

MINUTE ITEM

4. UNIT AGREEMENT, UNIT OPERATING AGREEMENT, EXHIBITS AND FIELD CONTRACTOR AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY - L.B.W.O. 10,155.

The Executive Officer read into the record the supplemental report of the Senate Subcommittee on the East Wilmington Oil Field of the General Research Committee created pursuant to Senate Resolution Number 10, which was published in the Senate Journal for June 19, 1963.

Calendar Item 41 attached, and a telegram from the Occidental Petroleum Corporation recommending that at least seven instead of five undivided interests be placed up for bid, were presented by the Executive Officer. Thereafter, the following was offered for verbatim inclusion in the record:

A letter from Jade Oil & Gas Co., dated May 30, 1963, addressed to Alan Cranston as Chairman of the State Lands Commission, relative to hiring of Oscar Chapman by the Senate Subcommittee investigating the Long Beach Unit development contracts.

Appearances were made by:

1. James L. Wanvig, a lawyer from San Francisco representing the Standard Oil Company of California, who stated he was also authorized to speak for the Richfield Oil Corporation and the Signal Oil and Gas Company, commented upon the suggestions contained in the calendar item.
2. L. E. Scott, of Pauley Petroleum, recommended the undivided interest approach; and commented on other factors of the staff proposal.
3. Johnny Mitchell, of Jade Oil and Gas Co., also appeared in favor of the undivided interest approach, having one large interest of at least 75%.
4. George T. Goggin, with Douglas Oil Company of California, who stated he was authorized to appear on behalf of the Independent Refiners Association of California, reviewed the problems of small refiners, and recommended eight separate undivided interests; i.e., forty percent for the successful field operator; two fifteen-percent increments; two ten-percent increments; one five-percent increment; and two two-and-one-half-percent increments.
5. Gerald Desmond, City Attorney of Long Beach, stated that the calendar item was being studied in the City Manager's office and in the City Attorney's office, and would be discussed with the City Council, and the oil committee, but that the City had no comment at this time.

(For complete details, see reporter's transcript, Calendar Item 41, Meeting of the State Lands Commission, June 27, 1963.)

UPON MOTION DULY MADE, SECONDED, AND CARRIED UNANIMOUSLY, A RESOLUTION WAS ADOPTED THAT, IN THE ABSENCE OF COMMENT FROM LONG BEACH, THE STAFF SHOULD AGAIN BEGIN WORK ON THE NECESSARY DOCUMENTATION AS OUTLINED IN THE STAFF REPORT, WITH ANY FINAL COMMITMENT TO THESE PRINCIPLES TO BE SUBJECT TO PRIOR COMMENTS FROM LONG BEACH AND INDUSTRY.

Attachment

Calendar Item 41 (3 pages)

SUPPLEMENTAL CALENDAR ITEM

41.

UNIT AGREEMENT, UNIT OPERATING AGREEMENT, EXHIBITS AND FIELD CONTRACTOR AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY -- L.B.W.O. 10,155.

1. On February 28, 1963, proposed agreements submitted by the City of Long Beach, setting forth terms for the development of the Long Beach Unit of the Wilmington Oil Field, were presented to the State Lands Commission for consideration.
2. On March 28, 1963, the Commission, members of the Senate Subcommittee on the East Wilmington Oil Field of the General Research Committee, representatives of the City of Long Beach, the petroleum industry, and other interested parties again discussed the proposed agreement. In addition, the Commission directed the State Lands Division to hold public reviews on all facets of the contract documents. Such reviews were held on April 15 and April 22, 1963.
3. Pursuant to Senate Resolution No. 100, the Subcommittee on May 23, 1963, released a report on the East Wilmington Oil Field by Messrs. Chapman, Friedman and Barash. This report was reviewed at a public hearing by the Subcommittee on June 3, 1963. On June 10, 1963, the Subcommittee released a "Progress Report of the Subcommittee on the East Wilmington Oil Field".
4. Concurrently, participating private interests supplied the Subcommittee with their comments, with the result stated in the "Progress Report", "... that the material being accumulated, which represents the combined efforts of all of those most vitally concerned, will serve as a valuable reference to those who are charged with redrafting the documents, if such is found to be necessary, and to the State Lands Commission in arriving at its ultimate decision".

After complete review of all elements appropriate for consideration, including the foregoing, it is suggested that the Commission consider directing the Division, in conjunction with the City of Long Beach and representatives of the petroleum industry, to redraft the contractual documents, as necessary, for elimination of any ambiguities and conflicts, and to include the following principal factors:

1. Tract No. 1 to be offered in undivided interests in the proportions of 45%, 25%, 15%, 10%, and 5%. The successful bidder for the 45% interest to be designated as the Field Contractor to assume all obligations of developing and producing the field, and to be the sole beneficiary of the "Administrative Overhead Allowance" (currently proposed at 3%). The 45% interest to be offered for the consideration of a fixed cash bonus in the amount of \$20,000,000, with the biddable element to be the percentage of the net operating profits offered. The remaining undivided interests (25%, 15%, 10%, and 5%) to be offered for the consideration of a

SUPPLEMENTAL CALENDAR ITEM 41. (CONTD.)

fixed percentage of the net profit equal to the net profit bid on the 45% interest, plus payment of a cash bonus as the biddable element. (Each undivided interest holder to assume his pro rata share of the development and production costs, determined by the undivided interest percentage held.)

2. A reservation of the right to elect to take $12\frac{1}{2}\%$ of production in kind, in favor of the City and State, as to all of Tract No. 1. This reservation could constitute the supply for "sell-off" to small refineries as crude supplies might be required in fact.
3. An option to the City and State to elect to take up to an additional $12\frac{1}{2}\%$ of the production in kind from all of Tract No. 1 at the approximate time when the development has reached peak production. Election of this option would be dependent upon the basic public interest requirements as determined by the City and State, particularly in consideration of the distribution of the undivided interests, which were offered separately for bid.
4. Establishment of a minimum guaranteed operating profit to the City and State by specification of a percentage return of the gross value of production.

A schedule for bid offering is suggested as follows:

1. Offer the 45% undivided interest.
2. Close bids for the 25% interest 15 days after receipt of bids for the 45% interest.
3. Offer the remaining interests in the order of diminishing percentage at 10-day intervals.
4. Withhold award of contracts until bids for all undivided interests have been received and evaluated.

EXCERPT FROM THE SENATE JOURNAL OF JUNE 19, 1963

SUPPLEMENTAL REPORT OF THE
SUBCOMMITTEE ON THE EAST WILMINGTON OIL FIELD
OF THE GENERAL RESEARCH COMMITTEE

Created Pursuant to Senate Rules Resolution No. 10

On June 10, 1963, this subcommittee submitted a progress report on its study of the proposal for developing the East Wilmington Oil Field, which is presently before the State Lands Commission for approval. Since submitting that report, some of the members of the subcommittee have questioned whether the report makes clear to the State Lands Commission and other interested parties the recommendations of this subcommittee. In order to avoid any possible misunderstanding, we therefore submit this further report.

1. We recommend that the commission give most careful attention to the report of counsel and to the other materials presented to or filed with this subcommittee.
2. We recommend that the commission give particular attention to the problems specifically discussed in our report of June 10, 1963. These are the problems which in our judgment create the greatest concern and we urge the commission to satisfy itself beyond all doubt that the public interest is adequately protected in all such respects before approving any documents for the development of the East Wilmington Oil Field.
3. In our judgment, the most important of the matters discussed in our report of June 10, 1963, is the recommendation that Tract 1 be offered in several undivided interests.
4. We recommend that the commission call for the redrafting and clarification of any provisions having a disputed meaning.
5. This subcommittee is not prepared to propose legislation that would limit bidders to a single interest if Tract 1 is offered in several interests.
6. This subcommittee is not prepared to propose legislation that would authorize the State to take a working interest position in the unit, as to Tract 2, without leasing said tract.
7. We recommend that the commission not approve the proposed documents in their present form at this time, until it has carefully considered the foregoing recommendations and such substantive and technical changes have been made as it thinks appropriate. We see no reason, however, for any indefinite or prolonged delay in authorizing the development of the East Wilmington Oil Field.

Respectfully submitted,

STANLEY ARNOLD
HUGH M. BURNS
JOHN F. McCARTHY

VIRGIL O'SULLIVAN, Chairman
JOHN A. MURDY, JR.
THOMAS M. REES
STEPHEN P. TEALE