

MINUTE ITEM

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

and

CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY - L.B.W.O. 10,155.

and

NOTICE INVITING BIDS, AND BID FORMS FOR CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD - L.B.W.O. 10,155.

The Chairman reviewed the history and background of the Long Beach Unit, calling particular attention to the large number of public hearings that had been held, that the Commission had worked with the staff, not with consultants, and that the Commission wants to get the development of the field as soon as possible. He commented further that it appears desirable to bring in specialists at the time the bids are received, who have some experience or analysis of the business decisions that went into these bids. The Legislature will be asked, and at the appropriate time the Commission will act on the budget so that, in order to discharge the State's responsibility in this area, the necessary augmentation to the staff in the Long Beach Unit may be made.

Mr. Durland Clark appeared on behalf of the Shell Oil Company, and contended that there was a substantial advantage under the present documentation to the benefit of the Town Lot holders.

Mr. James L. Wanvig, of Pillsbury, Madison and Sutro of San Francisco, representing the Standard Oil Company of California, outlined reasons why that company did not feel the present documentation would be of benefit to the Town Lot holders. Thereafter, this point was discussed at some length as to economic implications.

Mr. Dudley Hughes, a registered petroleum engineer in the State of California, appearing as a private citizen, outlined his reasons for objecting to the proposed method of handling the unit, contending that it fails to protect properly the interests of the City of Long Beach and of the State of California.

In response to a question by the Chairman, the Executive Officer reviewed the invalidity of the arguments raised against the Long Beach Unit. The controls that the State and the City will exercise over the operations were explained in detail.

Mr. Harold A. Lingle, Chief Deputy City Attorney of Long Beach, in response to an issue raised by Mr. Hughes, reported that it was the opinion of his office "that the possibility of charging a drillsite royalty, which is solely caused because of the initiative ordinance voted by the City of Long Beach, would raise grave constitutional questions." He then called upon the City's consultant, Mr. Gene E. Roark, President of James A. Lewis Engineering, Incorporated, of Dallas, Texas, to explain his views on this subject and how the equity formula had been worked out. Mr. Roark contended that the formula does meet the test of fairness.

Mr. Roark also answered several questions raised by Mr. Alan Sieroty, Executive Secretary representing the office of the Lieutenant Governor.

The Chairman read into the record a letter received from the Manager of the Land Department of Shell Oil Company, commenting on several items of major concern to that company, which included possible conflicts between the City Ordinance and Chapter 138, also Section 5 and Section 3(j) of Chapter 138, relative to Alamitos Beach Park Lands (Tract 2).

Assistant Attorney General Shavelson replied that, in his opinion, in the event of any conflict between the City Ordinance and Chapter 138, Statutes of 1964, 1st E.S., the Statute would prevail and that there is no question of the validity of these contracts insofar as they vest the voting rights in the Alamitos Beach Park Lands in the State. At the request of Commissioner Cranston, Mr. Shavelson agreed to furnish a written opinion on this subject to the Commission during the course of the bid period.

The Chairman gave assurance that the State would defend the contractual agreement, as any attack against it would be against the interests of the State. Mr. Shavelson indicated that such defense would not present any problem for the Office of the Attorney General. Mr. Lingie also gave his assurance that the City of Long Beach has every intent to stand by its word and behind the contract as fully as possible.

The Executive Officer noted for the record that 88% of the Town Lot interests had reported their intention to commit their holdings to the Unit, with a minimum of 60% required.

Mr. Clark of Shell explained his reasons for recommending a 120-day bid advertising period. Mr. L. E. Scott, representing Pauley Petroleum, urged that either a 120-day or 180-day bid period be allowed, to get the maximum competitive advantage, particularly as to the 80% operating interest.

UPON MOTION DULY MADE AND SECONDED, AND CARRIED UNANIMOUSLY, A RESOLUTION WAS ADOPTED AMENDING THE FORM OF APPROVAL OF THE NOTICE OF INTENTION FOR INVITING BIDS TO PROVIDE FOR THE FOLLOWING DATES FOR OPENING BIDS:

80% PARCEL	.....	FEBRUARY 9, 1965
10% PARCEL	.....	FEBRUARY 10, 1965
5% PARCEL	.....	FEBRUARY 11, 1965
2½% PARCEL	.....	FEBRUARY 15, 1965
1½% PARCEL	.....	FEBRUARY 16, 1965
1% PARCEL	.....	FEBRUARY 17, 1965

The basis for determining a continuing purchaser was discussed, with the question being raised of whether this should be reduced from 3,000 to 1,000 barrels a day, but it was decided that no change should be made.

At the request of Commissioner Cranston, Mr. Shavelson discussed the aggregate possessory or mineral rights tax that will be applicable to the area, especially if the De Luz case is applicable. However, he stated, the impact on bids should be greatly reduced by the fact that the City and the State will bear the greater amount of the tax, depending upon what the respective percentage of net profits is going to be.

* Action rescinded by Minute Item 35,
Pg. 12, 597; meeting of April 28, 1966.

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

UPON MOTION DULY MADE, SECONDED, AND CARRIED UNANIMOUSLY, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE COMMISSION:

1. FINDS:

- A. THAT THE "UNIT AGREEMENT AND UNIT OPERATING AGREEMENT, WITH ACCOMPANYING EXHIBITS, LONG BEACH UNIT, WILMINGTON OIL FIELD", PROVIDES THAT ANY IMPAIRMENT OF THE PUBLIC TRUST FOR COMMERCE, NAVIGATION OR FISHERIES TO WHICH GRANTED LANDS ARE SUBJECT IS PROHIBITED:
- B. THAT ENTERING INTO AND PERFORMANCE OF SUCH AGREEMENTS IS IN THE PUBLIC INTEREST.

2. APPROVES THE AFORESAID UNIT AGREEMENT AND UNIT OPERATING AGREEMENT, WITH ACCOMPANYING EXHIBITS, ON BEHALF OF THE STATE, PURSUANT TO SECTIONS 6879 AND 7058 OF THE PUBLIC RESOURCES CODE, AND PURSUANT TO CHAPTER 138, STATUTES OF 1964, FIRST EXTRAORDINARY SESSION.

PURSUANT TO THE PROVISIONS OF EXHIBIT "D" OF THE UNIT AGREEMENT, THE COMMISSION DESIGNATES F. J. HORTIG, EXECUTIVE OFFICER, AS ITS MEMBER, WITH RESPECT TO THE STATE'S PORTION OF THE OFFSHORE AREA, ON THE EQUITY COMMITTEE, AND A. W. PFEIL, ASSISTANT EXECUTIVE OFFICER, AS ALTERNATE MEMBER. *

CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY - L.B.W.O. 10,155.

UPON MOTION DULY MADE, SECONDED, AND CARRIED UNANIMOUSLY, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE COMMISSION APPROVES THE CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, CALIFORNIA, PURSUANT TO THE PROVISIONS OF CHAPTER 138, STATUTES OF 1964, FIRST EXTRAORDINARY SESSION, RESERVING THE RIGHT TO REJECT ANY OR ALL BIDS THEREFOR.

NOTICE INVITING BIDS, AND BID FORMS FOR CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD - L.B.W.O. 10,155.

UPON MOTION DULY MADE AND SECONDED, AND CARRIED UNANIMOUSLY, A RESOLUTION WAS ADOPTED APPROVING THE NOTICE INVITING BIDS AND BID FORMS FOR CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, CALIFORNIA, UNDER WHICH A FIELD CONTRACTOR IS TO DEVELOP AND OPERATE THE LONG BEACH UNIT, WILMINGTON OIL FIELD, CALIFORNIA, AND CONTRACTS ARE TO SHARE COSTS AND OIL AND GAS ATTRIBUTABLE TO THE CITY'S PORTION OF THE OFFSHORE AREA, BUT RESERVING FINAL ACTION THEREON UNTIL THE CITY OF LONG BEACH HAS TAKEN FINAL ACTION ON THE DOCUMENTS AS AMENDED TO DATE.

Attachments:

Calendar Items 1, 2, & 3 (7 pages)

10,548

CALENDAR ITEM

1.

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

The Office of the Attorney General, the staff of the City of Long Beach, and the staff of the State Lands Commission, with the concurrence of other affected parties, have prepared, in accordance with applicable provisions of law, a Unit Agreement, Unit Operating Agreement, and Exhibits thereto, providing for the unitization of all oil, gas and other hydrocarbons to be produced from the Long Beach Unit.

The purpose of the Unit Agreement is to achieve the following:

1. To promote the conservation of oil and gas in the unitized formations and to secure other benefits obtainable through the development and operation of the unitized formations as a unit under the terms, conditions, and limitations therein set forth;
2. To initiate and conduct repressuring operations in accordance with the provisions of the City Ordinance, Chapter 138, Statutes of 1964, First Extraordinary Session, and the Public Resources Code; and
3. To increase the maximum economic quantity of oil and gas ultimately recoverable from the unitized formations through repressuring operations.

The lands covered by the proposed Long Beach Unit have been divided into three major areas:

1. Tract No. 1 consists of tide and submerged lands granted to the City in trust by the State;
2. Tract No. 2, the Alamitos Beach Park Lands, consists of tide and submerged lands in which oil and gas are under the jurisdiction of the State Lands Commission;
3. The remaining tracts are collectively referred to as the "Townlot Area". They are located upon uplands in the central portion of the City of Long Beach.

The surface area overlying the anticipated productive zones of the entire Unit Area is approximately 6700 acres, of which about 4500 acres lie within Tract No. 1. The total recoverable oil reserves in the entire Unit Area are estimated to be in excess of one billion barrels. Under the initial Tract Assignments, 85.9259 percent of the oil produced will be allocated to Tract No. 1.

Under the Unit Operating Agreement, the City is designated as Unit Operator. The Unit Operator shall have, subject to the terms, provisions, and limitations expressed in the Unit Agreement and in the Unit Operating Agreement, and

CALENDAR ITEM 1 (CONTD.)

Chapter 156, the exclusive right to develop and operate the Committed Parcels and Unit Wells in accordance with the provisions of said agreements.

Exhibit "D" of the Unit provides that an Equity Committee shall be appointed to Establish Tract Assignments for Tracts in the initial Participating Area, and to revise Tract Assignments with or without a revision of the Participating Area whenever any such revision appears proper as a result of Additional Data and to carry out other functions of the Unit Agreement. Each of the following Persons shall be entitled to have a Member on the Committee; the City, the State, and each Minority Voting Participant with respect to the Townlot Area. Any Person entitled to a Member on the Committee shall designate such Member by written notice to the Unit Operator at the time such Person executes the Unit Agreement, and at the same time designate an Alternate Member who shall have the right and authority to attend and act at meetings of the Committee in the absence of the Member.

The Unit Agreement shall become effective as of 7:00 o'clock A.M. of the first day of the calendar month which commences after all of the following events have occurred:

1. The parcel, a portion of which constitutes Tract No. 1, has become a Committed Parcel;
2. Parcels which constitute sixty percent (60%) (measured in surface acres) of the Townlot Area within the Participating Area have become Committed Parcels;
3. The City has executed the Unit Agreement and the Unit Operating Agreement as Unit Operator;
4. As to the parcel including Tract No. 1, the City has entered into the Contractors' Agreement and the Field Contractor and Nonoperating Contractors have executed the Unit Agreement and the Unit Operating Agreement;
5. Approval of the Unit Agreement and the Unit Operating Agreement by the State Oil and Gas Supervisor, pursuant to the provisions of the Public Resources Code; and
6. Approval of the Unit Agreement and the Unit Operating Agreement by the State pursuant to Sections 6879 and 7058 of the Public Resources Code.

Unless the Unit Agreement becomes effective pursuant to the foregoing on or before January 1, 1966, or such later date as may be approved by the State and stipulated in writing by the City and the Participants of the Townlot Area, but not later than January 1, 1967, then the agreement would be of no further force or effect whatsoever.

Within 120 days after the effective date, the Unit Operator shall begin and diligently continue to completion the initial development plan (Exhibit "C").

CALENDAR ITEM 1. (CONTD.)

Plans of development shall be formulated in accordance with the provisions of Section 5 of Chapter 138, Statutes of 1964, First Extraordinary Session, covering a period not in excess of one year, unless otherwise mutually agreed between the City and the State. Such plans, unless otherwise agreed between the City and State, shall specify the surface and bottom locations of both producing and injection wells to be drilled, drilling schedules, range of rates of production, range of rates and pressures of injections, location and capacity of facilities, and an itemized budget of intended expenditures relating to the exploration, development and operations. Each plan shall be subject to approval after submission to the Participants prior to implementation. Day-to-day operations pursuant to such plan will be the responsibility of the Field Contractor acting under the direction and control of the City and State.

The agreements, once effective, shall continue in full force and effect as long as any unitized substance can be produced from the unitized formations in quantities sufficient to pay to produce.

The Unit Agreement and the Unit Operating Agreement with accompanying exhibits were approved in principle by the State Lands Commission on September 24, 1964. The Unit Agreement and the Unit Operating Agreement with accompanying exhibits were approved by the Long Beach City Council on October 6, 1964. The City Council has found that the Unit Agreement is in the interest of increasing the ultimate recovery of oil and gas and protection from waste; that subsidence may possibly be arrested or ameliorated thereby; and that such inclusion is in the interest of safeguarding life, health, welfare, and property. The City Council has also determined that any portion of the surface area of tide and submerged lands intended to be utilized for unit operations is not and with reasonable certainty will not be required for the purposes of commerce, navigation, or fisheries, and will not impair the performance of the public trust.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND:

- A. THAT THE "UNIT AGREEMENT AND UNIT OPERATING AGREEMENT, WITH ACCOMPANYING EXHIBITS, LONG BEACH UNIT, WILMINGTON OIL FIELD", PROVIDES THAT ANY IMPAIRMENT OF THE PUBLIC TRUST FOR COMMERCE, NAVIGATION OR FISHERIES TO WHICH GRANTED LANDS ARE SUBJECT IS PROHIBITED;
- B. THAT ENTERING INTO AND PERFORMANCE OF SUCH AGREEMENTS IS IN THE PUBLIC INTEREST.

2. APPROVE THE AFORESAID UNIT AGREEMENT AND UNIT OPERATING AGREEMENT, WITH ACCOMPANYING EXHIBITS, ON BEHALF OF THE STATE, PURSUANT TO SECTIONS 6879 AND 7058 OF THE PUBLIC RESOURCES CODE, AND PURSUANT TO CHAPTER 138, STATUTES OF 1964, FIRST EXTRAORDINARY SESSION.

PURSUANT TO THE PROVISIONS OF EXHIBIT "D" OF THE UNIT AGREEMENT, THE COMMISSION HEREBY DESIGNATES F. J. HORTIG, EXECUTIVE OFFICER, AS ITS MEMBER, WITH RESPECT TO THE STATE'S PORTION OF THE OFFSHORE AREA, ON THE EQUITY COMMITTEE, AND A. W. PFEIL, ASSISTANT EXECUTIVE OFFICER, AS ALTERNATE MEMBER.

CALENDAR ITEM

2.

CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY - L.B.W.O. 10,155.

The Office of the Attorney General, the staff of the City of Long Beach, and the staff of the State Lands Commission, pursuant to Chapter 138, Statutes of 1964, 1st E.S., have prepared a Contractors' Agreement, Long Beach Unit, Wilmington Oil Field. Under the terms of the Agreement, Tract No. 1 (tide and submerged lands granted to the City of Long Beach) will be offered in six undivided shares of 80 percent, 10 percent, 5 percent, $2\frac{1}{2}$ percent, $1\frac{1}{2}$ percent, and 1 percent, respectively. The successful bidder for the 80 percent interest will become the "Field Contractor" and assume all obligations of developing and producing the field under the direction of the State and City, together with the exclusive right to use the offshore drillsite islands. The successful bidders for the remaining undivided interests will become "Nonoperating Contractors" assuming their respective pro rata share of development and production costs as determined by the undivided share held.

The Contractors' Agreement will be awarded to the qualified bidders for the 80 percent undivided share of the Field Contract and the above specified undivided shares of the Nonoperating Contractors who offer the highest percentages of the net profits, attributable to the respective shares. The Field Contractor will be required to pay an initial cash consideration of 10 million dollars.

An advance royalty period will begin on the first day of the first calendar month which begins on or after the 120th day after the effective date of this Agreement, and will terminate at the time the City has the right to receive payments from the Field Contractor based upon the bid percentage of the net profits, or at the end of five years, whichever is earlier. During this period, the Field Contractor shall pay over to the City any current operating profits to the extent of the following amounts:

1. For the first calendar month of advance royalty period; three million dollars.
2. For each month during the succeeding seven calendar months; two million dollars.
3. For each subsequent calendar month prior to termination of the advance royalty period; one million dollars.

Each Contractor shall, on a cumulative basis throughout the life of this Agreement, make a minimum royalty payment to the City of not less than $16\frac{2}{3}$ percent of such Contractor's percentage of the value of oil, gas and other hydrocarbons allocated to the Contract lands.

Each Contractor shall have the exclusive right and obligation to take the oil allocated to such Contractor. All oil allocated shall be accounted for and payment made to the City at a price computed to the closest tenth of a cent

CALENDAR ITEM 2. (CONTD.)

per barrel using the highest of four pricing standards, as detailed in the Contractors' Agreement.

The proposed Agreement contains two provisions for "selling off" a share of the production by competitive bidding in order to preclude any monopoly.

The term of this Agreement will be for a period of 35 years, unless terminated sooner under one of the following conditions:

1. During the first five years, the Field Contractor may ask for termination of the Contract and be released immediately from making further advance royalty payments. However, a 180-day termination period is provided during which the Field Contractor must make all other payments and discharge all operating obligations.
2. After final tract assignments and adjustments, the Field Contractor upon 180 days notice, and any Nonoperating Contractor upon 120 days notice, may terminate this Agreement if either of the following situations exist:
 - (a) There has been a period of 12 consecutive months during which there have been no net profits payable to the City by such Contractor; or
 - (b) There has been a month in which there have been no net profits payable to the City by such Contractor, and such Contractor has advanced expenses equivalent to its Contractor's percentage of one million dollars or more.

Each Contractor shall furnish the City with a good and sufficient faithful performance bond in the amount specified in the Agreement.

The State Lands Commission on September 24, 1964, approved the Contractors' Agreement in principle, and the City Council of the City of Long Beach at its meeting of October 6, 1964, by resolution, approved the Contractors' Agreement.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, CALIFORNIA, PURSUANT TO THE PROVISIONS OF CHAPTER 138, STATUTES OF 1964, FIRST EXTRAORDINARY SESSION, RESERVING THE RIGHT TO REJECT ANY OR ALL BIDS THEREFOR.

CALENDAR ITEM

3.

NOTICE INVITING BIDS, AND BID FORMS FOR CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD - L.B.W.O. 10,155.

The City of Long Beach, and the State Lands Commission staff, and the Office of the Attorney General, pursuant to the provisions of Chapter 138, Statutes of 1964, First Extraordinary Session, have prepared the following documents requiring approval of the State Lands Commission prior to publication of notice of bidders:

1. "Notice inviting bids for the Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California."
2. Bid forms for Field Contractors' and each Nonoperating Contractor's undivided share, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California.

Pursuant to said notice, sealed bids for the Field Contractor's eighty percent (80%) undivided share will be received until 2:00 o'clock P.M. on the 9th day of December, 1964, and such bids will be publicly opened commencing at said time and date. Also pursuant to said notice, sealed bids for the Nonoperating Contractor's undivided shares will be received until 2:00 o'clock P.M. on the 10th day of December, 1964, and such bids will be publicly opened at such time and date.

The undivided share of the Field Contractor and each Nonoperating Contractor will be awarded to the qualified bidders who agree to pay the highest percentage of net profits attributable to such shares. The bid for the Field Contractor's 80% undivided share shall include a certified or cashier's check in the amount of \$3,000,000 as evidence of good faith. For the remaining undivided shares, the bids for the undivided share of the Nonoperating Contractor with a 10 percent undivided share will include a certified or cashier's check in the amount of \$375,000 as a deposit as evidence of good faith, and the bids for the remaining Nonoperating Contractor's undivided shares will be accompanied by deposits in proportionate amounts. At or before execution of the Contractors' Agreement by the Field Contractor, an advance consideration of \$10,000,000 will be required. No advance consideration is specified or required for Nonoperating Contractor.

The notice specifies that the State Lands Commission, as well as the City of Long Beach, reserve the right at any stage of these proceedings to reject any or all bids for any one or more of the undivided shares. The bid forms are specifically made subject to all terms and conditions set forth in the notice.

The City Council of the City of Long Beach by resolution have approved the notice and bid forms. The documents have been submitted to the Office of the Attorney General who has advised that said documents comply with applicable provisions of law as to legal sufficiency and may be approved by the State Lands Commission.

CALENDAR ITEM 3. (CONTD.)

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE NOTICE INVITING BIDS AND BID FORMS FOR CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, CALIFORNIA, UNDER WHICH A FIELD CONTRACTOR IS TO DEVELOP AND OPERATE THE LONG BEACH UNIT, WILMINGTON OIL FIELD, CALIFORNIA, AND CONTRACTORS ARE TO SHARE COSTS AND OIL AND GAS ATTRIBUTABLE TO THE CITY'S PORTION OF THE OFF-SHORE AREA.