1 P R O C E E D I N G S

2 --o0o--

3 CHAIRPERSON CORY: Okay. We'll call the meeting

4 to order.

5 The Agenda item is the proposed Arco assignments.

6 Mr. Northrop, would you like --

7 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, yes,

8 I'd like to, if I may.

9 We have, since our last meeting, been in

10 conference with Petro-Lewis and with Century Petroleum.

11 As a matter of fact, the conferences were going on as a

12 matter of just a few minutes ago.

13 We have evolved down to several problems at

14 which we are at an impasse, and so we'll bring them to the

15 Commission so they might give us the wisdom of their counsel.

16 The first thing that we would probably like to discuss is

17 the concept of the first sale. We think it's important

18 that the State maintain its position of being the first

19 seller. It's a concept that we've had since the

20 inception of the program and we really feel to take a

21 position otherwise would not only jeopardize --

22 CHAIRPERSON CORY: Current contracts are

23 structured so that title to the oil passes at the Broadway-

24 Mitchell --

25 EXECUTIVE OFFICER NORTHROP: Pump station.

1 CHAIRPERSON CORY: -- pump station, and after
2 it's by the LACT units and it's out of the ground and all
3 of that.
4 EXECUTIVE OFFICER NORTHROP: Right. And that's
5 a problem --
6 CHAIRPERSON CORY: And DOE has accepted that
7 concept?
8 EXECUTIVE OFFICER NORTHROP: Right. Petro-Lewis
9 indicated they had some difficulty with that concept.
10 CHAIRPERSON CORY: That appears not to be a
11 negotiable point?
12 EXECUTIVE OFFICER NORTHROP: I don't see how it
13 can be.
14 CHAIRPERSON CORY: Okay. Go ahead. What's the
15 next problem?
16 EXECUTIVE OFFICER NORTHROP: The next problem --
17 Yes.
18 MS. SMITH: It is a problem though, isn't it, if
19 they're conditioning their bonus of 10 cents a barrel on
20 whether or not they have the first sale, whether or not
21 they can pass that cost off?
22 EXECUTIVE OFFICER NORTHROP: Could you repeat the
23 question?
24 MS. SMITH: Whether or not the State makes the
25 first sale in the transaction or whether or not the

1 contractor actually does is the problem, as I understand
2 it, because we're dealing with whether or not that 10-cent
3 bonus can be passed on by them.
4 EXECUTIVE OFFICER NORTHROP: That's their
5 contention. We feel that there is no problem under
6 current regulations being able to do that. However, again,
7 regulations are regulations.
8 MS. SMITH: Is their offer of a 10-cent bonus
9 conditioned upon their having the first sale?
10 EXECUTIVE OFFICER NORTHROP: Alan -- I don't
11 think it is.
12 MR. HAGER: As I understand it, Petro-Lewis'
13 offer is that they will pay the 10 cents so long as the
14 10 cents can be charged on their sale to Century of the
15 oil, not on whether it can be charged on the State or the
16 city sale of the oil to its contractor.
17 MS. SMITH: How is the proposed contract
18 structured now? Has that condition been included in the
19 contract, or what are we talking about today? Are we
20 talking about just a straight out offer from them and then
21 letting them take the risk that they'll be able to pass
22 on the cost?
23 MR. HAGER: Their offer in their proposal is
24 that they do not take the risk. That the 10 cents will be
25 paid only to the extent it can be charged under regulations

1 applicable to their sale of the oil, not to ours.

2 Our proposal to them was that it be on the first

3 sale which was our sale. They do not agree with that, and

4 they say that is unacceptable.

5 MS. SMITH: So we no longer have an offer of a

6 10-cent bonus per barrel?

7 MR. HAGER: We have an offer, but under their

8 terms. It isn't the offer that we thought it was.

9 CHAIRPERSON CORY: Why discuss anything else?

10 I mean, is there anything to discuss if that's where we

11 are?

12 MR. WATSON: My name is Bill Watson, and I'm an

13 attorney for Petro-Lewis Corporation and P.P. Co.

14 I think Alan has correctly characterized the

15 discussion we've had to date. That is that Petro-Lewis

16 and P.P. Co. have not expressed any concern or argument

17 about how the sales are characterized. At this point we

18 are not concerned with whether the first sale is made by

19 the State and city or whether the first sale is made by

20 P.P. Co.

21 The offer we have made, however, is that to the

22 extent we are able to collect 10 cents on disposing of the

23 crude, we would be willing to pass this 10 cents on to the

24 State outside of the net profits calculation. We are at

25 risk in that we are offering the credit of Petro-Lewis

1 Corporation to back up this offer. That is to say, that
2 if for some reason our sale with Century fell through --
3 and although it's an unhappy thing to think about, for
4 instance, their bankruptcy -- would make it impossible for
5 them to perform their purchase contract or might, the
6 credit of Petro-Lewis Corporation under the guarantee
7 would be available to continue paying this 10-cent premium
8 whether or not Petro-Lewis Corporation or P.P. Co. as the
9 actual seller was able to find a purchaser who would pay
10 that premium price.
11 We are not conditioning it on our capacity to
12 sell the crude at that incremental price, but we are
13 conditioning it on it being legal for us to collect that
14 additional amount. So we are taking a risk. We are not
15 placing all the risk of that on the State. We are not
16 willing to assume the risk, however, that either Washington
17 or for a possibility, Sacramento, decides that we should
18 not be allowed to collect that additional amount on our
19 sale.
20 As to whether or not there's any reason for
21 further discussion, obviously that is the Commission's
22 decision. We think that we can at least make what we hope
23 are reasonable arguments that there are policy reasons why
24 the Commission should approve the proposal as we have put
25 it forward.

1 MS. SMITH: As I understand it, when Century
2 first approached the Commission, the offer was that they
3 would pay us 10 cents a barrel on the crude that was
4 produced from Tract 1 and 2 as a bonus without any
5 conditions at all.
6 MR. WATSON: Well, I'm sorry, ma'am, if we were
7 to ever phrase it that way, we would be misleading the
8 Commission because there's always the possibility that
9 regulations would prohibit it no matter how we described it.
10 So unfortunately, as long as this is considered a
11 transaction subject to governmental controls, we cannot
12 guarantee that we can pay that premium.
13 MS. SMITH: I understood that it was a risk that
14 you were willing to assume as an incentive for the State --
15 MR. WATSON: Yes, ma'am, it is.
16 MS. SMITH: -- to accept the proposed assignment.
17 MR. WATSON: We are willing to assume the risk if
18 we cannot find a buyer who will pay that premium. We are
19 not willing to assume the risk if some governmental agency
20 will tell us we cannot collect it.
21 CHAIRPERSON CORY: Okay. That point is, I guess,
22 clarified where we are. Why don't you go on with your
23 other points, Bill.
24 EXECUTIVE OFFICER NORTHROP: All right. There are
25 three other areas in which we have had some discussion.

1 The first one is on the performance bond in the amount of
2 $750,000 for Tract 1 and $1,250,000 for Tract 2 as
3 provided in the contractors agreement. P.P. Company has
4 requested to waive the contract condition that would allow
5 the charging of the annual premiums up to one percent of
6 the bonds of the net profits account. The city and state
7 previously waived the bonds for Arco as contractors;
8 therefore, charging these premiums to net profits account
9 would result in a loss of tidelands revenue.
10 In going over this program the staff felt that
11 we were replacing a very substantial buyer with the
12 ability to refine the crude oil with another buyer that
13 was -- well, I think the substance is important; the
14 relative size isn't. It's the fact that we do not have a
15 buyer that has a refinery. For that reason, and there are
16 some other things concerned in the bond. If, for example,
17 during the life of the field there was a change in the
18 equity formula or some act of God to demolish some equipment
19 that had to be replaced at a substantial cost, we think
20 that bond should be used at that time. For that reason, we
21 feel the State should be held whole on this cost.
22 Secondly, the chart has been placed there as to
23 the obligation that we would have in Tract 1 on that chart.
24 Tract 2, while it's a lesser amount by about $200,000,
25 tracks about the same way. We feel there should be some

1 Letter of Credit to cover our exposure. It is covered in
2 red on that chart. We feel that, or some accommodation made
3 so that we're not left holding the bag for the amounts
4 involved in that chart.
5 Those, we ask that, because the price of crude
6 oil changes, that we review that bond amount annually for
7 the first five years and every other year after that.
8 Those amounts would amount to about $800,000 for Tract 1,
9 as displayed in the chart, and about 600,000 for Tract 2.
10 Those two points we feel are important.
11 The third point we discussed was waiving the 20-
12 day period for curing a default as provided in the
13 contractor's agreement and replacing it with a 10-day
14 period.
15 We had some other problems, and I understand
16 they've been resolved. Arco has indicated that they now
17 have approval for the use of the Four Corners line. So I
18 think we've resolved the problem. In addition, they have
19 agreed to change the take and take back from six months to
20 60 days. So we've resolved those problems.
21 So now the four basic problems that we're looking
22 at is the first sale agreement, the 20-day for a 10-day
23 period, and the bond and the Letter of Credit. So that's
24 where we are.
25 Mr. Thompson, do you have anything you'd like to

1 add as to where we are now?

2 MR. THOMPSON: I don't think so. We really don't

3 have any document finalized here because we do have a

4 difference of opinion on these. You've already heard one

5 version on the first sale, and I think it's a question of

6 talking about the others.

7 CHAIRPERSON CORY: As I understand the position

8 on first seller is there is not an argument over who the

9 first sale will be, it's a question of the contingency

10 arrangement vis-a-vis the 10-cent bonus. That is the only

11 dispute.

12 MR. THOMPSON: Well, I think it goes beyond that.

13 I think it goes beyond the price that the State or city

14 might receive. I think Alan can expand on this, but

15 there's a possibility that if the State or city were exempt,

16 for example, they could receive a price that you would

17 then put 10 cents on top of that. We would like to receive

18 that full amount and not be restricted to whatever price,

19 then P.P. Co. would be selling that oil to someone else.

20 It might be an entirely different dollar amount.

21 CHAIRPERSON CORY: If I understand Mr. Watson --

22 Is that the correct name?

23 EXECUTIVE OFFICER NORTHROP: Yes.

24 CHAIRPERSON CORY: -- your position, your client's

25 position is that you have no problem with the State being

1 the first seller, but as I understood what you were saying
2 was that your client was unwilling to assume the risk of
3 government interference with the ability to pay the 10 cents.
4 That if it was okay with the government, the State or
5 Federal, to pay the 10 cents, you would assume all other
6 risk about the payment of the 10-cent bonus.
7 MR. THOMPSON: Or an amount over which you had
8 paid the 10 cents above.
9 CHAIRPERSON CORY: That's not what he said.
10 MR. WATSON: Well, when I received Mr. Hager's
11 proposal and called him back, at the time I thought we were
12 just talking about some language that has little conceptual
13 difference. I think there is a conceptual difference and
14 it might be focused on the words that you used about the
15 ability to pay. What we quite frankly are concerned about
16 is that we will have regulatory capacity to pay, but will
17 not have the regulatory capacity to collect. So the
18 proposal we would ask the Commission to consider is that
19 the regulatory ceiling on the bonus that we have proposed
20 be triggered by our capacity to collect it rather than our
21 capacity to pay it.
22 The fact that's been alluded to already is one
23 of our concerns; and that is that for one reason or another
24 a new regulatory scheme might be proposed before the
25 termination of the contracts which exempts the State of

1 California and the City of Long Beach from all regulatory
2 controls and yet places controls on P.P. Co. which would
3 prohibit it from collecting the premium that we are
4 proposing to pass on to the city and State.
5 MR. THOMPSON: For example, it might be possible
6 to still produce upper and lower tier oil as far as the
7 category is concerned by the regulatory agency of the
8 government, but that portion that was owned by a city or a
9 state might be able to be sold at pre-market price. So we
10 would look to receive pre-market price for the oil, but
11 under a regulatory capacity, as far as refiners are
12 concerned, it might still be upper or lower tier oil.
13 Do you agree with that possibility, Alan?
14 MR. HAGER: It's a possibility. It doesn't exist
15 under current regulations.
16 MR. THOMPSON: It doesn't exist under current
17 regulations.
18 MR. HAGER: Hopefully, it will never exist.
19 MR. WATSON: I think Alan and I are in agreement.
20 He probably knows a great deal more about these regulations
21 than I do, but our best opinion right now I believe is the
22 difference in language we're talking about would have no
23 impact under current regulations. We would be allowed to
24 pass on any price that we were required to pay. However,
25 I still think that there is the possibility that if pricing

1 regulations for oil were removed and imposed hastily two
2 years from now, that there could be a period of substantial
3 or insubstantial duration where there might have been what
4 I would assume would be a mistake because I think the
5 pattern of regulation to date in this area has been to
6 allow people to pass on all the costs that have been
7 incurred. However, I think we can find instances where
8 regulations, particularly those established in great haste,
9 have some mistakes in them. Unfortunately, sometimes those
10 mistakes are not corrected retroactively.
11 CHAIRPERSON CORY: Do you have any comments on
12 the other items, the other three areas?
13 MR. WATSON: Yes, sir, I do.
14 If I might go completely off the subject, we
15 found one typographical error in a document that's been
16 submitted to the Commission. It is the Assignment from
17 Century to P.P. Co. On page 4 of that Assignment, in the
18 third line, there's a reference to PLC which we unfortunate-
19 ly missed changing when we were restructuring these documents,
20 and it should be a reference to P.P. Co. The third line
21 from the top.
22 From the direction we've taken so far, perhaps
23 we can skip something I had outlined in my presentation;
24 and that is, if there are questions about Petro-Lewis
25 Corporation or P.P. Co. or the economic arrangements which

1 I think we've discussed to some extent last time,
2 Mr. Blancett is here again and both he and I would be
3 available to answer any of those questions. If those items
4 are not of interest, we can skip that and I can go directly
5 to discussing the staff proposal and our responses.
6 MS. SMITH: I have a question regarding the
7 nature of the guarantees that Petro-Lewis is providing.
8 Is it Petro-Lewis' guarantee of P.P. Co.'s
9 application based on Century's guarantee to the Petro-Lewis
10 that they would back them up?
11 MR. WATSON: No, ma'am, I don't believe so. As
12 I recall, there's no condition in it that mentions Century.
13 Our idea in putting it forward is that P.P. Co. does not
14 have substantial credit or it is what we call a mere
15 nominee. It has no economic substance other than holding
16 title as a convenience with dealing with the public records.
17 The reason we put forward the guarantee of
18 Petro-Lewis Corporation is that is the economic entity we
19 are proposing to the company as sufficient to give
20 assurance to the State that they are dealing with a
21 substantial company who will be able to meet the bills and
22 make the payments.
23 MS. SMITH: So what you're saying is that
24 Century has not in fact guaranteed any obligations that
25 Petro-Lewis would incur in guaranteeing P.P. Co.'s

1 obligations?

2 MR. WATSON: We have no document with Century,
3 no agreement with them that they will guarantee us. I
4 understand that there has been a position taken that,
5 absent contrary statement, any person in the chain of
6 title to the interest is responsible for all of the
7 obligations. I believe that is a portion of the reason
8 for some discussion about whether or not Arco would be
9 released as a prior owner of the interest. But Century
10 has not given us a document we would characterize as
11 guarantee nor, so far as I know, have they made an
12 agreement.

13 Their contract to purchase the crude from us
14 has some of those elements in the sense that their
15 agreement to purchase the crude is our protection that
16 we will be able to market it. As I mentioned before, we
17 are putting forward our credit independently of that
18 contract. That if for any reason we cannot obtain their
19 full and complete performance under that contract, we would
20 still be liable under the basic operating contracts,
21 under our specific conditions of consent and any other
22 obligations that are owed by a party owning these interests
23 to the State.

24 But as far as a guarantee agreement comparable to
25 that that the PLC has delivered to the State and city, we

1 have none.

2 MS. SMITH: Just one further question with

3 regards to the guarantee. I understand that MacMillan

4 Ring Free has agreed to step in P.P. Co.'s place and take

5 the oil should they default; is that correct?

6 MR. WATSON: I don't believe they've agreed to

7 step in P.P. Co.'s place. I have been told that MacMillan

8 Ring Free has represented that they are willing to take

9 over Century's place as a purchaser of the crude from

10 P.P. Co. There is a representative of MacMillan present

11 today. Perhaps he could elaborate on that.

12 MS. SMITH: Is this an enforceable guarantee,

13 would you say, --

14 MR. WATSON: I believe so.

15 MS. SMITH: -- that would protect the State's

16 interest?

17 MR. WATSON: I believe so. But I would hate to

18 step on the toes of counsel for the State by giving an

19 opinion.

20 MS. SMITH: Counsel for the State.

21 MR. HAGER: On the point of the guarantee, are

22 you talking about MacMillan?

23 MS. SMITH: Yes.

24 MR. HAGER: I have not seen anything in writing

25 from MacMillan. The last I saw was a letter that we had

1 in the last meeting which said that they would be prepared
2 to enter into an agreement to take the oil, and that is not
3 an enforceable guarantee.
4 MR. HIGHT: Mr. Chairman.
5 CHAIRPERSON CORY: I think we're getting into
6 minutiae, that if we don't deal with the fundamental
7 concepts, there's no sense in dealing with the minutiae.
8 I mean, either we're going to go with a Letter of Credit
9 and a performance bond or we are not. Either you are
10 going to put them up or you're not or we don't need to
11 deal with the mechanical arrangements that go from there.
12 I mean, they're outlined here four substantive areas of
13 difference. As I understand the facts, Petro-Lewis is
14 unwilling to proceed with what the staff wants and we
15 ought to one by one resolve whether or not there is any
16 accommodations that can be made in any of these four
17 areas.
18 If there's some policy decision that we can
19 make, then we can deal with the minutiae. But to argue
20 any of the details of the documentation and all, I think is
21 sort of irrelevant at this point unless we have a meeting
22 of the minds as to the ultimate part of the business
23 bargain. Does that make sense?
24 MS. SMITH: That makes sense.
25 CHAIRPERSON CORY: So we've got the first item

1 which I think we understand. I'd like to hear your side
2 of it in terms of the performance bond, the Letter of
3 Credit, and the default clause. Those are the other three
4 areas. Then I think we ought to sit here and vote up or
5 down with the understanding that if any one of those
6 is lacking and Petro-Lewis doesn't change their position,
7 there's no deal and there's no sense in worrying about the
8 minutiae of how to put it together. So give us your best
9 shot.
10 MR. WATSON: All right, sir.
11 Perhaps there's no need to say it, but since we
12 are disagreeing to some extent with the staff I thought we
13 should eliminate any implication that we are challenging
14 the Commission's authority to place these conditions on the
15 consent. We are not. We would, however, put forward some
16 arguments that the Commission should not.
17 The purpose for Petro-Lewis and P.P. Co.
18 purchasing these properties is as a vehicle of public
19 investment in developed oil and gas properties with the
20 primary concern being a rate of return that is consistent
21 with the goals of those investments. The thing that puts
22 us at a considerable, almost impossibility of agreeing
23 with some of the changes that have been proposed, are the
24 very significant impact they would have on that cash flow
25 and rate of return.

1 It has been alluded to the fact that Petro-Lewis
2 Corporation and P.P. Co. are not vertically integrated
3 major companies, and that is completely correct. We have
4 no opportunity to make our profits at some other stage in
5 the processing or distribution of these products and must
6 look solely to this transaction and the cash flow from the
7 sale of the crude oil and the net operated profits account
8 for the justification for investment.
9 The two mechanical changes that were discussed,
10 the first, and apparently the only one in dispute, being
11 the reduction of the default provision from 20 days to 10
12 days. When this was first brought to our attention, we
13 went and had some conferences with the people at Petro-
14 Lewis who were responsible for this kind of compliance and
15 their first response was to express surprise that it wasn't
16 30 days to start with.
17 I also would point out to the Commission the
18 drastic results that occur if a default is in fact uncured
19 for the period of time involved. We're not talking about
20 a $15 per month penalty on a mortgage payment or some other
21 minor thing. The thing that would happen to P.P. Co. if
22 they should fail to meet a mechanical default requirement
23 would be the absolute termination of their interest. This
24 is an interest for which we are paying over a million
25 dollars, and we would lose it. Ten days in our opinion is

1 merely too short a time to protect that kind of investment.
2 We look at the possibility that with the best
3 efforts, completely good-faith efforts on the part of P.P.
4 Co. and Petro-Lewis, there is a possibility that they would
5 be mechanically unable to correct the default after
6 receiving notice.
7 CHAIRPERSON CORY: I don't understand that.
8 MR. WATSON: Well, if the notice, for instance,
9 arrives at 5:30 on a Friday night, there is the possibility
10 that all the people who can deal with it are gone for the
11 weekend. We then look at possibilities of interruptions of
12 communication, of transportation, and the fact that the
13 curative requirement in fact requires two, three, four, or
14 five days to occur even if you can start it immediately.
15 CHAIRPERSON CORY: I don't understand that.
16 I mean, you either got the money or you don't. It's a
17 cold turkey business world, and what we're talking about
18 is you not paying. If you don't pay us for the oil you've
19 delivered, we want the bread. You got ten days. We've
20 blown two of them. So you've got eight days to come up
21 with the bucks. That seems to be a relatively simple
22 matter. You either have the money or you don't.
23 MR. WATSON: Well, we do have.
24 CHAIRPERSON CORY: Then why your hesitancy?
25 I mean, the fact that you're hesitating, I've got to tell

1 you, is weighing very heavily against you in how I'm going
2 to look at the rest of this. It sounds to me like you're
3 going to be taking us to the wire rather frequently or you
4 consider that a distinct possibility that maximizes the
5 possibility of you losing your million-dollar investment.
6 I understand what you lose, but we're not in the credit
7 business.
8 MR. WATSON: When this document was originally
9 negotiated, apparently, to the extent they were consulted,
10 companies that have been presented to us as paragons of
11 credit and timely payment, insisted upon 20 days. There
12 has been so far no evidence or assertion in specifics that
13 a default is likely by Petro-Lewis or P.P. Co. or, for that
14 matter, that it is even more likely than it was by Arco or
15 Chevron. It is hard for us to argue against the need for
16 the change when no one has yet presented any need for the
17 change to start with. There is sort of an implication that
18 our credit or our business practices are somehow lesser
19 or more devious; and yet we have no specific thing to argue
20 against. You're asking us to cut in half the amount of
21 time we have to preserve a substantial investment. I cannot
22 -- perhaps my understanding of the agreements is deficient
23 in that extent -- but I cannot now assume that the only
24 default that we might be speaking of is merely a failure to
25 deliver funds in a timely manner. It seems to me that we're

1 dealing with extremely complex agreements and that there
2 may be other obligations you have that are not merely the
3 delivery of funds. But it is difficult and troublesome
4 for us to face, without any assertion, the implicit state-
5 ment that Petro-Lewis is not a reliable person to do
6 business with.
7 We asked at the last hearing, we've asked the
8 staff, is there some problem. Do we need to submit more
9 information? Is someone bad-mouthing us? So far, we've
10 heard nothing.
11 You don't put a million dollars on the table to
12 buy something and then play games about how fast you pay
13 your bills. On the other hand, I don't think we can step
14 forward and, merely because it seems to be a nice thing to
15 do, reduce the default period. As I understand, the State
16 drafted these documents to begin with or at least had a
17 substantial say in how they were drafted, found 20 days to
18 be adequate and is now for some reason suggesting that it
19 no longer is.
20 CHAIRPERSON CORY: There were different people
21 sitting on this Commission when that was approved. Let me
22 tell you, if I were sitting here with what I knew today,
23 I would not approve those prior documents. I mean, that's
24 just where I come from. I don't know where the other
25 Commissioners come from, but there are a lot of other

1 provisions we're not dealing with.

2 MS. SMITH: For clarification, the staff's

3 recommendation is that we reduce the period of default from

4 20 to 10 days. For what reasons?

5 MR. THOMPSON: I think basically responding on

6 all these conditions to a concern we felt from the

7 Commission themselves, trying to provide the most

8 security, the most protection to the State.

9 MS. SMITH: So what additional security does

10 that provide in addition to the performance bond and the

11 Letter of Credit?

12 CHAIRPERSON CORY: Well, because you're dealing

13 with a time frame that each day you're delivering more

14 oil, and you have the period of time that that covers, as

15 I understand it, is the amount that's due and payable as of

16 today. But even if they don't pay on that day, they've

17 got another 20 days before you can even start the

18 mechanism in terms of the default. So that your at-risk

19 factor goes up. Even though it's due on that date, they've

20 got 20 days in which to skate.

21 MS. SMITH: Is that a risk that wouldn't be

22 covered by the Letter of Credit or the performance bond?

23 CHAIRPERSON CORY: You can increase the amount

24 to cover it, I guess, but they don't want to do that either.

25 It's a combination of the two. It is sort of copping a

1 slow plea in the trade. The two of them seem to work
2 against you when you take both of them together.
3 MS. SMITH: Okay.
4 CHAIRPERSON CORY: We have your views on 20 and
5 10 days. Go ahead with the other ones.
6 MR. WATSON: As to the notice provision for the
7 State initiating, terminating or changing the percentage
8 of its oil which it has a right to take in kind under the
9 Tract 2 agreement, as was mentioned, we have agreed to waive
10 120 days of that notice period with a resulting notice
11 period of 60 days.
12 In the area of the performance guarantees that
13 have been requested, I think it's already been identified
14 that there's a total of $200 bonding provided under the
15 existing contractor's agreement with the provision that the
16 premium for those bonds up to one percent of the face
17 amount will be allowed as an expense in that operating
18 profits accounting. As has already been mentioned,
19 apparently these have been waived previously for Arco and
20 Chevron without formally amending the agreements. Our
21 understanding of the staff recommendation is that they wish
22 to reinstate those bonds and disallow the premium as an
23 expense under the Net Operating Profits Agreement.
24 Petro-Lewis' position is that we are prepared
25 to comply with the agreement which would have us putting up

1 the bonds and the premium going through the net operating
2 profits account.
3 CHAIRPERSON CORY: What is the cost of the
4 premium in your opinion?
5 MR. WATSON: I don't know, sir.
6 CHAIRPERSON CORY: You'll put up the bond if it
7 goes to the net operating account?
8 MR. WATSON: Yes, sir.
9 MR. THOMPSON: Up to one percent. The annual
10 premium up to one percent.
11 CHAIRPERSON CORY: Can go in if it exceeds --
12 MR. THOMPSON: Under the present language in the
13 contract. For example, if there's a $750,000 bond, if the
14 annual premium were to be $5,000, it would all be charged
15 to that profits account. If that annual premium were
16 $10,000, only $7,500 would be charged.
17 CHAIRPERSON CORY: Okay. We're talking about
18 20 grand maximum, one percent of two million?
19 MR. THOMPSON: Yes.
20 MR. WATSON: Perhaps it would explain our
21 reluctance to agree to this consent --
22 MR. McCAUSLAND: It's not one percent of the
23 two million if the two million is the value of the bond. It's one
24 percent of the net profit.
25 MR. THOMPSON: It's the annual premium. What

he's saying is --

CHAIRPERSON CORY: What's the cap? That's what I'm asking.

MR. McCAUSLAND: One percent of what?

MR. HAGER: The principal amount of the bond.

MR. WATSON: P.P. Co. has projected a cash flow from these properties on an annual basis of approximately 120,000 to $150,000. For us to absorb $20,000 in additional expense outside of the net operating profits account, obviously has a substantial impact on that cash flow as a percentage and, unfortunately for us, appears that it makes it no longer something that is suitable for investment by these public programs.

For the State to save this $20,000, however, it appears to us is to give up the additional income from the premium that has been proposed by us as a condition for the consent. Unfortunately, I cannot give you exact figures. I assume the staff has made some calculation, but I believe this is in the magnitude of $200,000 a year at current rates of production.

Again, although I understand the Commissioner's position about that if the deal were being done today, that it could be changed to improve the position of the State, which I think applies to any document or agreement the State has previously entered into. They still could all

1 be approved. Again, it appears to us this is a position
2 where an independent producer coming forward to try and
3 enter into business with the State is being treated
4 considerably differently than the existing major companies
5 that are already doing business with the State.
6 The Letters of Credit, as we understand it,
7 proposed by the staff, would total initially $1,400,000.
8 Did I have --
9 EXECUTIVE OFFICER NORTHROP: Yes.
10 MR. WATSON: This Letter of Credit requirement
11 is, to the extent I see it, would serve the same purpose,
12 although in a different vehicle as the bonding requirement,
13 and would give a total protection of over, well, initially
14 of $3,400,000 with the possibility that it would grow.
15 I believe this chart indicates, and I believe also Century
16 has submitted to at least staff, their analysis of the
17 cash flow which demonstrates that this bonding and Letter
18 of Credit requirement is far in excess of at least the
19 cash that is due to the State or the operator at any given
20 time.
21 We've been advised by our bankers, and so far
22 we have not received a detailed or specific quote, that the
23 premium on this magnitude of a Letter of Credit would again
24 approximate ten percent of the cash flow that is available
25 to P.P. Co. as a result of owning this property. We're

1 then looking at the possibility of these additional
2 conditions being proposed by the staff and beyond the
3 existing agreement, would eliminate perhaps as much as 20
4 percent of the entire net return to P.P. Co. as a
5 prospective contract operator.
6 Additionally, although it is not susceptible to
7 having an exact dollar figure placed upon it, by the nature
8 of the standby Letter of Credit, this would also eliminate
9 $1,400,000 of Petro-Lewis Corporation's total potential
10 borrowing, their borrowings currently and projected.
11 CHAIRPERSON CORY: You've got a corresponding
12 asset coming in.
13 MR. WATSON: Yes, sir, we do, but unfortunately
14 it is not suitable for being offered as collateral for a
15 production loan because it is terminable on bankruptcy.
16 I have already spoken to some extent about the
17 language that is being proposed or discussed about the
18 regulatory limit being placed on the 10-cent per barrel
19 premium. I understand the Commission is well aware of the
20 occasional impact of price controls on the sale of crude
21 oil. I will not go back too much further into that except
22 that we are willing to accept the risk that we cannot pass
23 on that premium because we are prohibited from doing so by
24 regulation.
25 As I said at the beginning, we think there are

1 some policy reasons for the Commission approving the
2 assignment with the conditions that Petro-Lewis had agreed
3 to. There obviously are benefits to the State of dealing
4 with a major integrated oil company. Petro-Lewis
5 Corporation cannot duplicate all those benefits. The very
6 fact of vertical integration sometimes makes it suspect,
7 also perhaps gives it economic benefits. We would request
8 that the Commission consider the competitive impact of
9 insisting that it only do business with vertically
10 integrated major oil companies. It seems to us, without
11 any historical background, that looking at the structure
12 of the original Tract 1 sale where it was offered in 80
13 percent, 10 percent, 5 percent, two and a half percent,
14 one and a half percent, and one percent pieces, indicates
15 that at least that time the city and State were attempting
16 to make this investment opportunity, this opportunity to
17 do business with the State, available to other than the
18 most substantial oil companies.
19 After free competitive bidding, it appears that
20 only the most substantial oil companies became involved.
21 However, I think that it perhaps is relevant to the
22 Commission to consider that intent when the thing was
23 originally offered.
24 It seems that the State has an interest in the
25 competitive oil and gas industry, specifically in the

1 operation of the unit. In this case, allowing a non-
2 integrated company to become involved in the operation of
3 the unit and the disposition of the crude oil, offers an
4 opportunity not only for that company itself to compete
5 but also offers an opportunity to make crude oil available
6 for small refiners to also compete in the business of
7 refining that oil and making the products available to the
8 public. Additionally, I believe the staff has given some
9 consideration to, and I would request the Commission also
10 to consider, that the entry of P.P. Co. into this situation
11 and possibly the very agreement we've made concerning the
12 premium, is a new factor in the marketing and pricing of the
13 unit crude itself.
14 I do not see how the State can encourage and
15 promote a competitive oil and gas industry by placing
16 greater restrictions and costs upon the independents seeking
17 to do business with the State than it places upon the major
18 integrated companies competing for that business. Petro-
19 Lewis Corporation, therefore, requests that the Commission
20 approve the transfer and it be conditioned only upon a 10-
21 cent per barrel premium if P.P. Co. can collect that
22 premium in its sales and reduction of the State's notice
23 period to the taking of oil from Tract 2 to a 60-day notice
24 requirement.
25 Thank you.

1 CHAIRPERSON CORY: That's your request. Are any
2 of the items under consideration negotiable or not?
3 MR. WATSON: Sir?
4 CHAIRPERSON CORY: I asked a question of you.
5 I guess you were reading a statement or made a plea with a
6 request. The question in my mind is, there are four items
7 of concern that the staff had. I'm wanting to know if you
8 wish to negotiate on those four items or be voted up or
9 down if your position is take it or leave it, accept our
10 request as it is or pass.
11 MR. WATSON: May I confer, sir?
12 CHAIRPERSON CORY: Yes. That's an understandable
13 position for you to be in. I just want to know if that's
14 where we are so you've got your best shot.
15 (Thereupon a brief recess was taken.)
16 CHAIRPERSON CORY: Go ahead.
17 MR. WATSON: I believe, sir, we'd like you to
18 vote us up or down on the proposal we've presented.
19 CHAIRPERSON CORY: Pardon me?
20 MR. WATSON: We would like you to vote us up or
21 down on the proposal we've presented.
22 Could I request that the other people present
23 be allowed to present their positions?
24 CHAIRPERSON CORY: Yes. I was just going to ask
25 to hear from any other people who want to be heard.

1 Yes.

2 MR. HODGES: My name is Everett L. Hodges. I'm
3 President of Century Oil Corporation which is one of the
4 parties that is to receive, if this transaction is
5 completed, 2,000 barrels a day of the crude oil from the
6 Wilmington tract.

7 I have closely followed the Arco interest in
8 disposing of this property since the day it was proposed
9 to Century Oil Corporation by Arco one year ago that we
10 consider purchasing the interest from Arco. After
11 conferring with the staff and the City of Long Beach, we
12 determined that the $5 million net worth of Century Oil
13 Corporation would not be adequate to satisfy the State's
14 requirements from the standpoint of the purchase agreements.
15 Thus, we turned the matter over to Century Resources
16 Development which is headed by my brother, Morris Hodges,
17 and he, over a period of time, developed the interest by
18 Petro-Lewis Corporation of acquiring this interest.

19 I followed it closely because we're very much
20 interested in access to a portion of this crude and have
21 also conferred with the refiners that would be taking the
22 remainder of the crude.

23 I have a letter that I'd like to read into the
24 record from the California Independent Producers
25 Association, an association of some 700 members which was

1 submitted at the last staff meeting but not read there to
2 show you their position they're taking. This letter is
3 dated September 22, and it's addressed to Ken Cory,
4 Chairman, State Lands Commission, Re Assignment by
5 Atlantic-Richfield Company of Interest in Tract 1 and Tract
6 2, Long Beach Unit.
7 "Dear Mr. Cory:
8 "The California Independent Producers
9 Association has been advised that the State
10 Lands Commission will consider on September
11 27, 1978, the assignment by Atlantic-Richfield
12 Company of its interest in Tract 1 and Tract 2,
13 Long Beach Unit, to Century Resources Development,
14 Inc., and the assignment by Century Resources
15 Development, Inc., to Partnership Properties
16 Co., an affiliate of Petro-Lewis Corporation.
17 We have been further advised that Partnership
18 Properties Co., has agreed to sell Century
19 Resources Development, Inc., ..." crude from said
20 tracts.
21 "Century Resources Development, Inc. will
22 be selling" said "production to independent
23 refiners in the Los Angeles Basin, including
24 MacMillan Ring Free Company, Inc., and DeMenno
25 Resources.

"Century Resources Development, Inc., has informed us that it intends to exchange some of the lower tier crude oil attributable to these interests with independent oil producers in the San Joaquin Valley" area "for use in steam generators in the field. This procedure enables those producers to lower substantially their cost for fuel consumed in secondary recovery operations."

There's approximately 15 different independent producers receiving the benefits of this exchange of lower tier entitlements.

"The California Independent Producers Association supports the proposed assignment of the interest of Atlantic-Richfield Company in Tract 1 and Tract 2. It promises to be of substantial benefit both to independent refiners and producers in California. We therefore urge your support and approval of the proposed assignments and request the State Lands Commission...give its consent.

"Very truly yours,

"Dr. Morris F. Frankel, President, California Independent Producers Association."

The last four days I have seen the problems

1 as they have evolved between recommendations of the staff
2 and Petro-Lewis' position. From what I heard, Petro-Lewis
3 is making an investment of public funds for some kind of
4 return on the investment, and by the time they pay a
5 million plus to Arco, they're also putting $500,000 up in
6 inventory which nobody's ever bothered to mention which is
7 in the unit, I understand, which is locked up in advance
8 cash in the unit. They're also advancing approximately
9 $500,000 per month against deliveries of crude. They're
10 approaching a two million dollar investment in this
11 matter, and by the time you look at the return of 120,000,
12 you can readily see if that kind of money is involved in
13 it, you're talking about a five, six percent return.
14 Compounded with a cost of a bond of two million dollars
15 which I understand they're proposing to indemnify the
16 State against any loss, regardless of what kind of loss.
17 It might take a period of time to collect it,
18 but the two million indemnifies against noncollection of
19 money for any purpose. They're willing to put that up.
20 They're asking that the premiums of $20,000,
21 maximum of $20,000, would be paid out of the unit cost.
22 But when you take a look at 15 cents per barrel or $120,000
23 per year, I don't see where there should be a big problem.
24 The major problem --
25 CHAIRPERSON CORY: What's 15 cents a barrel?

1 MR. HODGES: Pardon me. Fifteen thousand dollars
2 per month or approximately $120,000 a year in revenues to
3 the State against a premium of 20,000.
4 The major problem, as I understand it in
5 talking to both Bill and Moose Thompson, are the Letter
6 of Credit of $1,400,000. As they point out, it's an
7 horrendous undertaking, a lot of money must be guaranteeing
8 it and that cash flow costs them money and pretty soon the
9 economics of the deal just fail by its own weight.
10 I submitted a proposal to Petro-Lewis this
11 morning and I've talked to the two refiners involved, and
12 I want to submit the following for consideration of the
13 staff which I think would eliminate the 20-day notice
14 problem because it would be solved by virtue of the follow-
15 ing proposal. As you're aware, CRD is selling, and we've
16 got the contracts to both DeMenno Resources, MacMillan
17 Ring Free and Century Resources Development and Century
18 Oil Management.
19 I would propose the following, and I've conferred
20 with Petro-Lewis and they would be agreeable to this so
21 they could eliminate the bond and show you that you've got
22 in essence better than the Letter of Credit aspects of the
23 deal by having cash that you could call on in escrow.
24 The four buyers of all of this crude -- you're
25 not looking at one guy that can take you down the tubes if

1 Petro-Lewis can't carry out their obligations. There will
2 be four purchasers of this crude that will sign an
3 agreement that all the monies paid prior to it going to
4 Petro-Lewis will go into a trust or an escrow account.
5 That trust agent will have authority to forward the money
6 to Petro-Lewis providing no default has been filed by the
7 State of California. If the State of California files a
8 default, then the monies are in the escrow account for the
9 account of the State of California. So that you have the
10 monies coming in several times per month into that account,
11 with a control and agreement between all the parties that
12 the cash received by Petro-Lewis Corporation goes to an
13 escrow and, as long as there's no default, the State
14 doesn't file any complaint, and the escrow agent simply
15 forwards it to Petro-Lewis. If the State elects to file
16 a Notice of Default and does so, the escrow agent holds the
17 money for the account of the State of California.
18 CHAIRPERSON CORY: Are those four companies paying
19 in advance?
20 MR. HODGES: They're paying anywhere from 10 days
21 of delivery, but we must have a certification of the
22 delivery of the crude from the State of California before
23 we can pay it. If we don't get the bill from you, we can't
24 pay you. But we pay within 10 days of billing, 15 days of
25 billing.

1 CHAIRPERSON CORY: But if it's paid after the
2 fact, the account could still end up short.
3 MR. HODGES: You're receiving $500,000 from
4 Petro-Lewis Corporation on crude oil and, in addition to
5 the amount of money that we're paying, there is at the
6 essence at the end of each month a $500,000 slush over
7 is what it amounts to. We're paying for 100 percent of
8 this crude, paying the full amount in value to Petro-Lewis,
9 but they're also advancing $500,000 in advance calls.
10 You call the 1st and the 15th and collect $500,000. So
11 you have that besides the money that's in the escrow
12 account which is paid monthly.
13 Now, in addition to that, I don't think there's
14 any problems with the producers themselves assigning
15 Letters of Credit to guarantee their payment to Petro-
16 Lewis to this account. That amounts to right now
17 approximately $750,000.
18 So between assignment of letter, Letters of
19 Credit of seven fifty, all the money to the cash flow into
20 the escrow account and the $500,000 that Petro-Lewis
21 Corporation is advancing, I don't see where the State has
22 any exposure at all. In addition to that, the State has
23 a two million dollar bond guaranteeing them against any
24 loss and, in addition to that Petro-Lewis has another
25 $500,000 in inventory out in those leases.

1 The standard procedure for payment in the
2 industry is, you pay the 25th following the month of
3 delivery of the crude. It takes that long to get the
4 certification and get the bill to you. This is majors as
5 well as independents. There's 55 days from the day one
6 before it's paid. Thus, I think your exposure would be down
7 to nil. In addition to that, you'd have two million
8 dollars worth of bond backup.
9 MR. THOMPSON: Let's see if I follow what he's
10 saying here.
11 CHAIRPERSON CORY: Well, Moose, I'm not so sure
12 that it's relative because the principal has said they
13 either want their deal or nothing. If that's their
14 position, I hear what Red's saying, but they've taken a
15 position --
16 MR. McCAUSLAND: I would like to say that I was
17 willing to discuss some accommodations on the proposal that
18 was put forth this morning. I could not vote for it in the
19 form that it was presented, but I was willing to discuss
20 modifications that would allow us to allow the more
21 independent segment of the industry to participate in this
22 tract. But on a yes-or-no vote, it becomes a pretty simple
23 decision.
24 MR. HODGES: Well, I discussed with Petro-Lewis,
25 Mr. Blancett, this morning his consent in the event -- the

1 major thing seems to be a $4,100,000, a Letter of Credit,
2 called on by Petro-Lewis Corporation. Because, as pointed
3 out, there is a period of time where the State has its
4 tail hanging out. If the buyers of the crude put bonds
5 and cash into that account which is on call to the State
6 immediately, you're talking about cash every month on a
7 minute's notice.
8 CHAIRPERSON CORY: But it's not up in advance.
9 It's up after the fact which is a distinct difference.
10 MR. HODGES: The Letters of Credit are up in
11 advance. There's $750,000 of Letters of Credit now.
12 There's a $500,000 call by Petro-Lewis which is a
13 $1,250,000. I'm talking about Letters of Credit by the
14 refiners and producers that agree to guarantee CRD and
15 Petro-Lewis that they're going to get their money. These
16 Letters of Credit go to this escrow. They're seven fifty
17 now, and we haven't called on Letters of Credit from
18 another thousand barrels of this crude. So if Petro-Lewis
19 has 500,000 cash calls, and they're paying --
20 CHAIRPERSON CORY: Petro-Lewis is saying: We
21 either want the deal the way we want it -- they're not
22 willing to accept any amendments.
23 MR. HODGES: Well, that's not --
24 CHAIRPERSON CORY: That's what they said. They
25 were here, Red. That's what they said. They're still

1 sitting here. They haven't jumped up and made any changes.
2 So I don't think we've got anything to talk about unless
3 they want to talk.
4 MS. KNIGHT: Mr. Cory, my name is Nancy Knight.
5 I represent Century.
6 Petro-Lewis has said that they are not willing --
7 CHAIRPERSON CORY: Wait. We're dealing with
8 Petro-Lewis.
9 MS. KNIGHT: Yes, sir.
10 CHAIRPERSON CORY: And we have to enter into a
11 contract with the principal. They're here in the room.
12 MS. KNIGHT: Yes, sir.
13 CHAIRPERSON CORY: If they aren't willing to
14 come forward, I don't think we have much to talk about.
15 I understand their problem --
16 MS. KNIGHT: May I ask you, sir, if Petro-Lewis
17 is unwilling to put up the Letter of Credit but that the
18 succeeding buyers are willing to assign their Letter of
19 Credit, would that satisfy the staff, Letters of Credit
20 that are going to be required of the refiners who are
21 purchasing and other parties who are purchasing would
22 assign for the benefit of the State?
23 CHAIRPERSON CORY: You see, once we enter into
24 that, it seems to me that it creates a hiatus that if you
25 withdraw as a purchaser, then your Letter of Credit would

1 be withdrawn and we'd be on the hook with Petro-Lewis in
2 the deal without our protection. That's why Petro-Lewis
3 has to be a party to what's going on. If they don't wish
4 to be, they don't wish to be. I understand where you're
5 coming from, but I think we probably ought to hear from
6 the other people and you guys conclude with your basic
7 argument. I hear what you're saying, but the ball seems to
8 be in Petro-Lewis' court. But we're willing to listen to
9 other folks.
10 I believe Arco --
11 MR. PENDERGRAFT: Members of the Commission, my
12 name is Jeff Pendergraft. I'm an attorney representing
13 Atlantic-Richfield. While we're waiting for Petro-Lewis
14 here, I think I'll just take a few minutes to explain our
15 views, our position, what we're asking for and why we think
16 the State ought to approve it. I'll try to be brief.
17 Atlantic-Richfield is seeking the State's
18 approval for two transactions today. Although those
19 transactions are related, they are not necessarily
20 interdependent and it would be beneficial to us if only the
21 first transaction were approved, although our preference,
22 obviously, would be to have both transactions approved.
23 The first thing we're asking for approval for is
24 for a cross assignment of interest between Chevron and
25 Atlantic-Richfield. This cross assignment affects Tract 1

1 only. Atlantic-Richfield and Chevron jointly acquired
2 an interest in Tract 1. Well, actually, acquired four
3 interests in Tract 1 totaling ten percent of the contractor's
4 interest. As I said, those were acquired jointly and what
5 we're seeking to do is partition them so that Chevron will
6 become the sole owner of the five percent interest and
7 Atlantic-Richfield Company will become the sole owner of
8 the three interests of two and a half percent, one and a
9 half percent, and one percent, which total five percent.
10 CHAIRPERSON CORY: Why should we do that?
11 MR. PENDERGRAFT: There's basically two reasons
12 why we're asking for this.
13 CHAIRPERSON CORY: I understand, and I don't
14 care why you're asking. Why should we do it? I don't
15 see what's in it for the State. Right now we have two
16 great oligopolistic powers here and we can go after either
17 one of you for your money. Why should we let either one
18 of you off the hook and let you partition?
19 MR. PENDERGRAFT: You're not letting either one
20 of us off the hook at all, Mr. Cory.
21 CHAIRPERSON CORY: If it's separated and Arco
22 goes belly because they discover there's really not any oil
23 in the North Slope or something, we eat the five percent.
24 MR. PENDERGRAFT: I don't believe so. Under the
25 existing arrangement, Atlantic-Richfield and Chevron are

1 jointly and severally responsible for a total of ten
2 percent. Once these assignments are made and they're
3 being sought without requesting a release from the State,
4 Atlantic-Richfield and Chevron will be primarily
5 responsible for individual five percents, but still --
6 CHAIRPERSON CORY: You're remaining on the hook.
7 MR. PENDERGRAFT: -- remaining on the hook for
8 those shares. Okay?
9 CHAIRPERSON CORY: That is the documentation?
10 I might ask the staff because I was led to believe that we
11 just have one on five percent and one on the other five
12 percent.
13 MR. PENDERGRAFT: That's not how I understand the
14 law of assignments, but you're entitled to advice from
15 your counsel.
16 I think the assignor absent or released remains
17 responsible. That's why we're specifically requesting a
18 release from the Century transaction.
19 CHAIRPERSON CORY: Okay. We get your point.
20 Go ahead with --
21 MR. PENDERGRAFT: All I was going to say --
22 CHAIRPERSON CORY: That becomes a much easier
23 problem for you.
24 MR. PENDERGRAFT: There's two reasons we're --
25 CHAIRPERSON CORY: Because we love you both.

1 MR. PENDERGRAFT: I'm glad to hear that. Is that
2 on the record?
3 (Laughter.)
4 MR. PENDERGRAFT: There are two reasons we're
5 asking --
6 CHAIRPERSON CORY: Pardon me. He said it
7 smilingly.
8 (Laughter.)
9 MR. PENDERGRAFT: The reasons for that, just
10 quickly, one reason and the primary reason, that will
11 facilitate a transfer to the third parties. The other
12 reason that we prefer to have this thing approved anyway
13 is it simplifies considerably the accounting. The
14 accounting doesn't have to be double accounted, once to
15 the joint interest and then to the individual parties.
16 As I have indicated, I don't think there's any
17 impact to the State from approving that transaction.
18 Although there's no great benefit, there's no detriment and
19 we would request that it be approved. Without a detriment,
20 we think that the State cannot unreasonably withhold
21 approval.
22 Let me go on now to the second transaction that
23 we're requesting the State's approval for; and that is the
24 transaction between Atlantic-Richfield and Century whereby
25 we would take this interest that's just been partitioned

1 with Chevron and transfer it to Century. We are asking
2 in that case that we obtain a release because once that
3 transaction is made, we will not have any remaining
4 interest in the production from the unit as to Tract 1
5 and 2. Without the benefits that go along with being a
6 contracting party, we don't think we ought to be
7 responsible for the obligations.
8 I think there are some reasons why the State
9 ought to approve that transaction.
10 CHAIRPERSON CORY: Betty.
11 MS. SMITH: Will Standard remain liable?
12 MR. PENDERGRAFT: Excuse me?
13 MS. SMITH: Will Standard remain liable even
14 though you're requesting a release? Will they continue
15 to guarantee the obligations of the assignee?
16 MR. PENDERGRAFT: I have an opinion on that.
17 I suppose I'd prefer that you ask your counsel, but my
18 view is that absent Chevron being released, they continue
19 to be responsible.
20 CHAIRPERSON CORY: You may have just solved their
21 problem.
22 EXECUTIVE OFFICER NORTHROP: I must say for the
23 record, Mr. Taafe from Chevron asked if he should be here
24 today, and I told him I didn't think it would be necessary.
25 (Laughter.)

1 CHAIRPERSON CORY: That's why he should ask his
2 own lawyers, and a real lawyer.
3 MR. McCAUSLAND: He may know something you
4 didn't know.
5 CHAIRPERSON CORY: Alan, do you want to comment
6 on that? That's a relatively --
7 MR. HAGER: I hate to rely on it. I can see
8 the argument, but after we specifically released Arco,
9 and that we accept performance from Arco's assignee, that
10 we have not at least impliedly released Chevron.
11 CHAIRPERSON CORY: What if we write them a
12 letter and put them on notice? Say, it's on the condition
13 of that understanding and that's their understanding of
14 the law, and that's all we've done. I don't see being
15 sneaky about it. We're here at a public meeting. If we
16 put them on notice that it's approved and if at that point
17 then there's some question about what the legal nuances
18 of that is, then I would suggest that Petro-Lewis, Arco,
19 Standard, the State, can all go up before a judge and find
20 out what it meant. If the judge came to the conclusion
21 that Standard is off the hook, then we by our very act
22 didn't do it. Put everybody on notice right up front.
23 MR. HAGER: Standard --
24 MS. SMITH: They need to be here.
25 MR. HAGER: We really need to get their response.

1 I just think the fact that you can impliedly release
2 someone --
3 CHAIRPERSON CORY: Explicitly state that we're
4 not.
5 MR. HAGER: If you explicitly state it --
6 CHAIRPERSON CORY: And put them on notice that
7 we're not releasing them. Then they seem to be a real
8 party in interest to the transaction at that point. I
9 don't know.
10 MR. HAGER: I still have a problem that in a
11 sense by this transaction Arco is committing Chevron to
12 something that they don't know about and they're not aware
13 of it.
14 CHAIRPERSON CORY: Except we are not releasing
15 Arco unless that is a final outcome --
16 MR. PENDERGRAFT: I don't want to be in a position
17 of committing Chevron to anything.
18 CHAIRPERSON CORY: I understand that. But I'm
19 just saying that if we gave conditional approval and we did
20 it in the proper sequence, anything that we did for you
21 would not have been done if, in fact, it turned out we
22 didn't have a responsible financial party on the hook.
23 That's an intriguing position. I don't know where it
24 settles out. It might get us 70 percent of the loaf. Go
25 ahead with your position and we'll let our lawyers

1 contemplate what that means.

2 MR. PENDERGRAFT: I've given you my opinion and

3 really I think you need to decide that for yourself.

4 Just briefly, I think there are two compelling

5 reasons why the State ought to approve this transaction

6 separate and apart from whatever conditions the staff

7 may have suggested. I realize there are benefits from

8 those conditions, but it seems to me that even without

9 those benefits it ought to be approved. The first reason

10 is economic. Because Century is in a different position

11 in the marketplace than Atlantic-Richfield, they're in a

12 position to Petro-Lewis to offer an additional 10 cents

13 a barrel and the State will derive benefit from that not

14 only directly but through the contract provision.

15 The only contingency when that would not occur

16 is if there's a change in federal regulation which

17 prohibits Petro-Lewis from collecting what they've agreed

18 to pay the State. I frankly don't see that change as a

19 likely possibility. I think there are benefits here now

20 under the existing regulations that the State would be

21 denying themselves if they don't approve this transaction.

22 The second reason is basically a policy reason.

23 The Long Beach Unit, as I'm sure you know, was a creation

24 of the State Legislature. It was structured to maximize

25 participation. There were several interests created in

1 Tract 1, six. There are sell-off provisions in the various
2 agreements which are intended to maximize participation
3 from various individuals and an assignment to Century is
4 totally consistent with that basic policy concept.
5 CHAIRPERSON CORY: What are the percentage units
6 in that tract? What is it?
7 MR. PENDERGRAFT: In Tract 1?
8 MR. THOMPSON: Tract 1, 80 percent, 10 percent,
9 5 percent, two and a half percent, one and a half and one.
10 The 80 percent was the field contractor's portion.
11 CHAIRPERSON CORY: And Standard and Arco entered
12 into a joint venture on bidding in that?
13 MR. PENDERGRAFT: Yes.
14 CHAIRPERSON CORY: And did you bid on all
15 increments of that?
16 MR. PENDERGRAFT: Yes, Mr. Cory. We lost the
17 first 80 percent interest by something less than a tenth of
18 a percent if my history is correct.
19 CHAIRPERSON CORY: And you had the financial
20 capacity to handle the 80 percent had you been the
21 successful bidder?
22 MR. PENDERGRAFT: Presumably at that time, right.
23 CHAIRPERSON CORY: Why did you remain joint
24 venturees in the lesser percentages since you had the
25 financial capacity to handle 40 percent -- I assume it's

1 an equal share -- you had the financial capacity to handle
2 a 40 percent interest since you bid on 80. Why did you
3 have a partner on a ten percent and a five percent bid and
4 a two and a half and a one and a half and one?
5 MR. PENDERGRAFT: I think that's really the nature
6 of the bidding process. The contract with Standard to
7 jointly bid, -- it was Richfield and Standard at that time
8 -- was entered into obviously before the bidding took place.
9 Not knowing whether we'd be successful or not, it was
10 what's commonly called a joint bidding arrangement and the
11 obligation was to bid jointly on all opportunities.
12 CHAIRPERSON CORY: Are those written agreements
13 or not?
14 MR. PENDERGRAFT: Yes, sir.
15 CHAIRPERSON CORY: And are they entered into --
16 I'm just curious how we find ourselves in this position is
17 what I'm getting at.
18 You enter into a contract before you decided
19 what you were going to bid or would you start negotiating
20 and then enter into the contract after you arrived at the
21 bid arrangement?
22 MR. PENDERGRAFT: I'm really not sure. My guess
23 is that the contract is entered into first because you're
24 obviously not going to want to discuss potential bids with
25 somebody who may turn out not to be your partner in a

1 business proceeding.

2 CHAIRPERSON CORY: Okay. Any questions?

3 MS. SMITH: I have one question for Alan.

4 It's been rumored that we don't really have

5 Arco on the hook, that if they fail to make profits for a

6 12-month period, that they can terminate the contract; is

7 that correct?

8 MR. HAGER: No, that doesn't occur until after

9 the final area assignment, the equity from it is finalized.

10 That won't be until 1990.

11 EXECUTIVE OFFICER NORTHROP: That's the maximum

12 time.

13 MR. HAGER: Then after that time, if there are

14 no net profits for a period of, I think, one year, then

15 the contractor can terminate. But the contractor has no

16 right to terminate under those circumstances until the

17 final area assignments have been established. That won't

18 happen until 1990.

19 MR. HODGES: Ken, I've been over here wheeling

20 and dealing over the last few minutes to try to salvage

21 this deal. Let me tell you what we've come up with and

22 then ask some comment from Bill Northrop.

23 As discussed at the last meeting here in

24 September, we're supposed to have this deal cinched up,

25 closed or in escrow October the 15th. We've got a short

1 fuse in that period of time. The Chevron-Arco matter
2 must be resolved by the 15th. That's if this Commission
3 consents to the assignment of Chevron over to the Arco
4 interest, that can get involved. As far as the costs
5 involved in this thing, it's not a matter of a great deal
6 of money. But if that is done, I am proposing the
7 following: That we set this meeting over until the 26th
8 at which time we will have a million dollars in Letters of
9 Credit deposited to the escrow and an escrow procedure by
10 which the State of California, with all parties agreeing
11 to it, will have call on funds that are flowing through
12 to Petro-Lewis from the buyers of the crude.
13 In addition to that, concurrent with this, it's
14 understood that if the sales take place to Petro-Lewis,
15 in addition to that you have their $500,000 of advances
16 which I think at that point in time --
17 CHAIRPERSON CORY: What is the $500,000?
18 MR. PENDERGRAFT: Well, the State of California
19 and the city call on $250,000 the first and 250,000 on the
20 15th, and it can be that they never receive one barrel of
21 crude. According to John Parkin, this crude can be shipped
22 in fifty or twenty thousand barrel slugs, but it doesn't
23 go on a continuous flow. You could get it the 20th, the
24 whole thing. By then you've already collected 500,000
25 out in front. So if you've got a half a million dollars

in advance --

CHAIRPERSON CORY: Who can determine when the shipment is made?

EXECUTIVE OFFICER NORTHROP: The contractor --

MR. THOMPSON: It can be arranged within a certain amount of flexibility.

CHAIRPERSON CORY: But I mean, what we're really struggling for is a mechanism to keep the State whole if the worst happens. If Petro-Lewis gets the assignment, do they schedule the shipment or does the State schedule the shipment or does the operating contractor schedule the shipment?

MR. THOMPSON: It's kind of a mutual deal to work out. In other words, everybody can't take their oil exactly when they want it because we've got oil coming out 75,000 barrels a day and it's got to go. In other words, everybody can't stand back and say I want mine on the 22nd day of the month. You're involved here with about 5500 barrels a day. It would be possible to arrange this in certain ways. Again, depending on the pipeline connections and everything like that. This has to be scheduled.

CHAIRPERSON CORY: But if we had it so all deliveries were after the 15th, then the 500,000 is real money?

MR. HODGES: That's right. Then we agree to that,

1 along with the terms of the escrow, the million dollar
2 bond and the payment, I think we can handle your exposure
3 problem and it would be done by a Letter of Credit, but
4 it's going to be from the refiners and producers instead
5 of Petro-Lewis.
6 MR. THOMPSON: Am I to understand that you would
7 put a million dollars in for the seed money initially?
8 MR. HODGES: There's a million dollar Letter of
9 Credit plus all the cash flow which probably amounts to
10 a million and a half dollars going through that account
11 each month. In addition to that, if Petro-Lewis advances
12 is agreed, their half a million dollars a month, you have
13 more than your million four hundred thousand dollars to
14 protect you.
15 CHAIRPERSON CORY: Okay. I would think what we
16 need to do at this point is to take a recess to allow the
17 staff to go through the steps of that to make sure
18 everybody understands what we're doing.
19 MS. SMITH: Who's here representing the producers?
20 MR. HODGES: I'm representing the producers and
21 MacMillan is representing the refiners.
22 MS. SMITH: And the refiners are also putting up
23 the money for the Letter of Credit?
24 MR. HODGES: What is MacMillan's Letter of
25 Credit? How much is it?

1 MR. M. HODGES: I think it's about 600 of the
2 total purchase. The balance of that is put up by our
3 company.
4 MR. HODGES: So the producers and DeMenno will
5 place the other $400,000 Letter of Credit.
6 MR. THOMPSON: What you're doing is in effect
7 you're getting a Letter of Credit to cover part of it and
8 you're moving the obligation then for a balance of a
9 Letter of Credit to the crude buyer. That has got the
10 iffyness of the crude buyer because they're really not
11 parties to this agreement. But what you're doing is you're
12 setting this escrow account up --
13 CHAIRPERSON CORY: I think you need to sit down
14 and go over the details of that as to what it is. Shall
15 we come back at 1:00? Would that be enough time?
16 MR. HODGES: Fine.
17 CHAIRPERSON CORY: Can you people make it?
18 MR. McCAUSLAND: I've got further meetings at
19 1:30, but I'll stick around.
20 CHAIRPERSON CORY: Does that make sense? It
21 would seem to me rather than hash it out with paying
22 reporters and all of that, go through the mechanics of
23 where we're at. Somebody might also call Chevron.
24 (Laughter.)
25 CHAIRPERSON CORY: We will come back in at 1:00

o'clock.

(Thereupon the morning session of the State Lands Commission Meeting was recessed for lunch at 11:30 a.m.)

--oOo--

1 AFTERNOON SESSION

2 --oOo--

3 EXECUTIVE OFFICER NORTHROP: Your Honor, the jury
4 is back and we have arrived at a verdict.

5 CHAIRPERSON CORY: You are what?

6 EXECUTIVE OFFICER NORTHROP: We have arrived --

7 CHAIRPERSON CORY: Oh, arrived. I thought you
8 had said that we had bribed a verdict.

9 (Laughter.)

10 EXECUTIVE OFFICER NORTHROP: I think --

11 MR. THOMPSON: To a degree.

12 CHAIRPERSON CORY: Tell me, Mr. Hoffa.

13 EXECUTIVE OFFICER NORTHROP: Mr. Hager has been
14 the official keeper of notes and transcriber of what's
15 happened. So we'll move on them one at a time.

16 In the first sale agreement which is a problem
17 we suffered with, how did that come out?

18 MR. HAGER: We've agreed to some language.
19 There was the risk that was talked about and that risk,
20 however small, that there would be some sort of regulation
21 that would permit the first sale to come in one price and
22 yet forbid every seller to pass that thing through
23 completely. The language we have would make the State
24 assume that risk. It would assure us that if, indeed, the
25 price were obtainable on the first sale and could be passed

1 through, we would get it.

2 CHAIRPERSON CORY: But per regulation, not per

3 lack of a buyer or --

4 MR. HAGER: Yes.

5 MS. SMITH: Is that correct?

6 MR. WATSON: Yes, ma'am.

7 MR. HAGER: May I read the agreed-upon language?

8 This is the entire paragraph, but we go into a consent and

9 assumption agreement. I'm reading it as it would be for

10 the Tract 1. The language we modified for Tract 2 where

11 necessary.

12 "As a further consideration for the

13 granting of consent by the State to the

14 assignment, P.P. Co. agrees that upon

15 Exhibit A becoming effective P.P. Co. will

16 pay to the City of Long Beach, in an amount

17 equal to 10 cents per barrel for every barrel

18 of crude oil allocated to P.P. Co.'s interest

19 in the contractor's agreement in addition to

20 the City's net profit share of the value of

21 crude oil as determined under Article IX of the

22 contractor's agreement. The additional 10 cents

23 per barrel shall be paid directly to the City

24 and shall not be credited to P.P. Co.'s non-

25 operating contractor's net profits account.

1 The payment of this additional compensation
2 shall be made only to the extent that its
3 addition to the value of the crude oil as
4 determined under Article IX shall result in
5 a price that does not exceed any applicable
6 ceiling price for the first sale of domestic
7 crude oil imposed by any governmental entity
8 having jurisdiction and that any such
9 governmental regulations permit the receipt in
10 full by P.P. Co. on any sale by it of the
11 crude oil of the Article IX value and the added
12 compensation."
13 CHAIRPERSON CORY: Question. Should not that
14 provide that it's 10 cents, if it would allow 9 cents of it,
15 that you go ahead and pass the 9 cents through?
16 MR. WATSON: I think the language says to the
17 extent.
18 CHAIRPERSON CORY: The last thing seemed to double
19 back on it and maybe obviate that. If you draftsmen are
20 happy, I just thought I picked up from the last -- what
21 was the last clause that you read?
22 MR. HAGER: "...and that any such governmental
23 regulations permit the receipt in full by P.P. Co. on any
24 sale by it of the crude oil of the Article IX value and
25 the added compensation."

1 CHAIRPERSON CORY: When it says "receipt in
2 full," if you don't receive it in full, but you only
3 receive a partial --
4 MR. HAGER: They receive in full whatever they
5 are permitted to --
6 CHAIRPERSON CORY: As long as there's a clear
7 meeting of the minds of what we mean by that.
8 MR. WATSON: Yes, sir. We obviously are willing
9 to change the language. Our intent and understanding is
10 that if this results in only a portion of the 10 cents
11 being payable, that that portion will in fact be paid.
12 CHAIRPERSON CORY: I guess a side letter would
13 probably cover that as an addendum rather than mess with
14 the actual language if everyone is happy with it. Do you
15 agree?
16 MR. McCAUSLAND: Okay.
17 MS. SMITH: Okay.
18 MR. WATSON: Is the record a sufficient
19 stipulation?
20 CHAIRPERSON CORY: That's up to the lawyers.
21 You're beyond my --
22 MR. HAGER: I think the record is sufficient.
23 EXECUTIVE OFFICER NORTHROP: The next item,
24 Mr. Chairman, was the one percent of the bonds for the
25 750,000 for Tract 1 and the 1,250,000 for Tract 2. We have

1 compromised on splitting it down the middle a half a
2 percent rather than a percent, figuring that the cost of
3 that would be about $10,000 a year to the State and that
4 would make a compromise rather than the 20 we discussed
5 earlier.
6 CHAIRPERSON CORY: Okay.
7 EXECUTIVE OFFICER NORTHROP: The second is the
8 revolving Letters of Credit. The lawyers worked the
9 longest on this one to get the language right. So I would
10 like to have Alan and the law firm that we have involved
11 here of the State and Petro-Lewis and Century address that.
12 MR. HAGER: Okay. This is the language that we
13 have roughly concluded. I think it says our intent. If
14 there's any slight modification, I think it probably could
15 be done.
16 Before I start reading, this would be put into
17 both the Arco-CRD assignment and the CRD-P.P. Co. assignment
18 as specific conditions to those assignments. I'm reading
19 now.
20 "This consent is conditioned upon Century
21 providing to the City of Long Beach or State
22 of California" -- that would be Tract 1 or Tract 2
23 -- "one, an irrevocable Letter of Credit covering
24 payment due from P.P. Co. and its successors and
25 assigns under the contractor's agreement or

1 Tract 2 agreement in the amount of 625,000 for
2 Tract 1" --
3 (Thereupon a discussion was held off
4 the record.)
5 MR. HAGER: -- "625,000 for Tract 1,
6 375,000, Tract 2, which shall be issued by a
7 national or state-chartered bank qualified to
8 conduct banking business in the State of
9 California. The obligations under which
10 shall be continuing obligations during the
11 term of the contractor's agreement or Tract 2
12 agreement or; two, the sum of $625,000, Tract
13 1, $375,000, Tract 2, cash or bonds secured
14 by the full faith and credit of the State of
15 California or the United States placed in an
16 interest-bearing blocked account in a national
17 or state-chartered bank qualified to conduct
18 banking business in the State of California,
19 with irrevocable instructions to said bank that
20 other than by demand of the City or State as
21 hereafter provided no portion of the principal
22 amount of said funds may be withdrawn during the
23 term of the contractor's agreement or Tract 2
24 agreement and that upon notice by the City, State,
25 of a failure of P.P. Co. and its successors and

1 assigns to pay any amount due under the
2 contractor's agreement or Tract 2 agreement.
3 Such sums shall be paid to the City or State
4 upon demand."
5 CHAIRPERSON CORY: Bill.
6 EXECUTIVE OFFICER NORTHROP: This million, plus
7 we have had discussions with the City of Long Beach, and
8 they have indicated that because the oil is shipped in
9 batches and not on a pro rata "X" number of barrels a day,
10 they would be willing to instruct the contractor to make
11 their best attempt to ship all of this in the latter part
12 of the month which would mean our exposure would be
13 minimized by that amount also. There's no way they could
14 guarantee it, but John Parkin who is in the audience has
15 indicated that that would be a possibility that probably
16 could happen.
17 CHAIRPERSON CORY: And that's acceptable to the
18 parties of the contract, Century and Petro-Lewis?
19 MS. KNIGHT: Yes.
20 MR. WATSON: Yes, sir.
21 EXECUTIVE OFFICER NORTHROP: The record indicates
22 Mr. Hodges is nodding in the affirmative.
23 MS. SMITH: Alan, did you read two possibilities
24 or was that all one proposal?
25 MR. HAGER: There would be an alternative. Either

they would establish two Letters of Credit, one for Tract 1 and one for Tract 2, or establish two bank accounts.

CHAIRPERSON CORY: They have the option.

MR. HAGER: They have the option, either they get a Letter of Credit or they put up the cash.

EXECUTIVE OFFICER NORTHROP: Just one other item, Mr. Chairman, and I find no other place to cover it, so I put it in this place.

As you know, Mr. Hodges or some others are trying to put a new refinery in Bakersfield. That refinery requires the approval of another state agency. I discussed with them that the disapproval by another state agency shouldn't act as a defense against this contract. They have agreed to that as well.

CHAIRPERSON CORY: We're stipulating we're not our brother's keeper; right?

EXECUTIVE OFFICER NORTHROP: Right.

CHAIRPERSON CORY: Okay.

MR. WATSON: Excuse me, sir.

Although it was not in dispute, I'd like to read the language we have agreed to for the condition regarding the waiver of a portion of the existing notice provision before the state takes its oil in kind.

CHAIRPERSON CORY: Okay.

MR. WATSON: This would go only in the consent

1 affecting Tract 2. It would read:

2 "As a further consideration for the
3 granting of consent by the State to the
4 assignment, P.P. Co. agrees that, upon
5 Exhibit A becoming effective, P.P. Co. waives
6 the right to written notice under Article IX
7 of the Tract Number 2 agreement in excess of
8 60 days and agrees that 60 days previous written
9 notice shall be sufficient notice for any
10 election under said Article IX of the Tract
11 Number 2 agreement."

12 EXECUTIVE OFFICER NORTHROP: That leaves us with
13 the one last point of the default cure period. With the
14 bonding and the late delivery, that would considerably
15 reduce our exposure. I don't know. Mr. Thompson had a
16 look at that. Would you care to get his comment on that?

17 MR. THOMPSON: Well, again, by taking the oil
18 later in the picture, we're keeping our exposure down.
19 So it is reducing the Letter of Credit amount. Taking and
20 paying a half-percent of the bond premium is offset again
21 by your added amount of the 10-cent bonus.

22 CHAIRPERSON CORY: Okay. What is the specific
23 recommendation from the staff people who have participated?

24 EXECUTIVE OFFICER NORTHROP: Do you want to poll
25 us?

1 CHAIRPERSON CORY: We're all sitting here
2 publicly.
3 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, as the
4 Executive Officer, I think it's been a --
5 CHAIRPERSON CORY: Why don't you wait. Given
6 the hierarchy, I'd rather hear from the guys down below so
7 you don't poison the well.
8 (Laughter.)
9 CHAIRPERSON CORY: Moose.
10 MR. THOMPSON: I think so. I think it's
11 acceptable. I think you have the protection here and maybe
12 you're getting the best of the deal as far as the bonus
13 side is concerned. I think that this will help you, your
14 security on the back side.
15 CHAIRPERSON CORY: Alan.
16 MR. HAGER: Yes. I think it gives the State the
17 security that it's been looking for.
18 MR. McCAUSLAND: While you have Mr. Hager on the
19 floor, you might ask him if he's discussed the matter with
20 Chevron first.
21 EXECUTIVE OFFICER NORTHROP: Oh, we both
22 discussed the matter with Chevron.
23 With all due respects to the representative from
24 Arco, Chevron doesn't see through the same glasses at all.
25 They feel when this is severed, it's severed and they are

1 no longer responsible. Since we didn't have a speaker
2 phone, I handed it to Mr. Hager. Do you want to get his
3 reaction?
4 MR. HAGER: Yes. He said that Chevron, their
5 intent on that is that once the severance is made, they
6 are no longer responsible for anything but their
7 individually-held five percent interest. Whether that's
8 what the agreement clearly says or not, we are on notice
9 that that is indeed the intent.
10 CHAIRPERSON CORY: We did not specifically agree
11 to that one way or the other. We heard their views.
12 MR. HAGER: But the thing is, we cannot very
13 well act on --
14 EXECUTIVE OFFICER NORTHROP: We can act on
15 Arco's behalf.
16 MR. HAGER: But if we accept that thinking that
17 we rely on that, that's not good reliance.
18 CHAIRPERSON CORY: Okay.
19 EXECUTIVE OFFICER NORTHROP: Mr. Chairman.
20 CHAIRPERSON CORY: Jan, do you have anything to
21 add?
22 MR. STEVENS: No. I didn't really participate
23 in this.
24 CHAIRPERSON CORY: Mr. Hight.
25 MR. HIGHT: I think the State is legally

1 protected in this transaction.

2 CHAIRPERSON CORY: Dave.

3 MR. HAYWARD: Yes, I agree that our concern

4 I think has been taken care of by what's happened today

5 here. So I would go along with it.

6 CHAIRPERSON CORY: Mr. Northrop.

7 EXECUTIVE OFFICER NORTHROP: With all my staff

8 going for it, I can't go against them. I have to look to

9 them for information.

10 CHAIRPERSON CORY: Arco.

11 MR. PENDERGRAFT: I really have nothing to add.

12 I just thought I'd clarify for the record, for whatever

13 it's worth, that Alan and I have discussed the concept of

14 Century remaining responsible. I think we're in agreement

15 that it's the intent of the parties that control, that

16 my opinion was based on absent any expression of intent,

17 for whatever that's worth.

18 MR. McCAUSLAND: Speaking on behalf of Chevron,

19 U.S.A. --

20 (Laughter.)

21 MR. HAGER: May I interrupt? I just have a

22 notice that what I read as far as numbers for the amounts

23 to the Letter of Credit or cash are backwards. Not that

24 the total wouldn't be a million dollars, but the $625,000

25 would apply to Tract 2 and the 375,000 would apply to Tract

1. Am I correct in this restatement or not?

MR. WATSON: I don't believe so. I believe the bonding runs the other way. The ratio of the bonding is five to three with the five --

EXECUTIVE OFFICER NORTHROP: To Tract 2.

MR. WATSON: That's Tract 2?

MS. KNIGHT: There's a greater amount of oil on Tract 1.

MR. THOMPSON: The bonding goes one way, but I'm not too sure that the Letter of Credit might not go the other way because your net profits percent might be higher.

MR. HAYWARD: Well, the point was made this morning though that they would be in the same ratio as the bonding and that's the point I picked up.

EXECUTIVE OFFICER NORTHROP: Page 2 on your list shows 800 for Tract 1 and 600 for Tract 2.

MR. WATSON: My mistake. The lower bonding requirement is on Tract 1. So if you based it on the bonding ratio, Alan, it would be right.

MS. KNIGHT: It depends on whether you want it on the bonding ratio or your proposed Letter of Credit ratio.

MR. HAGER: I was thinking it was going to be on the proposed Letter of Credit ratio.

MS. KNIGHT: In which case Tract 1 was higher.

1 MR. THOMPSON: And that was a ratio of 8 to 6,
2 was it?
3 MR. HAYWARD: Eight to six.
4 MR. THOMPSON: With the highest percentage being
5 Tract 1.
6 CHAIRPERSON CORY: The LC's are covering the
7 exposure of the oil that's in the pipe and gone. So it
8 seems to me, shouldn't it follow that?
9 MR. HAGER: I would agree.
10 MR. THOMPSON: Well, it's also a slight
11 difference though in the net profits percent. The net
12 profits percent is higher in Tract 1.
13 MR. HAYWARD: Yes.
14 MR. HAGER: So our exposure is greater on Tract 1.
15 MR. HAYWARD: No problem. It's the way he had
16 it originally.
17 MR. HAGER: Okay. For the record, the figures
18 are the way as I originally read, 625.000 for Tract 1,
19 375,000 for Tract 2.
20 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, that
21 completes our conference report.
22 CHAIRPERSON CORY: What is the wish of the
23 Commissioners?
24 MR. McCAUSLAND: I'm pleased that the staff worked
25 so hard on this little monster. If I'd have known how hard

1 it was to get the independent oil industry involved in
2 this business, I'm not sure I would have joined you in this
3 adventure.
4 (Laughter.)
5 MS. SMITH: I move adoption of the staff's
6 recommendation.
7 CHAIRPERSON CORY: Moved.
8 MR. McCAUSLAND: Second.
9 CHAIRPERSON CORY: Seconded. All in favor
10 signify by saying aye.
11 (Ayes.)
12 CHAIRPERSON CORY: Opposed.
13 Carried.
14 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I think
15 we wanted an Executive Session.
16 MR. McCAUSLAND: Does this staff recommendation by
17 assumption include the Arco-Chevron partitioning?
18 EXECUTIVE OFFICER NORTHROP: Yes.
19 CHAIRPERSON CORY: Yes. It's done simultaneously
20 and Arco skates.
21 If we could clear the room, we have an executive
22 matter.
23 (Thereupon the State Lands Commission
24 Meeting was adjourned at 1:30 p.m.)
25 --oOo--

1 CERTIFICATE OF SHORTHAND REPORTER

2

3 I, CATHLEEN SLOCUM, a Certified Shorthand
4 Reporter of the State of California, do hereby
5 certify:
6 That I am a disinterested person herein; that
7 the foregoing State Lands Commission Meeting was reported
8 in shorthand by me, Cathleen Slocum, and thereafter
9 transcribed into typewriting.
10 I further certify that I am not of counsel or
11 attorney for any of the parties to said meeting, nor in
12 any way interested in the outcome of said meeting.
13 IN WITNESS WHEREOF, I have hereunto set my
14 hand this 12th day of October, 1978.
15
16 Cathleen Slocum
17 CATHLEEN SLOCUM
Certified Shorthand Reporter
18 License No. 2822
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