BEACH, WILMINGTON OIL FIELD, L.B.W.O.10190

4 MR. CHAMPION: Now, to turn to the major business of  
5 this particular hearing, which is the matter of the drilling and  
6 operating contract on the Long Beach Harbor tidelands parcels.  
7 We are still in a difficult time situation with respect to this  
8 matter. We are trying to move it as expeditiously as possible  
9 but we still have some problems in so doing, and I don't expect  
10 that we will be able to conclude action on this matter today.  
11 We want, however, to hear from everyone.

12 Among the problems, I understand, is the fact that in-  
13 dustry representatives have not had what they consider to be  
14 adequate opportunity to be heard on this matter, although we  
15 have had some very recent communications. I think probably what  
16 we will try to do today is to hear as much as we can. If we do  
17 have problems and differences, we will try to work them out this  
18 week and act on them at a special meeting next week. Just how  
19 difficult that will be we will know more about today.

20 We also recognize in some cases industry representa-  
21 tives will not be in a position to state their entire position  
22 in this case because they have had the final documents for so  
23 limited a time, so we will make it possible for those people to  
24 file their positions with the staff during the coming week, so  
25 everyone will have an opportunity to be heard on this before we  
26 take our final action. However, we want everyone to know we do  
27 consider this to be an urgent matter. We have discussed this  
28 matter several times -- the reason for that urgency; the need to  
29 get a contractor -- to get him operating, so there is no break  
30 in the continuity of operation of this parcel.

31 MR. SPENCE: Mr. Chairman, may I make a statement?

1 My name is John Spence, Assistant City Attorney, Long Beach.  
2 I'd like to call to the attention of the people present that  
3 shortly after the Commission was given copies in a so-called  
4 rough form on July 25th, these other people, when they requested  
5 it, were given copies of the very same agreement. There has  
6 been very little change since July 25th in the so-called final  
7 draft. The changes have not been in substance, but as to form.  
8 So if they have studied the draft of July 23rd -- that's the  
9 date of it -- 1963, they are thoroughly familiar with the theory  
10 of this contract.

11 MR. CHAMPION: I am not trying to raise this question.  
12 I hope there won't be any changes, but I want to be sure that  
13 everyone who wants to make a comment on this has a chance to do  
14 so before the Commission takes a final action; and I think if we  
15 take that final action within a week, it will remove every pos-  
16 sible problem in that respect and also keep to a reasonable dead  
17 line as far as Long Beach's problems are concerned.

18 MR. CRANSTON: Mr. Chairman, I'd like to stress one  
19 point you went into. If there are parties who have comments they  
20 wish to make, we would strenuously urge they be made as soon as  
21 possible to the staff, and not be reserved until our subsequent  
22 meeting. If somebody comes in with a strong point just when we  
23 are having a meeting to take final action, that will delay things.

24 MR. CHAMPION: It is our present intention, if at all  
25 possible, to take action at the subsequent special meeting.

26 MR. SPENCE: Mr. Chairman, may I interrupt one more  
27 time? For the benefit of prospective bidders, we want to call  
28 their attention to the fact that we propose to have a bidders'  
29 meeting shortly after the notice inviting bids. We have a kit to  
30 hand out to the prospective bidders when they ask for copies of  
31 the contract, which will show the economic background, the



1 accounting procedures; it will give them all the data that is  
2 pertinent that we have been able to assemble. So they will have  
3 an opportunity for some sixty days to make this study. We also  
4 propose that we have a bidders' meeting once a week, say on a  
5 Thursday. When they have any questions on economics or account-  
6 ing, they can assemble in the board room at Long Beach and we  
7 will answer any of their questions. So everyone will have an  
8 opportunity, whether they are familiar with Wilmington Field or  
9 not, to have the background that will make them able to make a  
10 bid.

11 MR. CHAMPION: With those preliminaries, I think, Mr.  
12 Hortig, if you will take up the agenda item and staff recommen-  
13 dations .....

14 MR. HORTIG: In view of the Chairman's preliminary  
15 remarks, I believe another preliminary is in order. Before  
16 presenting the contract for the Long Beach Harbor parcel, it  
17 would appear desirable to review briefly the fundamental con-  
18 cepts and principal factors of the proposed contract in which  
19 you are going to consider.

20 Operations in the area under the proposed contract are  
21 not for development of a new field, but for continuation of pro-  
22 duction and completion of development started twenty-five years  
23 ago. This prior development program for the majority of the  
24 production, and payment of the complete capital investment by  
25 the Harbor Commission from tideland oil funds, requires a con-  
26 tinuity in many phases of the program.

27 Without this requirement for continuity, such as in  
28 the case of an initial development, selection of a development  
29 and operating program could be made from a broad combination of  
30 alternatives. However, in view of the important continuity re-  
31 quirement and the committed investment of public funds, the

1 contract recommended for consideration has been drafted to elimi-  
2 nate administrative difficulties experienced in the expiring con-  
3 tracts, and to optimize the revenue return to the city and the  
4 State.

5 Because of the pre-existing conditions, I wish to  
6 bring to the attention of the Commission this contract cannot  
7 be equated directly with any other form of contract or lease for  
8 initial development.

9 With that preliminary, and in view of the late release  
10 of the agenda item, Mr. Chairman, perhaps the situation might be  
11 expedited and everyone would be completely informed if I read  
12 the prepared agenda item:

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

17 1. Drilling and Operating Contract (Long Beach Harbor De-  
18 partment Tidelands Parcel). (Refer to Exhibit C)

19 2. Notice Inviting Bids for Entering into the "Drilling and  
20 Operating Contract (Long Beach Harbor Department Tidelands  
21 Parcel)" for the production of oil, gas and other hydro-  
22 carbons from certain lands lying within the Harbor District  
23 of the City of Long Beach, California. (Refer to Exhibit D)

24 3. Bid for entering into the "Drilling and Operating Con-  
25 tract (Long Beach Harbor Department Tidelands Parcel)" for  
26 the production of oil, gas and other hydrocarbons from cer-  
27 tain lands lying within the Harbor District of the City of  
28 Long Beach, California. (Refer to Exhibit E)

29 4. Bidder's Bond. (Refer to Exhibit F)

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

The Board of Harbor Commissioners of the City of Long Beach  
must obtain a responsible contractor in order to provide  
continued production operations and maintenance of existing  
petroleum facilities and for the drilling of additional  
wells and construction of additional facilities, and to

1 take, account for, and pay to the City for all of the oil  
2 produced from or allocated to such lands.

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

12 The bid for this proposed drilling and operating contract  
13 would be awarded to the qualified bidder who agrees to pay  
14 to the City the highest percentage of net profits. No  
15 "cash bonus" or "advance production payment" is to be re-  
16 quired. Net profit shall be computed by subtracting  
17 development, operating, and maintenance costs, certain  
18 taxes and insurance premiums from the value of the crude  
19 oil produced from or assigned to the subject lands.

20 All such oil shall be valued, accounted for, and paid for  
21 at the higher of either (1) the price equal to the arith-  
22 metic average of the prices posted by continuing purchasers  
23 in the field - - (Parenthetically, "continuing purchasers"  
24 have been defined as those continuously purchasing one  
25 thousand barrels of oil per day) - - provided that there  
26 are two or more such continuing purchasers posting in the  
27 field; or (2) the price equal to the arithmetic average of  
28 the prices posted by Standard Oil Company of California,  
29 Union Oil Company of California, Texaco Inc., and Socony  
30 Mobil Oil Company (or by such of said companies as may be  
31 posting in one or more of the following named fields:  
Wilmington, Huntington Beach, Signal Hill, and Inglewood  
fields) for oil of like gravity. If there are not two or  
more of such companies, each posting a price for oil in two  
or more of such fields, then all of such oil shall be  
valued, accounted for, and paid for on the basis of the  
highest of the following prices: (1) the price equal to  
the arithmetic average of the prices posted by continuing  
purchasers in the field (provided that this criterion shall  
be applicable only in the event there are two or more such  
continuing purchasers in the field; or (2) the price equal  
to the market price generally prevailing and paid in the  
field; or (3) the price equal to the arithmetic average of  
the market prices generally prevailing and paid in the Wil-  
mington, Huntington Beach, Signal Hill and Inglewood fields  
for oil of like gravity.

MR. HORTIG: (continuing) Mr. Chairman, at this point  
it would appear appropriate to read for the record two letters  
received by the staff this morning relating to this particular  
phase of the proposed contract.

The first is from Richfield Oil Corporation, addressed  
to Honorable Alan Cranston:

1 " We have seen a draft of Section 18.3 of the proposed  
2 'Drilling and Operating Contract (Long Beach Harbor Depart-  
3 ment Tidelands Parcel)' which we understand will be con-  
4 sidered by the Commission at its meeting on September 30,  
5 1963.

6 The first sentence of the proposed section reads as  
7 follows:

8 'All of such oil shall be valued, accounted and paid  
9 for on the basis of the highest of either the price  
10 equal to the arithmetic average of the prices posted by  
11 Continuing Purchasers in the Field or the arithmetic  
12 average of the prices posted by Standard Oil Company  
13 of California, Union Oil Company of California, Texaco  
14 Inc., and Socony Mobil Oil Company, Inc., or their  
15 respective successors, in the Wilmington, Huntington  
16 Beach, Signal Hill and Inglewood fields, for oil of  
17 like gravity on the day such oil is run into the Con-  
18 tractor's tanks and/or pipelines.'

19 Richfield Oil Corporation has long purchased substan-  
20 tial amounts of oil in the Wilmington Field, such purchases  
21 currently amounting to about 20,000 barrels of oil a day.  
22 We are contemplating the posting of prices in the Wilmington  
23 Field, and we respectfully request that our name be included  
24 with those of the companies specifically mentioned in com-  
25 puting the average of posted prices. "

26 MR. HORTIG: (continuing) The second letter, dated  
27 September 26, 1963, also addressed to Mr. Cranston (from  
28 Standard Oil Company of California, Western Operations, Inc.):

29 " The Standard Oil Company of California holds a 28.5%  
30 interest in the Long Beach Oil Development Company which  
31 currently operates certain Long Beach Harbor Department  
tidelands parcels. As a stockholder, we hope to partici-  
pate in the benefits of a Long Beach Oil Development Com-  
pany bid on the proposed new contract for these parcels,  
and to purchase from Long Beach Oil Development Company a  
portion of the oil produced therefrom.

Under the existing contract the crude oil is priced  
at the average of the prices posted by certain companies on  
the date of delivery. We understand that consideration has  
been given to modifying this to a highest posted price  
basis. If such a modification is made, it will prevent  
Standard from participating in the bidding on the proposed  
new contract in any way.

The 'average' posted price basis which has been used  
since the existing contract was awarded in 1939 has resulted  
in payments which have reflected the true market price, and  
has been equally fair both to the City and State, and to  
the contractor.

From Standard's standpoint, changing the basis of pric-  
ing crude oil from 'average' to 'highest' posted price  
would not only create a number of financial, business and

1 "legal risks in regard to the oil taken under this contract,  
2 but would also create serious problems with respect to all  
3 of our crude oil acquisitions in the State of California.  
4 For these reasons, if a 'highest' posted price basis is in-  
cluded in the crude oil pricing clause, Standard cannot  
5 bid, participate in bidding, or have any interest in any  
6 bid on this contract.

7 We would greatly appreciate it if you could arrange to  
8 have this letter read into the record at the next meeting  
9 of the State Lands Commission, presently scheduled for  
10 September 30, at which the above contract will be consid-  
11 ered.

12 Yours very truly,

13 H. G. Vesper "

14 MR. HORTIG: (continuing) I would like to bring to  
15 the attention of the Commission the fact that the letter just  
16 read from Standard Oil Company of California, dated September  
17 26th, which was received by staff this morning, referring to  
18 average prices, follows by approximately a week and a half later  
19 the staff's suggestion and recommendation, as developed as be-  
20 tween the staff of the State Lands Commission and the Long Beach  
21 Harbor Commission for a broadened average price base, as re-  
22 flected in the agenda you have before you. The problem of con-  
23 sideration of a specification of a highest posted price basis  
24 has, therefore, been eliminated from staff recommendation approxi-  
25 mately a week and a half ago -- although, of course, there was  
26 no public announcement thereon and this is actually the first  
27 public announcement in view of the fact that this is the first  
28 time that the agenda item complete with exhibits has been avail-  
29 able to the Commission and available for public presentation  
30 this morning.

31 Returning to the agenda item:

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

The City reserves the right to take in kind any percentage  
up to and including 12% of the oil produced from or as-  
signed to the subject lands. This right is exercisable



1 upon 180 days written notice. The taking of oil in kind  
2 may be discontinued upon 180 days written notice or a lesser  
3 period if mutually agreed upon by the City and Contractor.  
4 Any oil taken in kind by the City shall be valued in the  
5 same manner as other oil produced or assigned and such  
6 value shall be used in computing net profits.

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

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

15 All of the operations conducted by the Contractor, and all  
16 structures erected by the Contractor shall be in a first-  
17 class, good workmanlike and efficient manner and in accord-  
18 ance with good oil field practices among responsible opera-  
19 tors. All equipment, machinery, facilities, materials and  
20 supplies shall be first class and of not less than American  
21 Petroleum Institute Standards.

22 Each bid submitted shall be accompanied by a satisfactory  
23 Bidder's Bond in the amount of \$500,000 as evidence of the  
24 bidder's good faith and as a guarantee that the bidder will  
25 sign and execute the Drilling and Operating Contract within  
26 15 days after it is presented for signature.

27 The Board of Harbor Commissioners reserves the right to  
28 reject any or all bids and return all Bidder's Bonds accom-  
29 panying such bids.

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

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

MR. HORTIG: (continuing) Again, I bring to the atten-  
tion of the Commission the reference on the prior page to  
the effect that the City and the State or the Board and  
the State will enter into agreements requiring consultation

1 regarding major operations." One of the agreements to be  
2 entered into is with respect to review and concurrence by the  
3 Commission with respect to the findings of the Board in the  
4 event of proposed earlier termination of the contract.

5 Continuing agenda item:

6 The Board of Harbor Commissioners and the City Council of  
7 the City of Long Beach have approved the proposed Contract  
8 Notice and Bid Form in principle.

9 MR. HORTIG: And again, on specific inquiry to the  
10 Office of the City Attorney of Long Beach, this approval in  
11 principle is deemed to have been sufficient -- that despite modi-  
12 fications in form which have been developed and are included in  
13 the proposal before you, it is felt that no further approval by  
14 the Board of Harbor Commissioners or the City Council would be  
15 required in order to utilize the contract and to proceed with  
16 bidding after the State Lands Commission has approved the con-  
17 tract.

17 Agenda item:

18 The staff has reviewed the technical provisions and account-  
19 procedures of the proposed contract and has found them to  
20 be reasonable and equitable.

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

26 Under the provisions of Section 10(a), Chapter 29, Statutes  
27 of 1956, 1st Extra Session, the award of the operating  
28 contract pursuant to the offer under the contract being  
29 considered today must be approved by the Lands Commission.

30 MR. CHAMPION: Is there anything before I open the  
31 matter? Any questions from the Commission or Senator O'Sulli-  
van? Let the record show that Mr. Sieroty is now sitting for  
Lieutenant Governor Anderson for all purposes except that of  
voting.

Do you have any further comment, Mr. Goldin, before

1 we open the matter?

2 MR. GOLDIN: No, sir.

3 MR. CHAMPION: All right. Would you like to make a  
4 statement, Mr. Spence, representing the Harbor Commission of  
5 Long Beach?

6 MR. SPENCE: Yes. My only statement on behalf of the  
7 City of Long Beach is this: That it is imperative that we get  
8 this contract approved, so that we can get it out to bid, with  
9 sufficient time for the bidders to evaluate their bid and get it  
10 back; so that the bid can be opened; the staff of the Lands Com-  
11 mission can review it and make their recommendation as to who  
12 the highest responsible bidder is; the award of the contract  
13 made to the contractor in sufficient time for that contractor to  
14 get his machinery going, so he can take over operations on  
15 March 20, 1964. We felt that the latest possible date was the  
16 date the Commission has set for the hearing today.

17 MR. CHAMPION: Before we open this up generally, there  
18 was one question raised. You read two letters during the pre-  
19 sentation of the agenda item and I think disposed of the second  
20 one as having already been taken care of in the drafting of the  
21 contract. The first was the request of Richfield that it be  
22 included among those posting prices. Is there any objection to  
23 that? Is there any reason why that shouldn't be done?

24 MR. HORTIG: The immediate staff reaction is that this  
25 would broaden the base for determining the market value of the  
26 product and under these circumstances, since this was the goal  
27 in the specifications in the contract, that the addition of  
28 Richfield to the listing should be acceptable and advantageous.

29 MR. CHAMPION: What is the feeling of the City?

30 MR. SPENCE: The City has the same feeling.

31 MR. CHAMPION: All right. Then we can take it for

1 granted it will be included in the document we act upon.

2 MR. HORTIG: It will be included.

3 MR. SIEROTY: Mr. Chairman, may I ask for what reason  
4 they were excluded?

5 MR. SPENCE: They were not posting.

6 MR. HORTIG: Mr. Sieroty, before you arrived this morn-  
7 ing, we read for the record a letter from Richfield reporting  
8 that it is their intent in the future to post and therefore  
9 requesting to be considered for inclusion in the group. This  
10 letter is dated September 27th, just received this morning.

11 MR. CHAMPION: I think that clears the matters. Is  
12 there anything else -- any other correspondence to the Commis-  
13 sion on this subject which needs to be dealt with?

14 MR. HORTIG: No other comments have been received in  
15 correspondence, Mr. Chairman.

16 MR. CHAMPION: I think, then, we are ready to hear  
17 testimony of anyone who might like to come forward to comment --  
18 whether they wish to seek change, or express approval, or any-  
19 thing else. I have no list before me. (No response) Are there  
20 representatives of most of the potential contractors in the  
21 industry present? I'd just like to know whether this is a  
22 representative silence or not.

23 MR. GARDNER: Mr. Chairman, my name is William R.  
24 Gardner, Humble Oil and Refining; and while I realize the real  
25 pressure that is on this thing to get going, your suggestion that  
26 it be delayed one week to give the industry a chance to look at  
27 the documents seems very sound in view of the complexity of the  
28 instruments and the fact that some of the companies have not had  
29 a chance to review them.

30 MR. CHAMPION: Thank you very much, Mr. Gardner.

31 MR. SIEROTY: May I ask, Mr. Hortig, what has been the

1 timing so far as giving the proposed contract to industry? How  
2 long has industry had an opportunity to review the documents?

3 MR. HORTIG: If Mr. Spence would care to respond, I  
4 might point out, before you amplify on this, Jack, that a full  
5 complete package of the final language proposed to be considered  
6 by the State Lands Commission agenda item and exhibits was not  
7 available to the State Lands Commissioners until this morning  
8 and that same documentation, therefore, has not been previously  
9 available to any interested industry member -- although there  
10 has been preliminary information as to substantially the total  
11 factors to be included, which, I believe, is the element on which  
12 Mr. Spence wishes to answer.

13 MR. SPENCE: Mr. Chairman, I referred earlier to our  
14 draft of July 23, 1963, which was delivered to the staff of the  
15 Lands Commission on that date and to the members of the Commis-  
16 sion on the 25th of July. Any company that requested documents  
17 or copies of that draft, as I understand it, have been furnished  
18 them by the management of the Long Beach Harbor Department. If  
19 you would like to have me read the names of the people who have  
20 requested and received those documents, I would be very happy to  
21 do so. Shall I read that list, to give you an idea of who has  
22 had an opportunity -- requested copies and has read them and  
23 studied them, presumably, because they have received them?

24 MR. CHAMPION: All right.

25 MR. SPENCE: Henry NeCasek, an attorney-at-law -- I  
26 don't know who his principal is; Pauley Petroleum Company; Rich-  
27 field Oil Corporation; and then, of course, the staff of the  
28 Lands Commission; Shell Oil; Phillips Petroleum; Franwin Oil and  
29 Gas; Union Oil; Sage Oil; Mobil Oil; Signal Oil and Gas; Standard  
30 Oil; Texaco; a Mr. George Trammel, an attorney in Long Beach --  
31 I don't know who his principal is; a Mr. R. N. Richey, Littleton,  
Colorado; Mr. John L. Connolly of Long Beach; Orion Oil Company;

1 Union Pacific Railroad Company; Mr. C. C. Albright of Long  
2 Beach -- I do not know whether he has received it on his own  
3 behalf or what; Powerine Oil Company; Mr. H. F. Dangberg; and  
4 Drilling and Exploration Company. Other than those names, I  
5 don't know that anyone that has requested the copies of the con-  
6 tract of July 23rd has not received it.

7 MR. CHAMPION: Was there adequate notice to the in-  
8 dustry that copies were available?

9 MR. SPENCE: I can't answer that. I will have to ask  
10 Mr. Hughes about that.

11 MR. HUGHES: They received the notice at the last Land  
12 Commission meeting, or the one in July -- because they called as  
13 a result of that hearing. They either called in or wrote in for  
14 copies of the various documents.

15 MR. CHAMPION: All right. It would seem to me there  
16 ought to be some more regular procedure than that, but that is  
17 not really a matter before us.

18 MR. SPENCE: Of course, when we advertise for bids,  
19 that is the official notice to the industry.

20 MR. CHAMPION: By that time the terms of the contract  
21 have been approved.

22 MR. SPENCE: Yes.

23 MR. CHAMPION: Is there any further comment? Senator  
24 O'Sullivan, are there any questions you would like to ask about  
25 the proposal before us?

26 SENATOR O'SULLIVAN: I was kind of interested in the  
27 matter of difference of opinion -- and I'll address this to Mr.  
28 Hottig -- between highest posted price and average posted price,  
29 which is what you have in this agreement. When you talk about  
30 the method of pricing the oil, you are talking about the average  
31 posted price as against the highest posted price?



1 MR. HORTIG: That is correct, sir.

2 SENATOR O'SULLIVAN: You don't take into consideration  
3 the price that isn't a posted price, is that right?

4 MR. HORTIG: Any price that is paid that isn't a posted  
5 price is not normally on record and available to any governmental  
6 agency.

7 SENATOR O'SULLIVAN: What is a posted price?

8 MR. HORTIG: A posted price is an offering posted by  
9 a buyer of oil for a field, distributed publicly, announcing the  
10 intent to pay certain prices for certain qualities of oil.

11 SENATOR O'SULLIVAN: Where and when is it posted?

12 MR. HORTIG: Whenever a company desires to buy oil in  
13 the field. Patently, the larger companies who must have a con-  
14 tinuing supply of oil have continuous postings. They are modi-  
15 fied from time to time, but they have continuous postings in the  
16 major fields in California.

17 SENATOR O'SULLIVAN: Is there any statutory procedure  
18 for posting?

19 MR. HORTIG: No, sir.

20 SENATOR O'SULLIVAN: Is there any administrative regu-  
22 lations for posting?

22 MR. HORTIG: Governmental administrative regulations?  
23 No, sir.

24 SENATOR O'SULLIVAN: Well, how do you tell when some-  
25 thing is a posted price?

26 MR. HORTIG: When Standard Oil or the Union Oil Com-  
27 pany, or Texaco, or Socony Mobil mimeograph in quantity and  
28 distribute them to all potential sellers in the field and to all  
29 the State offices and public offices who have an interest in  
30 the price that is being offered; and mail such a document which  
31 says: "Prices offered by Standard Oil (or XYZ Company), effective

1 "7 a.m. such and such date, for various gravities of oil in the  
2 various fields, are tabulated and listed on this sheet of paper."

3 SENATOR O'SULLIVAN: This is an offer, isn't it?

4 MR. HORTIG: That is correct.

5 SENATOR O'SULLIVAN: And as such, it is not a completed  
6 transaction or sale, is it?

7 MR. HORTIG: No, sir.

8 SENATOR O'SULLIVAN: What you are doing is basing your  
9 prices here on a series of an average of the offers made by a  
10 given number of companies, is that right?

11 MR. HORTIG: Identified as "continuing purchasers" and  
12 in our definition and qualification they must be purchasing at  
13 least a thousand barrels of oil per day.

14 SENATOR O'SULLIVAN: Are there any provisions or regu-  
15 lations setting up or requiring that there have been a transac-  
16 tion or sale on the basis of each and every one of these posted  
17 prices?

18 MR. HORTIG: No, sir; but in order to qualify as a  
19 continuing purchaser under the proposed contract form .....

20 SENATOR O'SULLIVAN: Where does it say that?

21 MR. HORTIG: In the definitions in the contract, sir.  
22 Mr. Goldin, do you have a ready reference to that?

23 MR. GOLDIN: Page 6, subdivision (c).

24 SENATOR O'SULLIVAN: "In the absence of information  
25 to the contrary, it shall be deemed that every purchaser posting  
26 prices in the field is such a continuing purchaser."

27 MR. HORTIG: Yes, sir -- because we cannot always be  
28 certain that every operator ....

29 SENATOR O'SULLIVAN: In the absence of information to  
30 whom?

31 MR. HORTIG: In the absence of information available

1 to the administrators of this contract, which would be the Long  
2 Beach Harbor Commission.

3 SENATOR O'SULLIVAN: The basic method by which you  
4 arrive at a price here is not upon the requirement of the actual  
5 existence of a sale of oil, is it?

6 MR. HORTIG: It is if there is information.

7 MR. CHAMPION: There is a simple answer to that ques-  
8 tion. The requirement here is that the posting be by one who has  
9 been buying a thousand barrels of oil per day; so the sale is not  
10 immediately tied to the qualification for their posting. They  
11 are not exactly the same but there is a requirement that they be  
12 buying in the field.

13 SENATOR O'SULLIVAN: I ask the question again: There  
14 is no requirement here that the posted prices, upon the average  
15 of which you are going to base the prices of the oil, actually be  
16 represented by an actual sale of some oil? Reading the language  
17 in this contract, you don't have a sale at any posted price and  
18 you still have set up a standard by which you are selling the  
19 State's oil?

20 MR. HORTIG: This is correct, if the major oil com-  
21 panies in California did not buy oil in these fields -- and there  
22 isn't a major oil company in California who isn't under compul-  
23 sion and must necessarily, to continue their business, buy in  
24 these fields.

25 SENATOR O'SULLIVAN: But this doesn't address itself to  
26 the crux of the question. You have just stated that you don't  
27 have to have an actual sale at this posted price or any one of  
28 these posted prices you are going to average; is that right?

29 MR. HORTIG: On the basis of absent information ...

30 SENATOR O'SULLIVAN: Under this document, you don't  
31 have to have an actual sale under any one of those posted prices

1 you are going to average; still you use them in the formula on  
2 the price at which you are going to sell the oil. That's cor-  
3 rect, isn't it?

4 MR. HORTIG: In words, yes sir; practically, no.

5 SENATOR O'SULLIVAN: I don't know what your practice  
6 is, but I am reading the contract as it exists -- and the con-  
7 tracts list the rights of the parties, I presume?

8 MR. HORTIG: That is correct.

9 SENATOR O'SULLIVAN: And we don't have a right that  
10 there actually have been a sale at these posted prices that you  
11 are going to average -- and I am speaking of the State, which is  
12 the only person I am interested in at the particular moment.

13 MR. SPENCE: Perhaps I can answer this from informa-  
14 tion that has been handed to me, Senator. There is absolutely  
15 no way of determining the price paid for a bucket of oil or  
16 40,000 thousand barrels of oil here or any other place, unless  
17 you can obtain that information from the seller and the purchas-  
18 er. It isn't a matter of public record as to what one of the  
19 posting companies or any other company pays for oil -- either  
20 buys or sells the oil. That is a matter between the private  
21 parties and there is no way that the City or State can find out  
22 what that price is.

23 MR. CHAMPION: Let me ask something else. I'd be  
24 interested in Mr. Hortig's statement. He said, "Practically,  
25 no." What is the practice with respect to the sale of oil at  
26 posted prices in the industry? What is the practical result of  
27 the system now used in posting? Are most sales consummated on  
28 the basis of the posted prices?

29 MR. HORTIG: Most of the large sales in the Los Angeles  
30 Basin are consummated at the posted price. This is the experi-  
31 ence of the State in accounting for royalties in fields adjoining

1 and surrounding the Wilmington Field, and this has been the ex-  
2 perience of the Long Beach Oil Development in the sale of oil  
3 under the currently existing contracts.

4 MR. CHAMPION: What is the responsibility of someone  
5 who has made a posting to take it at that price? Is there any?

6 MR. HORTIG: There is no responsibility. Someone comes  
7 and accepts the oil, and they accept and pay for it at that price  
8 or they reject it.

9 MR. SIERTY: We had testimony in prior hearings that  
10 people have paid above the posted price -- premiums; or people  
11 have been paid under the posted price.

12 MR. HORTIG: Correct.

13 MR. SIERTY: So the significance of the posted price  
14 to me seems doubtful as a test for pricing the oil which will be  
15 taken from the City and the State.

16 Now, Mr. Spence has raised the point -- "Well, we just  
17 don't have any other way of determining it." I am not sure this  
18 is so, if we decide on another gauge; and as one suggestion  
19 along this line, I'd like us to consider eliminating the first  
20 of the alternatives here. What we have done here in this con-  
21 tract is to set up two alternatives - - if I can find it here.  
22 The first alternative is to take the higher of two provisions,  
23 both of them apply to posting. Now, there is a second alterna-  
24 tive which takes into consideration those two alternatives but  
25 adds a third one as well, which is number (2) there: "The  
26 price equal to the market price generally prevailing and paid in  
27 the field."

28 Now, I don't see any reason why the State shouldn't be  
29 entitled to receive at least the price generally prevailing and  
30 paid in the field.

31 MR. CHAMPION: The recommendation calls for taking the  
highest of the formulas.

1 MR. SIEROTY: No, Mr. Chairman, not in the event there  
2 is posting. There is an alternative schedule here. Under the  
3 first schedule, if there is posting by two or more companies  
4 then we do not look to the general market price -- we only look  
5 to the posted price section. We take two standards -- one is the  
6 average of the posted prices, the other is the average of the  
7 posted prices in other fields.

8 Now, in the event that there are not two posters, then  
9 we go to the second alternative. What I am suggesting is that  
10 we forget the first alternative and think in terms of the second  
11 alternative, which will bring into effect the second point here --  
12 "The price equal to the market price generally prevailing and  
13 paid in the field."

14 We may have to acquire information as to the general  
15 market price and when we have a need for determining that market  
16 price we will find ways to determine it. If we didn't have any  
17 need to determine the market price, we wouldn't. I think this  
18 will cause us to have better information on what is the prevail-  
19 ing price.

20 MR. HORTIG: Mr. Chairman, as you will recall, from  
21 reading Standard Oil Company's letter this morning -- and admit-  
22 tedly, this is a self-serving statement based on analysis by the  
23 Standard Oil Company of California and has not been verified  
24 independently by the State Lands Commission or the Harbor Com-  
25 mission, although other verifications have been undertaken which  
26 resulted in our recommendation -- it is felt that the new con-  
27 tract, by providing a broader base and providing for the highest  
28 average and not simply the price in one location, is going to  
29 give a truer reflection of the market value of the product in  
30 the entire Los Angeles Basin and not only in the Wilmington Oil  
31 Field. In comparison therewith, Standard reports as its experi-  
ence under the existing contract:



1 "The average posted price basis which has been used  
2 since the existing contract was awarded in 1939 has  
3 resulted in payments which have reflected the true  
4 market price and has been equally fair to both the  
5 City and State and to the contractor."

6 Now, the proposed contract, by broadening the base, is  
7 going to reflect the competitive results of supply and demand and  
8 what effect they have on prices as offered by the price posters  
9 for purchases of crude oil which these companies must make in  
10 California if they are going to keep their refineries in opera-  
11 tion and if they are going to sell the gasoline. Frankly, a  
12 simple yardstick on what is posted price -- it is the lowest  
13 price that a refiner can offer and still get the crude he needs  
14 to run his refinery; but, nevertheless, this is a measure of  
15 market value for the product and as long as there is a measure,  
16 and we have no other measure, it was felt that in developing the  
17 price bases for these contracts alternatives were listed in the  
18 order they were, without having to become involved in having a  
19 State price determination board or something else that does not  
20 exist yet, to determine every day the fair market value of crude  
21 oil produced in California -- that as long as they furnish a  
22 broad enough base of posted prices that were being offered in  
23 open competition by the major producers of crude oil in Cali-  
24 fornia, these be used as a yardstick; and if the day should come  
25 when such offers are not posted and are not made and a measure  
26 must be had, then we would have to undertake the extremely more  
27 difficult procedure of determining the fair market value of the  
28 product.

29 MR. CRANSTON: How was it proposed to do so had we been  
30 forced back to this alternative?

31 MR. HORTIG: That is a problem we would have to face  
at the time we got there. We have really no concept as to the  
mechanics and how deeply we would have to search. We have found

1 no specifications anywhere nor any determinations by any other  
2 governmental agency including the Secretary of Interior, that  
3 are clearly related to the prevailing or fair market value of the  
4 product. A method for making that determination would have to  
5 be developed under this contract if suddenly there were not at  
6 least two companies posting in each of two fields in the Los  
7 Angeles Basin. This is a possibility, although not a likelihood  
8 within the term of this contract.

9 MR. CHAMPION: Mr. Goldin:

10 MR. GOLDIN: Yes, sir. Mr. Cranston, I think we  
11 started in the direction that you have indicated. This contract  
12 has a specific provision on page 32, starting with line 27,  
13 which states that the contractor, if requested by the Board of  
14 Harbor Commissioners, shall promptly inform the Board of the  
15 prices used in valuing and the volume of all purchases and sales  
16 made by or to the contractor with respect to oil in the Wilming-  
17 ton Oil Field and the other fields that are designated in the  
18 contract.

19 Now, this is the first step in imposing upon the con-  
20 tractor a contractual obligation to divulge information, the  
21 need for which has never existed to date.

22 It is also proposed that if and when the East Wilming-  
23 ton Unit becomes a reality we will get a great deal more informa-  
24 tion with respect to anybody acquiring an interest under that  
25 contract, so we can build up a substantial source of statistical  
26 information from which we can compute generally market price;  
27 but to my knowledge, this information is not available at the  
28 present time.

29 MR. SIERTY: I would say this also, in answer to Mr.  
30 Cranston's question: Of course, he visualizes the time when  
31 posting isn't done, but at the present time posting may be

1 evidence of a market price. In addition, under this contract,  
2 12½% of the oil may be sold off. Presumably this would be sold  
3 off to the highest bidder, so the City would have some bidding  
4 process. So this would give us some additional information --  
5 although maybe not typical of the prevailing market price in the  
6 area.

7 MR. CHAMPION: There will not necessarily be such sales.  
8 The possibility exists, but in operations to date there have been  
9 none.

10 MR. HORTIG: Additionally, if I might add, of course  
11 the market value for an accumulation of small purchases amounting  
12 in the aggregate to 12½% of the production because of particular  
13 refinery supply problems, and so forth, can be an entirely dif-  
14 ferent value than can be offered competitively in the industry  
15 for 40,000 barrels a day for one hundred per cent.

16 MR. SIEROY: Excepting we have set one thousand bar-  
17 rels as being the test of a continuing purchaser in the field.

18 MR. HORTIG: Actually, continuing purchasers have been  
19 purchasing more than that, as reflected in Richfield's letter  
20 read earlier today with a request to be accorded a place in the  
21 listing to be averaged. They are reporting purchases in the  
22 Wilmington Field of 20,000 barrels a day.

23 MR. CHAMPION: Mr. Goldin, may I ask another question?  
24 To go beyond what we have required here in obtaining further  
25 information as to actual prices paid, in order to determine the  
26 prevailing market price, would that require new substantive law  
27 by the State?

28 MR. GOLDIN: At the very least, yes.

29 MR. CHAMPION: At the very most, we might not be able  
30 to get such law?

31 MR. GOLDIN: That's correct, because this may be a

1 matter of private business into which we may not make inquiry;  
2 but I certainly do not want to dogmatically assert that it is  
3 not a proper subject for legislation.

4 MR. CHAMPION: But this is as far as we can go at  
5 present?

6 MR. GOLDIN: That's right -- imposing the contractual  
7 obligation in the contract.

8 MR. CHAMPION: Is there any further comment or ques-  
9 tion on this aspect of the contract? Mr. Hutchins.

10 MR. HUTCHINS: My name is Hutchins -- J. Barton  
11 Hutchins. I am with Pauley Petroleum, Inc. As one of those who  
12 has applied for and received a copy of the proposed contract  
13 from the manager of the Harbor Department, we would certainly  
14 appreciate another week at least, in which to take a further  
15 look at this. We would suggest if possible, without suggesting  
16 that the lady be put to extra work, that the minutes of this  
17 meeting be available before that time also.

18 MR. CHAMPION: What can be done about that?

19 (Off-the-record discussion with reporter)

20 MR. SPENCE: Mr. Chairman, I'd like to read a state-  
21 ment into the record on the City's position. I might be repeat-  
22 ing myself somewhat, but I want to make it clear why average  
23 posted price should be used.

24 We feel -- the City of Long Beach Board of Harbor  
25 Commissioners feel that the average posted price should be used  
26 for four reasons:

27 First, this concept most nearly represents the fair  
28 value of the oil. Two, it will get a better bid for the City  
29 and State. Three, a review of the price structure in the last  
30 thirteen years would have resulted in a difference of only  
31 17/100 of a cent per barrel from that if the highest posted  
price were used. The contract provides that the oil should be

1 valued at at one-tenth of A.P.I. gravity. This provision, in  
2 effect, upgrades the value of each barrel of oil by approximately  
3 three cents. It is, therefore, more advantageous to the City and  
4 State than any possible benefit that could result from the use of  
5 the highest posted price. Historically, the average posted price  
6 worked very satisfactorily under the Long Beach Oil Development  
7 drilling and operating contract for the past 24½ years and the  
8 Richfield Oil Company's Parcel A, the tideland tract, since 1947.

9 Fourth, the average posted price will protect the suc-  
10 cessful bidder against what I say is a phony or non-bonafide post-  
11 ing of prices and because of this would result in a substantially  
12 more favorable bid to the City.

13 MR. SIEROTY: Mr. Chairman, I think Senator O'Sullivan's  
14 question was going not so much to the average posted price or the  
15 highest posted price. The question was whether the posted price  
16 should be the basis, and I agree with him. I think we ought not  
17 use the posted price as the test. I think that these standards  
18 by the oil industry serve their purpose but do not serve ours.  
19 We want at least the average market value. If we don't get the  
20 highest price paid, we should at least get the average price  
21 paid. I don't think the posted price is the one we should use,  
22 even if it has been used for twenty-five years. Maybe it has  
23 worked well, maybe it hasn't; we want the reasonable market  
24 price. I would suggest we throw away the posted price, use them  
25 as tests, and get the true market value.

26 MR. CHAMPION: Have you any suggestions how this can  
27 be done competently on any administrative basis that we now  
28 have?

29 MR. SIEROTY: Yes, I do. First of all, I would sug-  
30 gest that we take the second alternative, which leaves posted  
31 price for some idea of value .....

1 MR. CHAMPION: I am speaking of the mechanics.

2 MR. SIERTY: I think the staff of the State Lands Com-  
3 mission would have to find ways of finding this value. As men-  
4 tioned earlier by Mr. Goldin, let me mention two sources of  
5 information we have. On page 32 of the contract, as Mr. Goldin  
6 mentioned, the contractor or any other party who is a part of the  
7 contractor has to furnish information as to purchases that he  
8 makes in the field. Secondly, if we, the City and State, do  
9 take advantage of this 12 1/2% sell-off provision, this would give  
10 us some indication. Now, we may have meetings in which we will  
11 ask industry people to give us information on their sales and  
12 maybe other ways. We will find ways, I am certain, of determin-  
13 ing this information -- as the State finds ways of determining  
14 other information.

15 MR. CHAMPION: Would you like now to speak to this  
16 point?

17 MR. SPENCE: I think I would be only repeating myself  
18 on behalf of the City when I say there is no way we know of that  
19 we can force third parties, contractual parties, to reveal to us  
20 or to the State or anybody else what they are paying for oil in  
21 any of the fields. That is their own business and they certainly  
22 have no intention of telling us what their relationship is with  
23 their purchaser or seller.

24 MR. CHAMPION: As I understand your previous statement,  
25 I assume the Standard letter and other comments go to this. Is  
26 there a substantial question if we leave this in an uncertain  
27 area, that this will hurt the bidding situation?

28 MR. SPENCE: Not only that -- I don't know who is  
29 going to bid on this contract unless you have an average posted  
30 price.

31 MR. CHAMPION: This is a familiar problem of State

1 government -- the establishment of an administrative standard  
2 that is ascertainable to people not in Government, for purposes  
3 of making a business decision.

4 SENATOR O'SULLIVAN: What companies have refused to  
5 bid on the highest posted price?

6 MR. SPENCE: Standard Oil has already done so.

7 MR. CHAMPION: What is the objection to the highest  
8 posted price?

9 MR. SPENCE: Somebody else in the engineering section  
10 will have to answer that. I am not familiar with that.

11 MR. HUGHES: It would be far more difficult to deter-  
12 mine the prevailing market price.

13 SENATOR O'SULLIVAN: I didn't ask that.

14 MR. CHAMPION: The Senator's question is: Who has  
15 refused to bid on the highest posted price?

16 MR. SPENCE: I don't know who has refused, but certain-  
17 ly any interested bidder would adjust his bid accordingly and  
18 bid a lesser amount if he were uncertain as to the price he would  
19 have to pay for this oil.

20 MR. CHAMPION: I think the answer to this, Senator, is  
21 that this is a new proposal and not one to which we have any  
22 industry response.

23 SENATOR O'SULLIVAN: May I ask another question: Do  
24 any of you have information from any of the companies that they  
25 won't bid at the highest posted price?

26 MR. HUGHES: No, sir. I don't have any information  
27 from any company they won't; except they will adjust their bid  
28 downward on the basis of the highest posted price -- one company  
29 in addition to Standard.

30 SENATOR O'SULLIVAN: Any others?

31 MR. HUGHES: Not that I know of.



1           **SENATOR O'SULLIVAN:** Any of you know of any other com-  
2 pany that won't bid? You say you lost the difference of 17/100  
3 per cent .....

4           **MR. HUGHES:** Of one cent per barrel.

5           **SENATOR O'SULLIVAN:** ... over the life of the contract.  
6 What does that amount to in terms of dollars?

7           **MR. SMITH:** My name is W. A. Smith, with the staff of  
8 the Long Beach Harbor Department. It would approximate \$300,000  
9 over the life of the contract.

10           **SENATOR O'SULLIVAN:** Prospectively or retrospectively?

11           **MR. SMITH:** This is the historical difference which has  
12 existed for the past thirteen years.

13           **SENATOR O'SULLIVAN:** Was that application of those  
14 figures made prospectively or retrospectively?

15           **MR. SMITH:** Prospectively.

16           **SENATOR O'SULLIVAN:** You don't know what it would be  
17 retrospectively -- what it would amount to?

18           **MR. HORTIG:** If I may amplify, Senator O'Sullivan,  
19 there is, of course, the additional feature in the proposed con-  
20 tract that is under consideration -- one under which the City and  
21 State would share in the percentage of the net profits. The  
22 highest net profits bid would receive the award of the contract.  
23 Under these circumstances, then, it can be reasonably expected  
24 that with a certain price base, even though it be a lower price  
25 base, that a higher percentage of net profits can be bid --  
26 without the necessity of taking insurance on the bid by any pros-  
27 pective bidder to take care of vagaries in the prices and unpre-  
28 dictable variations in the pricing, if the pricing is to be  
29 determined by any other procedure than that which has been  
30 standard in the industry for as long as there has been a petrol-  
31 eum industry in California.

1 MR. CHAMPION: May I say one thing? I think what the  
2 Senator asked for could be ascertained on the basis of this dif-  
3 ference. You should be able to give him a figure without too  
4 much difficulty of what historically that would have meant over  
5 the life of the old contract.

6 MR. HORTIG: This is true, but the problem before the  
7 house is that under the old contract, one of which was awarded  
8 at an operating percentage of fourteen and a fraction per cent  
9 and another at about five per cent, leaving for the City about  
10 ninety-five per cent -- had that contract at that time required  
11 highest posted price, how much would the ninety-five per cent  
12 been discounted?

13 MR. CHAMPION: You can surround the figures with what-  
14 ever qualifications you wish, but I think the Senator is inter-  
15 ested in that figure. I think all these considerations can be  
16 pointed to in the meaning of that figure, but the figure is  
17 quite ascertainable.

18 MR. SMITH: The figure is ascertainable -- 250 million  
19 barrels of oil on the L.B.O.D. contract -- if you apply the <sup>17</sup>100  
20 cent, it would be something around \$400,000. I would like to  
21 point out in addition, if we agree that any prospective bidder  
22 is given a nondefinitive basis for the value of the oil, if he  
23 protects himself against this -- which I think it is reasonable  
24 to expect -- that a difference in his bid of slightly over one  
25 tenth of one per cent would more than offset the difference that  
26 we are speaking of generated by 17/100 of a cent per barrel; and  
27 if he were to protect himself to the extent of one per cent, we  
28 would be talking of a loss to the City and State of two and one-  
29 half million dollars.

30 MR. CHAMPION: Thank you.

31 SENATOR O'SULLIVAN: As I understand it, the position

1 of the staff and the Long Beach Harbor Department is that it is  
2 impossible to ascertain the market value of oil in the Wilmington  
3 or the Signal Hill Field on any particular day at any particular  
4 time, in any particular month, with any degree of accuracy.

5 MR. SPENCE: On the basis of the price paid.

6 SENATOR O'SULLIVAN: On the basis of the price paid?

7 MR. SPENCE: Yes.

8 SENATOR O'SULLIVAN: There is no market -- there is no  
9 public market for oil that is available to the public, that is  
10 based upon actual sales; is that right?

11 MR. HUGHES: The major purchasers in the field are post-  
12 ing and we know that that's the price that they are paying for  
13 the oil. That determines the market price.

14 SENATOR O'SULLIVAN: May I interrupt and ask: If you  
15 don't know what they sell for, you don't know whether any trans-  
16 action ever takes place under the posted price?

17 MR. HUGHES: We know that they have agreed to pay the  
18 price they are posting for the oil and that they are purchasing  
19 oil in the field, and they are paying that price for it.

20 SENATOR O'SULLIVAN: Is there any requirement when they  
21 post that offer that if it is accepted a contract be made?

22 MR. HUGHES: I know of no instances where they are  
23 paying more.

24 SENATOR O'SULLIVAN: Is there any requirement that if  
25 they post an offer that they actually consummate sale?

26 MR. HUGHES: They don't have to buy the oil, no.

27 SENATOR O'SULLIVAN: They don't have to buy the oil?

28 MR. HUGHES: No.

29 SENATOR O'SULLIVAN: And no seller has to sell any oil  
30 at that price if he didn't make an offer?

31 MR. HUGHES: He doesn't have to sell and the buyer

1 doesn't have to buy; but if he does buy, he has to pay the posted  
2 price.

3 SENATOR O'SULLIVAN: If he buys, ~~he will~~ pay the post-  
4 ed price?

5 MR. HUGHES: His posted price.

6 SENATOR O'SULLIVAN: How do you know?

7 MR. HUGHES: We only know from selling oil to pur-  
8 chasers who post and they do pay the posted price to the City.

9 SENATOR O'SULLIVAN: And you have been selling oil to  
10 them and they consistently buy at the posted price; is that  
11 right?

12 MR. HUGHES: Yes -- based on the average of the prices  
13 posted by various companies in the field.

14 SENATOR O'SULLIVAN: Then sometimes they don't buy at  
15 their posted price; is that right?

16 MR. HUGHES: It's possible; but I don't know of cases  
17 where they are paying more than the posted price or less than  
18 the posted price.

19 SENATOR O'SULLIVAN: Then almost without exception, in  
20 your experience, they have purchased at the posted price; is  
21 that right?

22 MR. HUGHES: Well, to the best of my knowledge, yes.

23 SENATOR O'SULLIVAN: How many transactions do you  
24 know of?

25 MR. HUGHES: The only transactions I know of are the  
26 transactions down in the Harbor area of the Wilmington Field.

27 SENATOR O'SULLIVAN: And how many barrels of oil were  
28 involved?

29 MR. HUGHES: Well, there is about 40,000 barrels a  
30 day in the Harbor area, in the Harbor tidelands; there is about  
31 15,000 barrels a day on the City tidelands.

1 SENATOR O'SULLIVAN: And do you manage the sale of all  
2 of those on the City tidelands?

3 MR. HUGHES: Yes. It's under a contract that is oper-  
4 ated and administered by the Harbor Department.

5 SENATOR O'SULLIVAN: Does that contract require that  
6 they take it at the average posted price?

7 MR. HUGHES: The average, or the highest price paid  
8 by the contractor for any oil in the field.

9 SENATOR O'SULLIVAN: So under that particular arrange-  
10 ment, they are required by a contract to take it under the  
11 posted price?

12 MR. HUGHES: Yes.

13 SENATOR O'SULLIVAN: Is that right?

14 MR. HUGHES: That's correct.

15 SENATOR O'SULLIVAN: So that your evidence would not  
16 obtain to the situation we have referred to here, would it?

17 MR. HUGHES: No, it would not.

18 SENATOR O'SULLIVAN: Thank you.

19 MR. SIEROTY: May I ask a question? Mr. Spence, do  
20 you know whether the City of Long Beach has other oil wells on  
21 the uplands from which it receives revenue?

22 MR. SPENCE: Yes.

23 MR. SIEROTY: What is the pricing mechanism there?

24 MR. SPENCE: I can't answer that, but I think there  
25 is somebody here that can. Mr. Lingle of the City Attorney's  
26 Office is familiar with this.

27 MR. LINGLE: We have some where we have highest price.  
28 Those are markedly different type contracts.

29 MR. SIEROTY: Highest posted price?

30 MR. LINGLE: Highest price posted and paid in the  
31 field.

1 SENATOR O'SULLIVAN: Posted and paid.

2 MR. CHAMPION: In what way are those contracts  
3 different?

4 MR. LINGLE: For instance, they are similar to your  
5 State leases, where we put something out to lease. We had a  
6 small field or small amount of oil and we had nothing like the  
7 vast amount of oil here. It wasn't where somebody was buying  
8 oil -- they were going into the exploratory aspect of the oil.  
9 If they found oil, it more than made up -- the price became  
10 insignificant. I shouldn't say insignificant, but it didn't  
11 have the total effect on the market of this one.

12 SENATOR O'SULLIVAN: Are all the City of Long Beach  
13 contracts tied to a posted price?

14 MR. LINGLE: I couldn't speak for all of them but I  
15 know about a lot of them. I haven't any knowledge of any that  
16 aren't tied to a posted price.

17 SENATOR O'SULLIVAN: Some of them are highest posted  
18 price?

19 MR. LINGLE: Some of them are.

20 MR. SPENCE: There is a royalty. They are not on  
21 net profits.

22 MR. CRANSTON: Alan, would you amplify on your state-  
23 ment that you heard statements that prices were paid both above  
24 and below the posted price?

25 MR. SIEROTY: Yes, I believe if we go into the testi-  
26 mony of the hearings which were held on the East Wilmington  
27 Field, there was testimony that some people pay up to ten cents  
28 above posted price or that they received lower than posted  
29 price for their oil. So I think it raises some question as to  
30 whether the posted price is the price that is paid. It may be  
31 an offering price, but the question arises: Is this the price

1 that is paid?

2 MR. CRANSTON: I have one other question I'd like to  
3 ask. When I asked some time ago as to how we would ascertain  
4 the price equal to the market price generally prevailing and paid  
5 in the field, under alternative (2), the clause at the bottom of  
6 page 32 (line 22) was cited as one step toward that. Supposing  
7 that were the only measure open to us, how accurate a measuring  
8 stick would that be.

9 MR. HORTIG: I can only answer that that particular  
10 producer's experience would be somewhere near the prevailing  
11 market price. His particular requirements at the time, his  
12 refinery demands, his other commitments might have him a con-  
13 siderable difference above or below what might be considered by  
14 an economist as a true market value. Even Webster's definition  
15 for market value is: "The average value of a commodity in a  
16 given market during a short period of time," which is certainly  
17 our experience in the State Lands Commission -- having royalties  
18 calculated on posted prices by purchasers in the field, exactly  
19 in accord with this definition.

20 MR. CRANSTON: Would this at times reflect only a very  
21 small percentage of what was actually occurring?

22 MR. HORTIG: It would, of course, vary depending upon  
23 the relative quantities of oil being produced in the Los Angeles  
24 Basin and on the Long Beach tidelands. It is for that reason,  
25 in order that a small percentage could not control the entire  
26 situation, it was proposed that this broader base of smaller  
27 oil in the Los Angeles Basin, by producers all of whom contri-  
28 bute to the supply in the Los Angeles Basin, would be used as a  
29 more realistic measure of the economic value of the oil in the  
30 Los Angeles Basin and not simply this Long Beach Oil Development  
31 or Harbor tideland development.



1 MR. CRANSTON: You do indicate we could be misled if  
2 we were to rely totally on this as a measuring stick?

3 MR. HORTIG: The one operator alone, yes.

4 MR. SMITH: It depends on who the successful bidder is.  
5 The successful bidder might be somebody who is buying very little  
6 in the Los Angeles Basin. You would have an extremely limited  
7 base to establish a price.

8 MR. SPENCE: The contractor might not be buying one  
9 barrel of oil under this contract.

10 MR. CRANSTON: The further apparent fact is that under  
11 present law we might be unable to gain any further accurate in-  
12 formation on this subject.

13 MR. SPENCE: Yes, sir. I certainly agree with Mr.  
14 Goldin's remarks about the right to require private parties to  
15 display or disclose this information. He said he wasn't dog-  
16 matic on the subject. I'll go so far as to say I am. I don't  
17 think you can.

18 MR. CHAMPION: Are there any comments, questions or  
19 suggestions to come before the Board on this subject?

20 MR. SIERTY: On the pricing or on the whole?

21 MR. CHAMPION: On the whole subject of the contract.

22 MR. SIERTY: Yes. Mr. Spence, let me ask a few ques-  
23 tions about the reasons why a gross profits clause was not in-  
24 cluded in the contract. This is a net profits contract only and  
25 now I understand one of the reasons that was proposed is that at  
26 some point the termination clause might be exercised earlier if  
27 there were a gross profit; but other than that, I understand  
28 there are other reasons. I'd like you to expand on that a little  
29 bit.

30 MR. SPENCE: That's merely a policy matter. I don't  
31 make these policies so I'll let somebody else answer that  
question.

1 MR. SMITH: I would say the basic reason for making  
2 this a net profits contract is to make the contractor's interest  
3 as nearly parallel as possible with the interest of the City and  
4 State; in other words, make him dependent on profit for his  
5 remuneration. There was one statement you made earlier which I  
6 don't believe is quite accurate. I believe, in fact, if we had  
7 a contract based on gross income -- a percentage of gross or at  
8 least part of the remuneration based on the gross -- it would  
9 probably result in later termination rather than earlier; and it  
10 was resolved that in having the contractor's interest identical  
11 with that of the City and State would result in the best  
12 operation.

13 MR. SIEROY: On this point, what I was thinking about,  
14 not to eliminate the net profits picture but to have a gross  
15 royalty -- guaranteed minimum. Let's take a figure of 16-2/3%;  
16 how would that affect it?

17 MR. SMITH: Well, ~~this in our opinion would not result~~  
18 in a better bid from the standpoint of the City and State; and  
19 if you are talking about a guaranteed minimum to the City and  
20 State, that is true. It would result in earlier termination.

21 I think it should be kept in mind that under the terms  
22 of this agreement the City, through its Board of Harbor Commis-  
23 sioners, will administer the operation and the contractor has  
24 little or nothing to say about the operation as far as the major  
25 expenditures and things of this sort; and if he has nothing to  
26 say about it and cannot control the profitability of the opera-  
27 tion, it does not seem right for him to have to guarantee the  
28 City any profit.

29 MR. SIEROY: Well, let's say in the first ten years  
30 of this contract -- wouldn't you anticipate that the City and  
31 State would be receiving at least 16-2/3% of the gross revenues?

1 MR. SMITH: That is correct.

2 MR. SIEROY: But you think at some future time it  
3 might be less profitable and thereby termination would become  
4 earlier?

5 MR. SMITH: That is correct. During the 25-year term  
6 of this contract we anticipate this operation to certainly, if  
7 not reach, at least approach termination due to economic condi-  
8 tions; and a 16-2/3% guarantee to the City and the State would  
9 move this date forward by five or perhaps ten years.

10 MR. SIEROY: In other words, you think this may be  
11 producing less than 16-2/3%?

12 MR. SMITH: That is the probability; that is correct.  
13 You must remember we are in the second 25-year life of this  
14 field, so we are talking about a 50-year life.

15 MR. SIEROY: The reason I thought a gross profit  
16 might be a good idea is because I understand we might expect  
17 some very high bids in terms of percentage of profit returnable  
18 to the City and State -- figures of 90, 95 and even 100% having  
19 been mentioned. Now, if this is so, that we do receive such  
20 bids in the high nineties or even 100% or anywhere in that area,  
21 the interest of the contractor and the City and State is not  
22 identical. Actually, he has very little interest in the net  
23 profits. They may be entirely secondary to him. He may be  
24 interested primarily in the supply of oil and the question of  
25 what profit he is going to make out of this contract may be  
26 very unimportant.

27 So, therefore, the reason I thought the gross profits  
28 might be something we could consider is that it does protect  
29 the City and State; at least it gives a minimum here, and it's  
30 just a further protection -- and I am just throwing it out for  
31 further consideration.

1 MR. HUGHES: I'd like to comment on Mr. Sieroty's  
2 statement. One reason that we rejected the idea of a guaranteed  
3 minimum to the City and State was because we felt that it would  
4 adversely affect the net profits bid that the contractor or the  
5 bidder might make, because it will reduce, then, the money avail-  
6 able for reimbursing the contractor for all of his expenses and  
7 consequently he will take that into account in making his bid  
8 and I believe will submit a lower net profit bid to the City  
9 and the State.

10 MR. CHAMPION: Do you have further questions, Mr.  
11 Sieroty?

12 MR. SIEROTY: I don't have this before me, but I  
13 recall that in the contract there is a provision regarding sub-  
14 contractors. At the present time, under the contract there is no  
15 requirement that these be put out for competitive bidding.  
16 Maybe you would like to comment a little about that. Under all  
17 State and City bids, competitive bidding is required. Where  
18 the contractor has very little interest and this may be un-  
19 true, but for the purpose of this question assume that the con-  
20 tractor comes in with a figure of 98 or 99%, so I am saying he  
21 has very little interest in the net profits -- he has very little  
22 interest in maintaining a low cost operation, and the awarding  
23 of subcontracts can be a very important aspect of this operation.  
24 Subcontracts could be awarded that were very lucrative to the  
25 subcontractor and where the contractor could receive some bene-  
26 fit at some other time from the subcontractor. So I'd like you  
27 to comment on what protection provisions there are in the  
28 contract.

29 MR. SPENCE: First, the Board of Harbor Commissioners  
30 controls these operations and expenditures; secondly, if the  
31 Board of Harbor Commissioners determines that any work under

1 this contract requires competitive bidding, they can require the  
2 contractor to submit it to formal competitive bidding. At the  
3 present, they get informal bidding and they submit that to the  
4 Board of Harbor Commissioners for approval; and it is anticipated  
5 that the same will prevail, as a matter of administration, under  
6 this contract. In any event, as I pointed out, any time that the  
7 Board of Harbor Commissioners requires the contractor to put this  
8 subcontract work up to formal competitive bidding, they may do so.

9 MR. CHAMPION: May I ask what volume of the work done  
10 presently is under subs?

11 MR. SPENCE: I'll have Mr. Hughes answer that.

12 MR. HUGHES: The payroll is about the only expenditure  
13 that the contractor makes directly. That runs about \$250,000 a  
14 month and the average expenditures, I believe, run around eight  
15 or \$900,000 a month. That's all sub-contract. I'd like to add  
16 here that if the contractor were required to put everything out  
17 to bid -- all services and all purchases -- it would become com-  
18 pletely unworkable.

19 MR. SIERTY: Mr. Chairman, there is a provision in  
20 the contract that the Board has the sole discretion to require  
21 the contractor to submit items for public bidding. Maybe it  
22 might be advisable to be the subject of one of the side agree-  
23 ments Mr. Goldin has worked out. I don't know whether this  
24 would be legal for us to do or not, but it would be something to  
25 consider.

26 MR. CHAMPION: Well, if it would be unworkable for the  
27 Harbor Commission alone, I can imagine your comments. What are  
28 your comments? I think you should be more specific than to say  
29 it is unworkable.

30 MR. HUGHES: There are so many items and equipment  
31 that have to be purchased for oil operations, there are so many

1 services that have to be performed, that to award these on com-  
2 petitive bidding in every instance would keep the contractor  
3 continually calling for bids. We have probably six or seven  
4 hundred supply companies from which equipment is purchased of  
5 one type or another, and there is almost that many different  
6 service companies that are required from time to time; and  
7 where you are calling for competitive bids from so many companies  
8 on so many items of equipment, I think you are going to just tie  
9 your hands and do a poor job of operation.

10 MR. CHAMPION: Do you have any audit review or any-  
11 thing comparable that gives you a good idea as to whether or not  
12 those subcontracts are being let at the proper level?

13 MR. HUGHES: Yes, they are audited all the time and  
14 they are all approved by the Board; but in many instances the  
15 contractor takes quotations from the vendors -- supply companies,  
16 service companies -- and then submits those to the Harbor Board  
17 for approval. Many larger items or major contracts, subcon-  
18 tracts, are awarded on the basis of competitive bids; but there  
19 are numerous -- hundreds and thousands -- of small items that  
20 would be very unwieldy.

21 MR. CHAMPION: You do follow competitive bidding on....

22 MR. HUGHES: ... major items.

23 MR. GOLDIN: Mr. Chairman, Section 12.4 requires that  
24 the contractor is precluded from profiting from purchases.  
25 There is an obligation imposed upon him to buy at the lowest  
26 net price and he must get the highest net price when he is sell-  
27 ing. It seems to me that it isn't too difficult to acquire  
28 evidence from somebody willing to give the City a better deal,  
29 in which event there may be a default under the terms of the  
30 agreement.

31 MR. CHAMPION: Let me ask you, Mr. Hortig, in our

1 review of the operation as it is now constituted, do we go deeply  
2 into the operations in our audit, in order to have any rational  
3 judgment in this matter?

4 MR. HORTIG: At least, Mr. Chairman, on a spot-check  
5 basis on the day to day operations, in these purchases and  
6 handling of various services, to ascertain that they are being  
7 acquired at a currently reasonable level; and we have had no  
8 reports that I can recall out of our audit reports where any of  
9 them, even in the minor items ....

10 MR. CHAMPION: This is a spot audit?

11 MR. HORTIG: That is correct; and, of course, the  
12 major items which should require detailed audit and had subse-  
13 quent payments are awarded in the first instance on the basis of  
14 competitive bidding.

15 MR. SIROTY: Well, I think maybe something could be  
16 made a little more specific as to what is a major item, perhaps.  
17 Maybe there is something that could be done to assure that there  
18 will be competitive bidding on some of these items.

19 MR. SMITH: It would seem to me, if this is appropriate  
20 at all, that this should be the subject of the so-called side  
21 agreements. We feel that this agreement, which is between the  
22 Board of Harbor Commissioners and the prospective contractor,  
23 gives the Board of Harbor Commissioners the right to require  
24 competitive bidding on any item and it would serve no purpose to  
25 attempt to specify in here which of those items might be re-  
26 quired to go to competitive bidding. There is no way of knowing  
27 what type of operation we will have down there in twenty years.  
28 There may be new processes, new equipment, that we can't even  
29 anticipate now.

30 MR. SIROTY: It sounds like a good suggestion.

31 MR. CHAMPION: Do you have any further suggestions or  
questions?



1 MR. SIEROTY: Not on this. Section 30.2 has to do  
2 with the contractor's right not to have to make expenditures if  
3 the amount of the expenditure would be greater than could be  
4 reimbursed in six months. Is that because of the termination  
5 clause? Does that tie in with that?

6 MR. SMITH: Yes.

7 MR. SIEROTY: Now, the City can go ahead and make the  
8 expenditures and charge it against the contractor?

9 MR. SMITH nodded.

10 MR. SIEROTY: On the question of the 12½% selloff, if  
11 the City should sell this off I wonder if any thought has been  
12 given to the situation that could arise if the City should sell  
13 it off at a price higher than the price we use as the gauge for  
14 pricing out the oil that the contractor takes. Would the City  
15 be making a profit over the operation or would that all be  
16 attributable to the field?

17 MR. SMITH: If you will refer to page 31, 18.2, I  
18 think it is rather specific, on line 4. It says: "If taken in  
19 kind by the City, such oil shall be valued in the manner herein-  
20 after provided in subsection 18.3 hereof and such value shall be  
21 used in computing net profits." So that in the event that we  
22 were to get a higher price for any of this 12½%, the difference  
23 of the valuation under 18.3 and the price we are actually getting  
24 would accrue to the City and State alone.

25 MR. SIEROTY: One more problem: What is meant by  
26 "unprofitable" in section 4, with the right to terminate?

27 MR. SPENCE: I can't answer that any other way than  
28 the words themselves: When it is no longer profitable for the  
29 City to continue or the contractor to continue.

30 MR. SIEROTY: You can't be any more specific than  
31 that?

1 MR. SPENCE: No, sir. As a matter of fact, it is  
2 either profitable or it isn't profitable. The books and records  
3 will show that.

4 MR. SIEROTY: Well, what is the test of profitability?

5 MR. SPENCE: The question of whether they are losing  
6 money or making money.

7 MR. CHAMPION: In other words, the factor of volume  
8 would not enter into it. If the contractor should determine  
9 that the volume of oil did not interest him any more, that could  
10 not be used as determination of "non-profitable."

11 MR. SIEROTY: I would bet this is at least as indefin-  
12 ite as any proposal we have on the market price of the oil --  
13 the question of "not profitable," and I don't know whether it  
14 can be made any more specific but I am just saying it is going to  
15 be a problem.

16 MR. CHAMPION: Isn't that a dollars and cents problem?

17 MR. SMITH: It seems to me it is a factual determina-  
18 tion -- an audit of the corporate books would indicate that.

19 MR. SIEROTY: What plans will we have if the contrac-  
20 tor terminates on this basis? What can then be done?

21 MR. SPENCE: This is what we would propose to do: We  
22 would propose that when it is that close that we can anticipate  
23 such a status, that we (that is, the Board of Harbor Commission-  
24 ers of the City of Long Beach and the City Attorney's Office)  
25 will have a draft of contract that we will have ready to submit  
26 for the process such as we have under this contract; so that  
27 within the 180-day period we can get out another contract and  
28 have it ready to go. We can't anticipate what kind of a con-  
29 tract it will be. It might be so far down the road that it will  
30 be simply a stripping contract or some other kind of contract  
31 that we can't anticipate at this time. It would require

1 considerable thought. We would have to update it from time to  
2 time as time went on, so when we got to the point we would have  
3 something concrete to submit to the Lands Commission; and we  
4 would anticipate that from time to time this type of proposal  
5 will be submitted by the City to the State Lands Commission staff  
6 so they will know what is going on at all times.

7 MR. SIEROTY: Mr. Goldin has suggested that the State  
8 be involved in the approval of termination. Howard, I wonder --  
9 do you mean in both instances -- in other words, where termina-  
10 tion comes by way of the contractor's exercise of that provision  
11 or in the event that the City wants to exercise it?

12 MR. GOLDIN: In either instance.

13 MR. SIEROTY: In either instance the State Lands Com-  
14 mission would have to approve of the termination rights?

15 MR. GOLDIN: I regard that as so akin to a modifica-  
16 tion or an alteration of the contract as to necessitate State  
17 Lands Commission approval.

18 MR. SIEROTY: So the contractor would have to satisfy  
19 not only a majority of the Harbor Board, but also a majority of  
20 the State Lands Commission that this contract was not profitable?

21 MR. GOLDIN: That is correct; and although Mr. Horig  
22 mentioned the possibility of a side agreement to such effect,  
23 another alternative -- and perhaps a more practical one -- would  
24 be to provide for such approval by the Commission in the contract  
25 itself.

26 MR. CHAMPION: Another question in that same area:  
27 I was curious as to the language used by the staff's recommenda-  
28 tion: "Once the Contractor or the Board has given (the 180  
29 days' notice) to terminate the contract, neither party may act  
30 unilaterally to revoke such notice of termination." Is it in-  
31 tended here that this<sup>is</sup> binding on the one who gets the notice?

1 It says, "neither party." The thing I am trying to get to:  
2 Suppose we should contest such determination that it was not  
3 profitable and thereby attempt to stop the notice of termination.  
4 That language doesn't mean to indicate we couldn't do so?

5 MR. SPENCE: Mr. Champion, the notice doesn't go out  
6 until that determination has been made ....

7 MR. CHAMPION: I see.

8 MR. SPENCE: ... and the reason for that, of course, is  
9 that having once given the notice the determination has been made  
10 that is the time when we have to go into this other situation  
11 that I just mentioned, and we can't let the contractor get down  
12 to the 179th day and change his mind. This has to be out to bid  
13 and ready to go within 180 days.

14 MR. CHAMPION: So the primary purpose is really to  
15 attempt to prevent a change of mind on the part of the  
16 contractor?

17 MR. SPENCE: After the determination has been made  
18 and has been indicated.

19 MR. SIERTY: I'd like to ask whether the side agree-  
20 ments have been gone into in much detail. Have you worked out  
21 what are the major policy considerations which will be made by  
22 the City with the consultation and approval of the State Lands  
23 Commission?

24 MR. HORTIG: Not beyond the scope as stated in the  
25 agenda item relating to policy problems. As you realize, we  
26 have been working against a deadline here and the first problem  
27 is to get a contract going. We did flag this for the attention  
28 of the Commission, that this is the intent and understanding as  
29 between the parties, which can be arrived at concurrently and  
30 doesn't have to be completed before we go forward and get this  
31 contract on the road in the form under which it can be adver-  
tised for bid.

1 MR. CHAMPION: Let me ask you this: The intention, as  
2 I would understand it, is to have the same (wherever they are  
3 applicable) side agreements as are contemplated in the new field.  
4 This is the general area of the side agreements, and where they  
5 are applicable, as they would be in most cases, you would have  
6 the same side agreements in both contracts?

7 MR. HORTIG: In principle, that is correct. Because  
8 of differing factual situations there will be some differences  
9 in details.

10 Again, I want to point out to the Commission that the  
11 Commission has complete control in this situation, because even  
12 if they approve the contract and it goes to bid, the award of  
13 the contract is subject to approval by the Commission after the  
14 bids have been received. In other words, having a hypothetical  
15 situation which I am sure won't arise, if we didn't have satis-  
16 factory side agreements at that time, I am sure the Commission  
17 would not approve the awarding of the bid.

18 MR. SIEROTY: I have one more comment, Mr. Chairman.  
19 I was happy to see a provision here for an anti-discrimination  
20 clause and I'd like to suggest one word be dropped from that  
21 clause, the word "hereunder." The contract reads: "... in  
22 conducting operations hereunder."

23 MR. CHAMPION: Can we control any practice except  
24 under the contract?

25 MR. HORTIG: I don't think that is very fair to the  
26 contractor, Mr. Sieroty. All I think we can ask is that he  
27 comply with this contract. I think the State policy takes  
28 care of that.

29 MR. SIEROTY: This would be conforming to State laws.

30 MR. CHAMPION: Well, there are other state laws on  
31 that.

1 MR. SIEROY: I don't think it hurts to put it in the  
2 contract, though -- two remedies instead of one, or maybe three  
3 instead of two.

4 MR. CHAMPION: Do you have any comment on that, Mr.  
5 Spence?

6 MR. SPENCE: Yes. I don't think it is fair to the con-  
7 tractor to put that provision in there.

8 MR. SMITH: We have no authority to police his opera-  
9 tions elsewhere.

10 MR. SPENCE: We have absolutely no authority to police  
11 his practices either in the State of California or outside the  
12 United States of America.

13 MR. SIEROY: That is right. Mr. Goldin, is there any  
14 remedy for failure to abide by that provision in the contract?

15 MR. GOLDIN: No, there is not. This being not a State  
16 contract, we took the position of requesting the City's acquies-  
17 cence in the State policy of inclusion of standard language,  
18 which I believe will be in all State contracts; but there is no  
19 prescribed remedy, and I have doubts as to the effectiveness of  
20 inserting a provision other than that normally prescribed by  
21 other provisions of law.

22 MR. CHAMPION: Limiting it to the activities here-  
23 under -- in other words, to this contract area -- what would be  
24 the remedy of the State in the case of discrimination?

25 MR. GOLDIN: Well, we could contend that the contractor  
26 was guilty of a breach so as to constitute a default under the  
27 contract.

28 MR. CHAMPION: That is the whole remedy under the con-  
29 tract provision itself, regardless of what other provisions may  
30 have been made by law?

31 MR. GOLDIN: Yes, Mr. Chairman.

1 MR. CHAMPION: The others would be under the Fair  
2 Employment Practices Code. The others would be under the law  
3 without reference to the contract.

4 MR. GOLDIN: That's right.

5 MR. CHAMPION: Any further questions?

6 SENATOR O'SULLIVAN: You would have specific perform-  
7 ance under that last clause?

8 MR. GOLDIN: We would certainly try to invoke it.

9 SENATOR O'SULLIVAN: Why is twenty-five years the term?  
10 Is there any particular reason?

11 MR. GOLDIN: Long Beach charter requirement sets a  
12 maximum for this type of contract.

13 MR. SPENCE: The reason we have 24 years, 11 months and  
14 8 days is at the request of the accountant, who is very much dis-  
15 turbed that the Long Beach Oil Development contract expires on  
16 March 24, 1964 instead of on the first of April or the 31st of  
17 March. It makes it easier from an accounting standpoint.

18 SENATOR O'SULLIVAN: I am speaking of the substantive  
19 reason for a term of twenty-five years.

20 MR. SPENCE: Section 229 (x) of the City Charter pre-  
21 scribes that it shall not exceed twenty-five years in the Harbor  
22 District.

23 SENATOR O'SULLIVAN: All right. Now we have got the  
24 maximum, why should it be as much as twenty-five?

25 MR. SPENCE: Why should it be?

26 SENATOR O'SULLIVAN: Yes.

27 MR. SPENCE: That's an engineering question. I think  
28 I will have the engineers answer that.

29 MR. SMITH: Under the anticipated operations, the  
30 period of high profitability will be early in the contract and we  
31 feel that it is desirable to retain the bidder or the contractor

1 that we get at this time for as long as possible, because we will  
2 be getting a bid which will be based on present worth in the early  
3 part of the contract and therefore will get a more favorable bid  
4 to the City and State; and we feel having it as long as possible,  
5 twenty-five years, it will make money for us to the end. In  
6 other words, if we were to resubmit this, say, in fifteen years,  
7 conditions will be degenerated to some extent and we could expect  
8 a lesser bid to the City at that time.

9 MR. CHAMPION: You would get less then out of the  
10 volume situation.

11 MR. SMITH: There would be no advantage -- the peak  
12 production would have been past.

13 SENATOR O'SULLIVAN: Who has the contract now?

14 MR. SPENCE: The existing contract?

15 SENATOR O'SULLIVAN: Yes.

16 MR. SPENCE: L.B.O.D.

17 SENATOR O'SULLIVAN: Who is that?

18 MR. SPENCE: L.B.O.D. is a Nevada corporation. As I  
19 understand it, it consists of Signal Oil and Gas Company, Stand-  
20 ard Oil Company of California, Humble Oil Company, Continental  
21 Oil Company, The Termo Company, and Macrate Oil Company. Mr.  
22 Hughes has just handed me a note that breaks down their percent-  
23 ages, if you would like to have that.

24 SENATOR O'SULLIVAN: Could we have that?

25 MR. SPENCE: Standard Oil has 28.5; Signal Oil and Gas  
26 has 57.0, that being because of the fact that they have purchased  
27 or acquired the interest of Hancock Oil Company; Humble Oil Com-  
28 pany, 8.5; Termo Company, 2.0%; Macrate, 2.0%; and Continental,  
29 2.0%.

30 SENATOR O'SULLIVAN: Do they have anything left in the  
31 way of interest in the capital equipment or anything?



1 MR. SPENCE: No, sir; all the capital equipment is  
2 owned by the City of Long Beach in trust for the State of Cali-  
3 fornia. Any property they might own would be personal property  
4 they have in their warehouse that they haven't been reimbursed  
5 for. I don't know how much that amounts to, but that is their  
6 problem.

7 SENATOR O'SULLIVAN: Well, will we have to reimburse  
8 them for it?

9 MR. SPENCE: No, sir -- not unless they use it on the  
10 subject lands for oil operations.

11 SENATOR O'SULLIVAN: If they fail to bid this contract  
12 and get it, as far as we are concerned we are clear with them?

13 MR. SPENCE: Yes, sir. They will have to dispose of  
14 their personal property.

15 SENATOR O'SULLIVAN: We don't owe them anything and  
16 they don't owe us anything at the closing of the elapsed period  
17 or term of the original agreement; is that right?

18 MR. SPENCE: I assume that is correct. Let me ask Mr.  
19 Eshaur. There will be a delay in payment for money that is due  
20 as of March 20, 1964, but not for anything thereafter nor for any  
21 of the property they own for which they have not been reimbursed.

22 SENATOR O'SULLIVAN: Is that money due on the due date,  
23 the closing date of the contract?

24 MR. SPENCE: The twentieth of the following month.

25 SENATOR O'SULLIVAN: Is there a provision for interest  
26 in the event it isn't paid on the due date?

27 MR. SPENCE: I don't believe so -- no. They are paid  
28 out of oil.

29 SENATOR O'SULLIVAN: They are paid out of oil?

30 MR. SPENCE: Yes, that's where they get their payment --  
31 out of oil. So it will be out of oil prior to March 20, 1964.

1 SENATOR O'SULLIVAN: If they owe us money after that  
2 date, is there a provision made that we get paid?

3 MR. SPENCE: If they owe us money, we will get it.

4 SENATOR O'SULLIVAN: Will we get interest?

5 MR. SPENCE: I don't believe there is any provision  
6 for interest in the existing contract. I really can't answer  
7 that, Senator. The staff advises me there is no such provision.

8 SENATOR O'SULLIVAN: You have worked, have you, on the  
9 other contract for its life?

10 MR. SPENCE: No, sir. I have been in the City Attor-  
11 ney's Office since February 15, 1955. I have not worked on the  
12 contract.

13 SENATOR O'SULLIVAN: Who has?

14 MR. SPENCE: Mr. Phil Brady.

15 SENATOR O'SULLIVAN: Is he here?

16 MR. SPENCE: No, sir. He is Assistant City Attorney,  
17 officed in the City Hall.

18 SENATOR O'SULLIVAN: Have your relationships, as far as  
19 you know, with this company been good?

20 MR. SPENCE: As far as I know they have, yes.

21 SENATOR O'SULLIVAN: No problems?

22 MR. SPENCE: Not that I know of.

23 MR. SIROTY: May I ask a question? It has probably  
24 already been answered but I want to ask it a different way.  
25 Senator O'Sullivan asked why we picked the term twenty-five  
26 years. It seems there are some provisions that perhaps may not  
27 be in the contract or, rather, they could have been in had the  
28 term been shorter; had the term of the contract been at ten or  
29 fifteen years -- I don't know at what point this operation would  
30 tend to be less profitable; let's put it that way -- but had the  
31 term of the contract been less, we could have had a provision

1 for gross profit instead of net and we need not have that provi-  
2 sion excusing the contractor paying beyond six months. Could you  
3 tell me again why the contract could not have been written for a  
4 period which was a period of assured profitability?

5 MR. SPENCE: I'll let Mr. Smith answer that. I think  
6 he directed his remarks to that very same question before.

7 MR. SMITH: Well, at the risk of repeating myself, it  
8 was our belief that a high volume of oil at the high profitabil-  
9 ity that we anticipate in the first five or ten years particularly  
10 will attract the maximum bid that we could hope to get; and we  
11 hope, of course, that the operation will remain profitable to the  
12 contractor for as long a period as possible, so that we can enjoy  
13 that more favorable bid to the City on this operation for the  
14 longest period of time possible.

15 We saw no reason to arbitrarily limit this period of  
16 time in which we would operate under a favorable bid to some  
17 arbitrary ten or fifteen years, because it is a foregone conclu-  
18 sion, I believe, that when this contract or if this contract  
19 were to come up for renewal and rebidding in fifteen years, if  
20 the profitability was less and the oil was down that we would  
21 expect a poor bid and therefore would suffer between the differ-  
22 ence in the bids during the last ten-year period.

23 MR. HORTIG: I'd like to amplify on that. I think your  
24 question, Mr. Sieroty, presupposed, and certainly a shorter period  
25 contract would be desirable related to a segment of peak produc-  
26 tion, where production reached a peak and started to drop off  
27 again. In this particular instance, since we are in the second  
28 twenty-five years, peak production has been passed, and while a  
29 substantial part of the production or the majority of it will be  
30 achieved in the next ten or fifteen years, nevertheless there  
31 is a continuing decline -- which is in effect even now and every

1 day here on out the available production will decline. There  
2 will not be another peak under this contract.

3 MR. SIEROTY: One more question: The contractor is  
4 excused from any liability resulting from doing things that the  
5 City tells him to do regarding subsidence. Now, Mr. Goldin, do  
6 you know what clause that is? I'll tell you why I asked: I  
7 think this clause is written pretty broadly.

8 MR. SPENCE: Section 26, page 41 to 44.

9 MR. GOLDIN: Mr. Sieroty, I think the policy determina-  
10 tion for excluding damages allegedly due to subsidence may be ex-  
11 plained in this way: You will recall that the Legislature in  
12 1963 in Chapter 1847 authorized a settlement of the Anchor liti-  
13 gation. In Section 3 of that statute there is a legislative  
14 finding that since the contractors operated in the manner pre-  
15 scribed by the City and without negligence, waivers of the right  
16 to invoke the indemnity provisions of that contract were author-  
17 ized. In the light of this legislative finding, we deemed it un-  
18 likely that it would be possible to hold contractors accountable  
19 for alleged subsidence damage when they followed orders given by  
20 the City, and we thought the deletion of this type of indemnifi-  
21 cation would have a tendency to enhance the bid -- whereas the  
22 inclusion of such liability might have a tendency to depress the  
23 bid.

24 MR. SIEROTY: The point I wanted to raise -- This only  
25 exempts the contractor from liability for that area of damages  
26 resulting from subsidence; in other words, it is narrowly drawn?

27 MR. GOLDIN: I believe the exemptions were just two-  
28 fold: One, with respect to subsurface trespass, and the other  
29 with respect to subsidence damage.

30 MR. CHAMPION: Does anyone else have anything further  
31 to add? (No response) I think, then, the problem is to set the

1 time for the next meeting. Mr. Hortig, do you have a suggestion?

2 MR. HORTIG: Yes, Mr. Chairman. In the interim, we  
3 have checked your calendar and that of Mr. Cranston, the two mem-  
4 bers here. I haven't been able to discuss this with Mr. Sieroty;  
5 but Thursday, October 10th, at ten a.m., here, would be available  
6 both for Mr. Cranston and yourself. Would this be satisfactory,  
7 Mr. Sieroty?

8 MR. SIEROTY: Fine.

9 MR. CHAMPION: I think that will mean there will be  
10 ten days available to those who wish to submit further observa-  
11 tions or raise other questions. While there are ten days avail-  
12 able, I'd like to ask anyone who has comment to make or who has  
13 a question to raise that they raise it as early as possible before  
14 that date. We really do want to arrive at a final conclusion.  
15 We won't preclude further testimony at that October 10th meeting,  
16 but I think in order to have the staff information and analysis  
17 and to give Long Beach officials and our own staff an opportunity  
18 to look at this material and to reply to it before the 10th, that  
19 we should ask everyone possible to cooperate in speeding up this  
20 process.

21 Just as soon as you know what you want to say, if you  
22 will, let us have it in writing, so we can have our staff and the  
23 officials of Long Beach ready to respond or supply the answers  
24 or reply to the arguments.

25 MR. SPENCE: Mr. Chairman, may I make the request that  
26 in order that we may not be in the dark as to what these respect-  
27 ive suggestions may be, when they direct their proposals to the  
28 State Lands Commission staff, we would very much appreciate it  
29 if they would send us a copy so we can study it without delay.

30 MR. CHAMPION: I think that is an excellent suggestion  
31 and we would ask that those who wish to comment provide copies of  
that comment to Long Beach.

(End of item)