TRANSCRIPT OF SUPPLEMENTAL CALENDAR ITEM 23

STATE LANDS COMMISSION MEETING OF NOVEMBER 29, 1973

ROOM 2170, STATE CAPITOL

SACRAMENTO, CALIFORNIA

PARTICIPANTS:

THE STATE LANDS COMMISSION:

Hon. Houston I. Flournoy, State Controller, Chairman
Hon. Ed Reinecke, Lieutenant Governor, Member
Hon. Verne Orr, Director of Finance, Member

Edward N. Gladish, Executive Officer
W. M. Thompson, Manager, Long Beach Operations, State Lands Division

OFFICE OF THE ATTORNEY GENERAL:

Warren J. Abbott, Deputy Attorney General, Los Angeles

APPEARANCES:

Mr. George C. Bond, Vice President-General Counsel, Union Oil Company of California, Los Angeles

Mr. Robert S. Roth, General Counsel, World Oil Company, Burbank

MR. GLADISH: At this Commission's October meeting, this item appeared and was deferred for two principal reasons: one, the announcement by the Cost of Living Council of a pending regulation, and the second reason being a temporary restraining order by the federal courts. At that time, the Commission also, in deferring this item, requested the staff, where needed, to obtain extensions from the lease holders of the notice of intent to take royalty oil.

Since the last meeting, the Cost of Living Council has not acted on the proposed regulation removing the current State exemption status. I have talked to them several times this week and, as recently as last night, they have indicated to me that they do not intend to make a ruling to adopt or not adopt their proposed regulations this week. We don't have a forecast of when they will act on this regulation which would remove the State's exemption from C.L.C. control. The Cost of Living Council informed me yesterday that there was a new federal law signed by the President on Wednesday. This law requires promulgation of regulations in 15 days and adoption in a subsequent 15-day period that may or may not further compound our problems in regards to the sell-off. This would be the control of the allocation of the sales based on some historical records. We don't know at this time whether their regulations will or will not give us another hurdle. The temporary restraining order was dissolved and permanent injunction denied a week or so after the October meeting of this Commission.

The needed extensions from the leaseholders were obtained. We are, however, near the deadline on one or two of those extensions; one I believe expires on Saturday and one other bid becomes inoperative on Saturday. It appears from my standpoint, in terms of a recommendation to you, that there are three alternatives to consider.

The first alternative is essentially to wait until the Cost of Living Council does whatever they are going to do and that new regulations are promulgated and adopted on implementing the new federal Petroleum Allocation Act. We could ask for an additional extension from one of the lease holders, the one that is expiring on Saturday; we could drop from consideration one of the sell-off bids which was to be activated on Saturday. Longer delays in terms of action by the Commission increases the chances of more federal rulings affecting this action. It seems like there are continual hurdles being developed, dropped and developed again, and so forth. Delay is a disadvantage in a sense of continual problems developing.

The second alternative would be to reject all the bids on the basis of uncertainty. We just don't know what the federal government is going to do.

The third alternative would be to award all the bids today. This would implement your policy in a sense of attempting to sell this oil and, at least at this point, we are exempt from the Cost of Living Council control and would, as we see it at this point of time, allow us to realize the increase in revenue and provide some additional distribution of crude oil. It is possible that if you award these bids today that the contracts might be ruled, in a sense, non-operative under a ruling next month by whatever agency implements the Emergency Petroleum Allocation Act. That is possible, which would create some problems. It might be possible for you to consider requesting hold-harmless agreements from the high bidders assuming that you selected this alternative.

That is the general overview of the problem. I would urge one of two alternatives - yes or no. I will open it to questions.

MR. FLOURNOY: Where shall we start?

MR. GLADISH: There are people here, bidders I'm sure, to testify. Mr. Bond is here to testify from Union Oil Company. Perhaps we might discuss these alternatives again after you hear some testimony.

MR. FLOURNOY: Why don't we do that. Do you want to come up, George?

MR. BOND: My name is George Bond. I am the Vice President-General Counsel of Union Oil Company of California.

Since your last meeting when you were restrained by the federal court in Los Angeles from awarding contracts for the sale of State royalty oil, several significant events have occurred. First of all, the hearing which Mr. Gladish referred to was held before Judge Gray in the Federal District Court in Los Angeles on November 5. The temporary restraining order was dissolved; the case, however, is still pending before the court, and if you will indulge me, I would like to read from the transcript of that hearing a few things which I think you gentlemen should have before you before you make a decision.

At that hearing, Union Oil Company was represented by a Mr. Sparks from the San Francisco firm of Brobeck, Phleger and Harrison. So if I quote from Mr. Sparks, you will understand who he was; he was our counsel. Quoting the Judge -- Judge Gray -- "on the merits, If I were interpreting these regulations ab initio, I believe that the State is bound. That's the way I would interpret it, but these are regulations of the Cost of Living Council, and it is quite evident that the General Counsel of the Cost of Living Council interprets them differently than this court would do. I have grave doubt that it is proper for this court to impose its interpretation of rather ambiguously drawn regulations in the place of the interpretation put out by the General Counsel of the very body that drew the regulations. So my present attitude is, although as I say if I were not obliged to include myself bound by what the

General Counsel's interpretation is, I would interpret the regulations the other way."

The court later says "you don't -- as I say -- you don't have to argue with me the merits of interpreting the regulations so that the State would be bound. That's the way I would do it."

Later, quoting Mr. Sparks, "Your Honor, I think that in circumstances where there are likely to be embedded equities and where the State is likely to go forward with the course of conduct that is contrary to public policy that your Honor has authority to enter a preliminary injunction without finally deciding one way or the other whether the plaintiff is going to win."

The court -- the Judge -- "Well, but the State would do so at its peril. The State is now mindful of all the pros and cons of this matter, including the prospect of further regulations which would make this case moot. And, if the court, when it is wiser than it is now, concludes that the State had no right to do so, then certainly the State is estopped to contend the fait accompli, so to speak."

The second event that occurred, which I think is significant, is that the Executive Officer of the State Lands Commission, has notified Union Oil Company, and I presume the other State lessees, that the current market price of royalty oil is $1.00 per barrel over the ceiling prices. If the State is exempt, this is a very wise and appropriate move.

The third thing which has happened is that the Arab oil embargo has further increased the market price of oil exempt from price controls. I think you gentlemen realize there is certain oil which is presently exempt and is currently being purchased at prices higher than ceilings. The present market price of oil exempt from price controls is at least 50¢

per barrel over the highest bids which the State has received for this royalty oil. The wisest course in this period of rapidly changing crude oil prices is to allow the Executive Officer to continue to notify the State's lessees of the price to be paid for royalty oil whenever the market price for that exempt oil moves up. Now we are assuming, for the purpose of this argument, that the State's exempt; if it's not, well they can't get any more than ceiling prices anyway. The State will lose from 39¢ to 91¢ per barrel per day if it awards these contracts at the bid prices based on today's market price for exempt oil; and, if the market price of exempt oil continues to increase, this loss will go much higher. The bid prices that the State has received are as high as the ceiling prices. They can not increase unless the ceiling increases. Furthermore, if the ceiling prices on presently non-exempt oil are increased more than the amount that the bids exceed the present posted prices, to which these bids are paid, the contracts which are signed by the bidders allow them to terminate on nine-months' notice. I believe you are familiar with that provision in the contract.

Since, I assume, that your objective is to maximize the revenue to the State, I believe it is very clear that the best way to do this is to reject all bids and permit the Executive Officer to continue the practice which he started this month of notifying the lessees of the market price to be paid to the State whenever that market price increases. Thank you.

MR. FLOURNOY: Before you go away, George, I wonder if the Executive Officer has any comment with regard to this matter.

MR. GLADISH: Mr. Bond raises one point that I perhaps should explain somewhat. In general terms, our contracts with lease holders provide a clause, and most of the contracts are slightly different, but there is a general clause that allows us to establish the price if the lease holder

is operating under the first alternative of taking the royalty. In October, the postings indicated that the company's posting would pay $1.00 over posted for new and increased production. I have interpreted that as being a measure of market price and have dealt, as Mr. Bond indicated, with Union and other lease holders retroactive back to the date of the posting $1.00 over.

MR. BOND: If the State's exempt we are most happy to pay that but I would correct your statement that the price as of, I believe it was the first of this month, has now gone to considerably in excess of $1.00 . . .

MR. GLADISH: Yes, I understand that.

MR. BOND: . . . Far in excess of what the State was bid over ceilings, so that the State would be penalizing itself to accept these bids under today's market conditions, and there is every expectation, if the Arab embargo continues, that this price will escalate further.

MR. FLOURNOY: I understand. . .

MR. GLADISH: Mr. Chairman, I might point out that the State at this point in time is exempt from C.L.C. Next week, it may not be.

MR. FLOURNOY: I understand that.

MR. GLADISH: Mr. Abbott has a comment.

MR. ABBOTT: On the first point that Mr. Bond made, I want to be sure that you understand that, as of this time, you are under no legal restraint, either from the court or from the C.L.C. to award these bids. Mr. Bond has pointed out, as the Judge indicated, yes there are risks or you may be -- the case is still pending -- the C.L.C. may act tomorrow or they may not. Then on the other point where Mr. Bond says that the bids are $1.11 over ceiling price. The bids are $1.11 over the average posted price by specified

companies in a given field and, if we are exempt, the average posted price is that $1.00 or $1.65 that Mr. Bond is talking about, and the bids are over that.

MR. FLOURNOY: There is a maximum point in which they can opt out on a nine-months' basis.

MR. ABBOTT: Yes.

MR. ORR: The bid is not for so much a barrel, like $1.00 or $7.00?

MR. ABBOTT: No, it is $1.11 above the average posted price of the named companies in the named field.

MR. THOMPSON: We are taking the $1.00 for the month of September and $1.65 since then as being offers of posted price by the major companies.

MR. BOND: That's correct, but the bids of these bidders are pegged to a September 6 price which is the ceiling, and as long as the industry is under price ceilings those posted prices are the same as the ceiling prices.

MR. ABBOTT: Mr. Bond, I respectfully disagree with you. The bids are X amount over the average posting price of the named companies in the named field and it is a floating posted price.

MR. BOND: They can not float under the Cost of Living Council regulations, however; it is the ceiling.

MR. ABBOTT: We have a disagreement as to that, Mr. Bond.

MR. FLOURNOY: Can I try to get a little bit of clarification on a couple of points? Assume, what you say is true, we can do anything we want to on approving these bids, legally as of this time. Assume that we were to award the contracts, and assume then that the Cost of Living Council adopts this thing as they proposed it without any changes. Now what happens to us? Do we go back to the posted price? The oil is committed to the bidders but the price we receive is the price that they say is back to the

ceiling price. The only effect, in that case, is that instead of the lessees getting the oil the people who bid it get the oil and we don't benefit in any sense financially. Is that possible?

MR. ABBOTT: That's a possible result. In my opinion, that's the most likely possible result. There are other possibilities.

MR. FLOURNOY: I know. I just want to get each one of them clarified in my mind as we go along.

MR. GLADISH: It was intended in the way the proposals were written that the price would drop to posted and then back up, assuming the C.L.C. is not in business or something.

MR. FLOURNOY: I see. How long is the term of these contracts?

MR. GLADISH: Some are three and some are five years.

MR. ORR: Is there any option on our part to discontinue them earlier? They can opt out in nine months?

MR. ABBOTT: If the price reaches a certain point. There is no similar option for the State, I don't think.

MR. FLOURNOY: So that presumptively then, if this were to happen, looking down the life of the contracts, if the C.L.C. was to adopt the proposed regulation, the price would drop; if they ever go out of business, the price would go back to the terms of the conditions related to the $1.00 over the posted price, if it ever bacame unfrozen, which is -- you know -- well, I don't know anything about that.

It would go back to that $1.00 over the posted price, or whatever the average is. That could happen within 3 to 5 years, who knows whether it ever will or not.

MR. GLADISH: The Allocation people could, under this new law, also come in and say you can't.

MR. FLOURNOY: Give it to them? Retroactively?

MR. ABBOTT: That's a possibility.

MR. GLADISH: It could make the contracts non-operative.

MR. THOMPSON: If they took a base of last year as being where the allocation would be. . .

MR. FLOURNOY: They can, in essence, abrogate our contracts.

MR. BOND: They are doing it to us every day.

MR. FLOURNOY: No, I'm not -- I just want to make sure I understand.

MR. BOND: That's in the realm of . . .

MR. FLOURNOY: In which case, if we award it and they do that, it's just the same as if we didn't award it. What happens to us?

MR. GLADISH: It is the same; if we were to obtain a hold-harmless clause from the bidders.

MR. FLOURNOY: Hold harmless from what?

MR. ABBOTT: Anything that might result, if that eventuality took place.

MR. FLOURNOY: What might result from that actuality taking place that we wouldn't want to be held harmless from?

MR. ABBOTT: Assume that we get started with the contract and all sorts of arrangements have been made by both our lessee. . .

MR. FLOURNOY: Or costs and expenditures. . .

MR. ABBOTT: . . .and all of a sudden it gets cut off. Somebody may be looking for some money from the State Treasury.

MR. FLOURNOY: I see what you are talking about. That's what I thought but I wanted to find out for certain. If we award these contracts, when do they take effect?

MR. ABBOTT: Most of them May 1st. One of them Saturday; the rest May 1st.

MR. FLOURNOY: For deliveries?

MR. ABBOTT: Yes.

MR. FLOURNOY: So the one on Saturday is the one that would be . . . The fifteen day kind of thing that you were talking about -- presumably whatever they are going to do would be done in a month.

MR. THOMPSON: We have an extension only until December 1st to notify Standard Oil on one parcel down there that we will start taking oil as of next May.

MR. FLOURNOY: I see. But as far as any damage, if they came along and abrogated it after we had approved it there wouldn't be any damage because nobody would be geared up by 30 days for taking oil from next May. What happens to us if we award the contract and the pending case and the thing comes down and says we can't? What happens to us then?

MR. ABBOTT: All sorts of possibilities. Varying from -- you may sell the oil but only at the ceiling price.

MR. FLOURNOY: The same thing as if the . . . Cost of Living . . .

MR. ABBOTT: Possibly, well I don't think so but it is a possibility; you may sell it at ceiling price and only that price for the life of the contract.

MR. FLOURNOY: The life of the contract?

MR. ABBOTT: Possibly. Another possibility, your pricing clause is invalid but you will get paid the fair market value. Another possibility, the contracts are void and you may not sell it under these contracts. All sorts of possibilities.

MR. BOND: I have one other comment and then I will conclude. I don't

know which contract you are referring to that might be effective this week. If it were the one where you were bid 77¢ over posted price you would be losing money to award it because you have already told the lessee to pay you $1.00 over posted price, and he will pay it. If the price is increased, and I expect we will get another letter like this which will increase these to $1.65 very soon, you will lose money if you award any of these.

MR. FLOURNOY: That is only if you assume your interpretation of the basis that the bids. . . . as against what Mr. Abbott is saying.

MR. BOND: No, because this contract is tied to posted price and the posted prices are subject to ceiling.

MR. FLOURNOY: But our attorney disagrees with you on what the interpretation of the posted price is.

MR. BOND: Well, I work with this every day and I know what the Cost of Living Council's interpretation of that ceiling is, and it is the posted price is the ceiling price.

MR. THOMPSON: The contract is not the ceiling price. It says posted price.

MR. BOND: I recognize that, but today they are equivalent and they will be the equivalent until the Cost of Living Council increases those ceilings. Do you agree with me?

MR. THOMPSON: This is taking the stand that this dollar for the month of . . .

MR. BOND: Well, I am sorry, I didn't realize that this was even subject to argument. I have never had it argued before.

MR. FLOURNOY: Well, that is an argument.

MR. BOND: My point stands.

MR. FLOURNOY: I understand your position and I understand their position. I am not a lawyer. Do we have another witness?

MR. ROTH: My name is Robert Roth. I am General Counsel for World Oil Company. I think that Mr. Bond did not leave a clear impression on how the new oil provision really works. He created an impression that today the actual fair market value price for oil is $1.65 over ceiling or posted, but the new oil doesn't work that way -- the new oil provision. The way it works is that if a field produced 1,000 barrels a day in 1972 and today it produced 1,100 barrels a day, the incremental extra production of 100 barrels a day is new oil and for that Union Oil is offering $1.65 over. They are offering $1.65 for that 100, plus 100 of the old production which is called released oil. We, the high bidders, are offering an overage on every barrel purchased, averaging out at $1.11. So I can't accept the argument that the State is hurt in any way accepting these offers. In fact, I don't know the exact figures, but I think it amounts to approximately $3 million extra revenue a year. A second point is the basic public policy provision, and this is adopted by both the federal government in the allocation program and by the State, is to preserve the independent refiners and marketers and this segment of the market is the segment that has benefitted the public through lower gasoline prices and, without this segment, gasoline is going to go up anyway but, the rise will be much more severe. That is all I have to say. Are there any questions?

MR. FLOURNOY: I have just one question. As one of the high bidders would you have any problem with this hold-harmless suggestion that has been made, in terms of the uncertainties as to what could happen with all these things hanging over our heads?

MR. ROTH: No, none at all. We realize that right now with all the federal government actions, it is conceivable a contract could be awarded and it might be taken away by some governmental program. We would not have any problem at all with that.

MR. THOMPSON: Again, the question is that the State is taking the position now that there is a posted price offering by the major companies. For example, if the oil that you were to take had a previous posted price of say $3.25 a barrel, if there now is an offer out and we're taking it to be a posting of $1.65, the State is taking a position then that the posted price now is $3.25 plus $1.65. Those then become the base at which the bonus is paid above.

MR. ROTH: That's fine. In other words, our contract says whatever the posted price is, by I think 5 different major oil companies, we pay . . .

MR. THOMPSON: Well, it is the average of that particular thing. The State is taking the position that this $1.65 starting in October is a valid posted price offering by the majors, and therefore that is added to whatever price existed before, at the time you submitted your bid, as a starting point for your bonus to be added.

MR. ROTH: I understand that.

MR. THOMPSON: So this oil might end up to be somewhere in the neighborhood of almost $5.25 a barrel.

MR. ROTH: I just want to point out one other thing. Everybody hears about the high prices on foreign crude but even on domestic crude that is regulated, prices are going, by American Oil Company in yesterday's Oil Daily, as high as $6.60 a barrel in Texas Gulf and in New Mexico.

MR. THOMPSON: What we are trying to do is clarify this point that the

$1.65 we take to be a firm offering posted price in effect by the majors. Then -- our bonus starts then after that.

MR. REINECKE: This then is on the assumption that the ceiling price and the posted price are . . . .

MR. FLOURNOY: The posted price in terms of the contract is different than the ceiling price. That's basically . . .

MR. ABBOTT: So long as we are exempt.

MR. FLOURNOY: So long as we are exempt.

MR. GLADISH: That's the big catch.

MR. THOMPSON: On the other side, we are still in jeopardy of being, as of October 25, declared not-exempt if the Cost of Living Council were to follow that.

MR. FLOURNOY: As of October 25.

MR. ORR: Then you have the additional -- I wouldn't call it jeopardy, but you have the additional possibility that the contract is valid but the price isn't.

MR. ABBOTT: If we are not exempt.

MR. ORR: If we are not exempt that contract diverts the oil from the present takers to someone else but the price doesn't change.

MR. ABBOTT: That is a possibility.

MR. REINECKE: What is the basis for our rejecting the bids?

MR. GLADISH: As I indicated, there is no question about the authority but the reasoning has been brought out in the discussion today; it is the uncertainty of . . .

MR. REINECKE: If we were to reject on the basis of uncertainty, what would be our basis for re-bidding.

MR. GLADISH: The basis for re-bidding would have to be after the clouds have cleared the air in the sense of the federal regulatory agencies.

MR. REINECKE: When?

MR. GLADISH: Who knows.

MR. REINECKE: Six months?

MR. GLADISH: I can't forecast that.

MR. BOND: May I rebut one point. I have never tried to mislead this Commission. We have said that the price for any exempt oil -- the new oil price -- we will pay for any oil which is determined to be exempt, and it is not limited to just increased production. One further reason why I think these bids should be rejected is that because of the circumstances which have taken place since September when these bids were accepted, I think if these were put out and re-bid I know you would get substantially higher bids than you received in September.

MR. FLOURNOY: We could do that for the foreseeable future, it seems to me. We could re-bid them every time we get a bid because the price will probably be higher by the time we get around to taking the bid than it would be when we put it out.

MR. GLADISH: All this is that it would be on the assumption that new laws or new regulations or pending regulations were not implemented by the federal government.

MR. FLOURNOY: Maybe I can again helpfully clarify where we are. If we accept these bids, we have the possibility of significant additional income to the State on the basis of your interpretation of what the posted price is and what the bonus on top of that is, and if it goes up further it will go up further. If we do not accept the bids, then what will we

get for this oil? If we don't take it, what posted price -- we will get the ceiling price plus, unless we're declared not exempt -- is that right?

MR. GLADISH: Yes. From September 6, I believe up until recent weeks, $1.00 over posted and in recent times which we have not billed for yet, will be $1.65 over posted. Now that is only if the C.L.C. changes their proposed regulations. In any case we are clear up to October 25.

MR. THOMPSON: If we lose our exemption as far as this being able to receive the $1.00 and $1.65, we also lose the exemption to receive anything above ceiling anyway.

MR. FLOURNOY: If we lose the exemption we are going to get $3.25 a barrel no matter who pays it.

MR. GLADISH: Except for a short period of time.

MR. FLOURNOY: Yes. In terms of the terms of the contract, it does not make any difference or in terms of our cut-off of the C.L.C. . . if they rule we are not exempt we get $3.25 and that's it. It is just a question of who then pays it and who gets the oil.

MR. GLADISH: Except that under our interpretation of the contract we would possibly outlive the C.L.C.

MR. FLOURNOY: We might outlive the C.L.C. but that's something I'm not prepared to speculate on either.

MR. ORR: Has the concept that the price for new oil becomes the posted price been accepted by the lessees? You billed them. Have you received payment?

MR. GLADISH: I think we just heard Mr. Bond acknowledge for Union, one of the companies that was billed. We have not received responses yet. These just went out very, very recently. I believe that Mr. Bond in his testimony has acknowledged that.

MR. FLOURNOY: Well, so it's a question of whether we get a bonus, and of course we don't know what they will do with the other regulations, but if we have a hold-harmless clause we won't do any more damage than if the C.L.C. declares we are not exempt.

MR. ORR: I would like to be sure that Mr. Bond did acknowledge that. Is that correct?

MR. BOND: Yes.

MR. ORR: We are not reading anything into your words?

MR. BOND: If the State is exempt -- now that is still subject to litigation -- if the State is exempt, our check will be in the mail the minute that determination is made.

MR. GLADISH: There is no question in your mind, Mr. Bond, on our exemption from September 6 to October 25?

MR. BOND: None, whatsoever.

MR. FLOURNOY: It is just from October 25 henceforth that is in contention.

MR. REINECKE: What does it appear the net gain to the State will be in the event these are re-bid?

MR. GLADISH: Governor, it is not easy to say that we would be able to re-bid one way or another at this point in time, depending on, as we indicated earlier, what happens with these regulatory programs. In the sense of not being concerned with time factors we could re-bid tomorrow. Maybe on Monday we couldn't.

MR. REINECKE: Mr. Bond indicated that if we do not accept the bids we have received, we can gain 39¢ to 94¢ or something a barrel. This is selling to the lessees. The present lessees? Without a bidding process?

MR. GLADISH: Yes, we currently sell now to lessees without a bidding process. That's right.

MR. REINECKE: What was the condition whereby Mr. Bond indicated there was an additional revenue.

MR. GLADISH: He was, I believe, inferring or indicating that oil prices are rising and that if you rejected the bids at this point and it -- the sales were re-bid later on, the prices would be even higher than they were at the time of bidding. That is on the assumption that additional hurdles were not created. . .

MR. REINECKE: Only under a re-bid circumstance. There is no way we can get that additional by simply rejecting these bids on the basis of confusion and continue on some other. . .

MR. THOMPSON: The bonus here adds up to a little over $8,000 a day.

MR. ORR: I would like to ask our Attorney General, I believe I am correct, there is a possibility that the federal regulations would come down not dated October 25 but current; in other words, instead of retroactive the longer it holds there is a possibility they would come down, say, effective today.

MR. ABBOTT: That is possible.

MR. ORR: In which case, if we accept the bids now they would be legal.

MR. ABBOTT: We are talking about the Cost of Living Council?

MR. ORR: Yes.

MR. ABBOTT: They can roll back if they want to. . .

MR. ORR: I understand that. They could roll back to two years if they want to.

MR. ABBOTT: Right, or they could exempt all contracts entered into prior to the date. Anything is possible.

MR. GLADISH: There is a whole range of alternatives.

MR. THOMPSON: The current proposal starts on October 25.

MR. ORR: I understand but they have not adopted it within 30 days either.

MR. ABBOTT: No.

MR. FLOURNOY: Could I ask just one other technical question? If we were to say, reject and re-bid, would the time frames be the same on the assumption of oil or would they also be stretched out?

MR. GLADISH: No, the whole continuum of time frames would move down-range.

MR. FLOURNOY: So that it would postpone the point at which the change in delivery would take place.

MR. GLADISH: Yes, there is a 180-day clause in many of the contracts.

MR. FLOURNOY: There is 180 days, so you would move it back six months.

MR. ORR: Now, was it your intention, if we were to do this, if we would go ahead and accept the bids, that you would then not grant the acceptance until you got a hold-harmless clause, or are you altering a bid that way?

MR. ABBOTT: I think you still have the option of accepting or rejecting, and I think you would be saying to the high bidders "We will accept, if you show that you still want it contingent upon giving us a hold-harmless agreement; if you do not, then we will reject."

MR. REINECKE: What legal rights do the present high bidders have in the event we reject?

MR. ABBOTT: None. You have reserved the right to reject at any time.

MR. FLOURNOY: I think someone should make a motion of some sort.

MR. ORR: I move that we accept the bids, providing that we can get a hold-harmless clause from the high bidder.

MR. REINECKE: I'll second that.

MR. FLOURNOY: Is there objection to the motion? Hearing none, we will so proceed to accept the bids with the contingency that we can obtain from the bidders in each case the hold-harmless clause we were talking about.