

1 MR. CRANSTON: Yes. Jay Shavelson is representing the  
2 Attorney General's Office.

3 MR. SHAVELSON: Yes, Senator. First of all, the area  
4 in litigation is in the Long Beach Harbor District. It does not  
5 include the lands that are involved in the Long Beach Unit. The  
6 status of the Long Beach boundary litigation is that it is set  
7 for a pretrial hearing at the beginning of July and is expected  
8 to go to trial shortly thereafter.

9 SENATOR DOLWIG: Mr. Chairman, there is pending litigation  
10 which raises the question of the problem between the Federal  
11 Government and the State. Would this be involved at all in  
12 Tract Number 1?

13 MR. SHAVELSON: No, Senator. The area here is undis-  
14 putably City lands under the provisions of the Submerged Lands  
15 Act, which provides it has quitclaimed to the State and its  
16 respective grantees all lands within three miles of the coast.  
17 We don't know where the coast is yet; but at least, since these  
18 areas are always within three miles of the actual shoreline,  
19 there is no problem as far as the Federal Government is concerned.

20 The Federal Government has the right of first purchase  
21 of the oil and gas produced in both Tract 1 and 2; and as far as  
22 Tract 1 is concerned, there is a specific provision in the pro-  
23 posed contract recognizing that right.

24 MR. HORTIG: Might I add that first right of purchase  
25 is restricted to times of national emergency only.

26 SENATOR DOLWIG: The only question that I raise, Mr.  
27 Shavelson: If there is a question insofar as the seaward line  
28 is concerned, this could involve the Federal Government; could  
29 it not?

30 MR. SHAVELSON: I don't think so, Senator. The  
31 three-mile line ....

1 MR. HORTIG: I can answer that.

2 MR. SHAVELSON: Go ahead.

3 MR. HORTIG: Senator, may I direct your attention to  
4 this map? A line approximately three miles offshore is indicated  
5 as the southerly boundary, City of Long Beach. The most seaward  
6 description for Tract 1 is the line which terminates the green-  
7 shaded area and it is inconceivable that a relocation of the  
8 ordinary high water mark on judicial determination could be in  
9 such order of magnitude as to actually move Tract 1 far enough  
10 seaward that the outer boundary of Tract 1 would even approach  
11 the southerly boundary of Long Beach, which is three miles off  
12 the mainland.

13 SENATOR DOLWIG: There is no problem, then?

14 MR. HORTIG: There could be no practical problem.

15 SENATOR DOLWIG: Insofar as your other fields are con-  
16 cerned, Alamitos field, and so forth, where you have agreements  
17 with Long Beach have there been metes and bounds descriptions of  
18 those areas by the City of Long Beach; and if so, have they been  
19 approved by the State Lands Commission?

20 MR. HORTIG: There are metes and bounds descriptions,  
21 Senator, and they were not approved by the State Lands Commission  
22 because they were entered into before the State Lands Commission  
23 had any authority to approve or disapprove because these other  
24 contracts were all made prior to 1956.

25 SENATOR DOLWIG: Then you don't have metes and bounds  
26 descriptions?

27 MR. HORTIG: There are metes and bounds descriptions  
28 in the contract documents themselves, but they have not been ap-  
29 proved and, of course, a portion of those lines are actually the  
30 subject matter of the litigation on which Mr. Shavelson reports.

31 SENATOR DOLWIG: Was it inherent in that litigation?

1 MR. SHAVELSON: Not the boundary of the contract areas,  
2 but the boundaries of the areas which are held in trust by the  
3 City for the State. In other words, the contract areas are fixed  
4 areas. With one minor exception, they are undisputed tide and  
5 submerged lands.

6 SENATOR DOLWIG: The reason for my question, Mr. Chair-  
7 man, is that this will affect the production and the amount of  
8 money the State would get out of these various agreements.

9 My next question is: Is the status of Tract Number 1  
10 different than the existing tracts now under lease or under  
11 operating agreements?

12 MR. SHAVELSON: They are in several respects. One is  
13 that the engineering determination of the tidelands is an easier  
14 matter in the downtown area of Long Beach than it is in the area  
15 of Long Beach Harbor District, where it is a highly complex prob-  
16 lem relating back to the original Rancho grants and the statutes,  
17 therefore, on the inland waters. Here we have a straight coast  
18 line and the problem of determination is a much simpler one.

19 SENATOR DOLWIG: Mr. Shavelson, may I ask you, then,  
20 do you understand on the basis of your review of these contracts  
21 that there has been a metes and bounds description of Tract  
22 Number 1?

23 MR. SHAVELSON: The description in the exhibit on  
24 Tract Number 1 insofar as the landward boundary is concerned is  
25 northerly into the mean high tide line.

26 SENATOR DOLWIG: I don't want to take up the time. I  
27 am interested in the other boundary insofar as the ocean boundary  
28 is concerned.

29 MR. SHAVELSON: That is in terms of distance from the  
30 mean high tide line. I think I can give you a report on that  
31 later on as far as metes and bounds; it is described.

1 MR. CRANSTON: Without giving the details, you can  
2 state there is a metes and bounds description?

3 MR. SHAVELSON: Yes, it is definite to the extent that  
4 it refers to the mean high tide line; otherwise it is metes and  
5 bounds.

6 SENATOR DOLWIG: This is a matter which will be  
7 reviewed by the Commission?

8 MR. SHAVELSON: Yes.

9 SENATOR DOLWIG: Thank you very much, Mr. Chairman.

10 MR. CRANSTON: Frank, do you want to continue?

11 MR. HORTIG: Now, in the review by the Office of the  
12 Attorney General, as reported on page 7 of the agenda item, it  
13 was suggested - - or it was stated that it was concluded that the  
14 Commission may consider for review and approval the documents  
15 which have been submitted by the City of Long Beach as being  
16 legally sufficient, provided that the Commission secures addi-  
17 tional commitments recommended and makes the necessary policy  
18 determinations.

19 Now, the additional recommended commitments are set  
20 forth in a separate agreement, approved by the Office of the  
21 Attorney General and by the City of Long Beach, which are at-  
22 tached to this agenda item as Exhibit A and do not purport to  
23 vary the terms of the unitization agreement or the Field Contrac-  
24 tor Agreement; but it is the opinion of the Office of the Attorney  
25 General that these additional agreements are valid and enforce-  
26 able as between the City and the State. These conditions, as  
27 outlined on Exhibit A following the agenda item (following page  
28 8) as you have it before you, relates to the subjects of provid-  
29 ing for a minimization of distortion of the relative quantities  
30 of oil and dry gas allocated to Tract Number 1 in connection with  
31 changes in tract assignments; provisions relative to the use of

1 gas in connection with unit operations; provision to assure that  
2 necessity of further Commission approval of agreements is not  
3 affected as a result of approval of the basic contracts; provi-  
4 sion for elimination of profit or loss from the one per cent  
5 overhead allowance to the operator; and provision to give the  
6 Commission a chance to study and criticize any development plans;  
7 a specification providing that it is understood that the Commis-  
8 sion approval in connection with these contracts, if granted,  
9 extends only as to Tract Number 1 and, therefore, Tract 2, the  
10 Alamitos State Beach Park parcel, is still to be determined as to  
11 future development programs by the State Lands Commission; and a  
12 specification of a series of operating standards for operating  
13 procedures, to assure that operations will be conducted in order  
14 to achieve the balanced goal of attaining the maximum quantity of  
15 oil in accordance with good engineering practice; provision that  
16 the State will be consulted and kept informed on proposed pro-  
17 gramming on all matters concerning the City's relationship with  
18 the Field Contractor; and an apparently minor, but possibly essen-  
19 tial item, requiring the use of electric motors in the future in  
20 connection with operations, so as to minimize the use of natural  
21 gas for this purpose -- which natural gas might otherwise be  
22 distributed through the Municipal Gas Department of the City of  
23 Long Beach and result in an operating revenue of benefit to the  
24 State of California.

25 In addition to these commitments recommended and agreed  
26 to between the Office of the Attorney General and the City of  
27 Long Beach, the staff feels that the Commission may wish to con-  
28 sider the following:

29 First, the unit agreement is to become effective upon  
30 commitment of sixty per cent of the Town Lot area. The City has  
31 been assured that more than the required sixty per cent of the

1 participating Town Lot area will be committed to the agreement  
2 and we do have a map and information here today that show that  
3 this is the case, together with informal assurances that all  
4 parcels of more than one acre whose commitment will be necessary  
5 in order to carry out unit operations will be committed.

6 This matter was flagged in this item for Commission  
7 consideration to indicate that it was a problem; and at the time  
8 of preparation of the item, the substantiating data were not as  
9 completely available as they have been brought to the meeting  
10 today by the City of Long Beach; so that this item actually be-  
11 comes one of report to the Commission simply that the require-  
12 ments necessitated or brought about by the specifications in the  
13 Unit Agreement apparently will be met, and can be met, and that  
14 there are sufficient letters of intent, commitment, and so forth,  
15 in anticipation of the approval of this agreement that this mat-  
16 ter will not be one that will in any wise jeopardize the ulti-  
17 mate execution of the agreement.

18 Also, it should be brought to the attention of the  
19 Commission that, in accordance with the provisions of the Field  
20 Contractor Agreement, the successful bidder will acquire control  
21 of the production from Tract Number 1 -- or would acquire it --  
22 which can ultimately represent a considerable portion of the  
23 total possible California production. In view of the fact that  
24 such bidder could already control substantial other production  
25 within the State, it has been suggested that it might be desir-  
26 able to consider the effect of this control over a large portion  
27 of California production on the public welfare.

28 A possible solution suggested has been that a per-  
29 centage of the oil allocated to Tract 1 could be made available  
30 to small refineries pursuant to public bidding in a manner simi-  
31 lar to that utilized by the United States Department of Interior

1 in the sale of its royalty crude oil. It is understood that  
2 this procedure requires that these qualifying companies be those  
3 independent refinery companies who can prove their need for  
4 crude oil and whose total production does not exceed 30,000  
5 barrels per day and whose total personnel does not exceed five  
6 hundred.

7           Additionally, in order to provide for maximum industry  
8 participation, it has also been suggested that the area included  
9 in Tract 1 in the Field Contractor Agreement could be divided  
10 for bidding purposes into four equal parcels, for example; hence,  
11 a greater portion of the petroleum industry could share in the  
12 production from Tract 1. One of the successful bidders could  
13 become the Field Contractor for Tract Number 1, and the City  
14 ordinance requirement for operation of the tract as a single  
15 tract would not be violated.

16           However, in view of the highly complex administrative  
17 problems which would be encountered, and in view of lower indi-  
18 vidual oil allocations, it is doubtful if the cumulative City  
19 and State revenues received in paragraphs 2. and 3 (two preced-  
20 ing paragraphs) would be as high as those which would be re-  
21 ceived pursuant to the presently formulated plan.

22           Maximum industry participation in a single parcel  
23 offer could be afforded -- probably could be expanded -- by  
24 consideration of establishing the bid period at not less than  
25 six months, to provide adequate opportunity for any arrangement  
26 of joint bids by any groups who may wish to avail themselves of  
27 this opportunity.

28           In connection with, or following this review, and  
29 based on this review, Mr. Chairman, we have received the follow-  
30 ing letters, in which the senders have requested they be made  
31 part of the record. With your permission, I will read them

1 for the record:

2 Long Beach Unified School District to State Lands

3 Commission:

4 "Gentlemen:

5 The Long Beach Unified School District owns  
6 property within the proposed Long Beach unit area.  
7 We foresee an important addition to the economy  
8 of our District, as well as all of California,  
9 through the expenditure of millions of dollars  
10 to drill hundreds of oil wells and provide  
11 hundreds of new jobs.

12 Also we are interested in the income we anticipate  
13 from the 33 acres of District lands included with-  
14 in the unit area, and of course in the additional  
15 mineral rights tax which will bolster the exist-  
16 ing tax base of the District.

17 We have had a representative at the Management  
18 Committee meetings of the Long Beach unit and  
19 we are impressed with the sound and economical  
20 approach used in the formation of the Unit Agree-  
21 ments and the proposed Field Contractor Agreement  
22 in resolving the problem of producing oil without  
23 risking subsidence or despoiling the beach.

24 Very truly yours,

25 Owen J. Cook " "  
26 Assistant Superintendent (Business)

27 SENATOR O'SULLIVAN: Do they understand - - do you  
28 think the writer of that letter understands they are not going  
29 to get any tax revenue?

30 MR. HORTIG: I would not gather that. Inasmuch as  
31 the City Attorney of the City of Long Beach is with us here  
today, Senator O'Sullivan, and I am sure will be heard from  
later, an interpretation of that specific question, I think,  
would be helpful to all of us.

32 From Property Owners Oil Development Association,  
33 Inc. to State Lands Commission:

"Gentlemen:

We request that this letter be read into the record  
of the hearing of the State Lands Commission sched-  
uled for February 28, 1963, concerning the proposed

1 "Field Contractor Agreement.

2 The Property Owners Oil Development Association,  
3 Inc. of Long Beach, California, represents the  
4 majority of the property owners in the Townlot  
5 area of the offshore oil development of the Long  
6 Beach Unit of the Wilmington Oil Field.

7 Being property owners we have followed oil devel-  
8 opments in the Long Beach Shoreline Area closely  
9 since the early 1950s when the first leasing  
10 campaigns by the oil companies occurred. We  
11 have seen the damage wrought by subsidence in  
12 the Long Beach Harbor, and, above all, we wish  
13 to preserve our beautiful shoreline and our superb  
14 residential areas.

15 With these thoughts in mind we supported the  
16 ordinance adopted by the people of Long Beach at  
17 the election of February 28, 1962, which permitted  
18 drilling but with safeguards and controls to pro-  
19 tect us from subsidence and preserve our beaches  
20 and residential areas.

21 We then participated in the many meetings from  
22 which the Unit and Unit Operating Agreements  
23 evolved. We are satisfied with the provisions of  
24 these agreements.

25 We wish to praise the representatives of the City  
26 of Long Beach for the astute and determined manner  
27 in which they protected the interest of the State  
28 and City without impinging upon the rights of the  
29 private property owners.

30 In the course of the meetings we discussed the  
31 operational problems of the Unit. It was obvious  
32 that the Field Contractor would have to be under  
33 the control of the City, as required by the  
34 ordinance, as a safeguard against the dangers of  
35 subsidence. It was also obvious that the most  
36 economical and efficient method of operation would  
37 be to have all operations under a single Field  
38 Contractor. We believe the proposed Field Con-  
39 tractor Agreement is an excellent solution to the  
40 problem, and urge the State Lands Commission to  
41 immediately approve it and the Unit and Unit  
42 Operating Agreements so the development can  
43 commence.

44 Yours sincerely,

45 Russell M. Brouger, President  
46 Property Owners Oil Development  
47 Association, Inc. "

48 Richfield Oil Corporation to State Lands Commission:

49 "Gentlemen:

50 This letter relates to "Unit Agreement, Unit Oper-  
51 ating Agreement, Exhibits, and Field Contractor

1 "Agreement, Long Beach Unit, Wilmington Oil Field,  
2 Los Angeles County," being calendar item 28 on  
3 the calendar for the Commission's meeting of  
4 February 28, and particularly to subparagraph 1  
5 on page 8 of said calendar item 28.

6 Richfield Oil Corporation holds oil and gas  
7 leases on 1,015 acres, or approximately 53%, of  
8 the 'participating Townlot Area' referred to  
9 therein.

10 Richfield participated in the negotiation with  
11 the City and other parties holding leases in the  
12 Townlot Area of the drafts of unit agreement,  
13 unit operating agreement and exhibits above re-  
14 ferred to, in the forms thereof respectively  
15 submitted to the Commission, and we are willing  
16 to commit all oil and gas leases that we hold in  
17 the 'participating Townlot Area' to a unit so  
18 constituted.

19 Furthermore, we have given consideration to the  
20 form of field contractor agreement submitted to  
21 the Commission. We believe that it is sound  
22 and workable, and we intend to submit a bid for  
23 the field contractor agreement if it is offered  
24 for bidding in the reasonably near future."

25 Texaco Inc. to the State Lands Commission:

26 "Reference is made to Mr. T. W. Bell's letter  
27 dated December 18, 1962, to you under the above  
28 subject. We desire that said letter be made a  
29 part of the public record at the hearing of the  
30 State Lands Commission on February 28, 1963.  
31 Enclosed are fifteen copies of said letter for  
the use of the State Lands Commission and for  
such other distribution as you desire to make  
of it."

Letter of December 18, 1962 from Texaco Inc. to

State Lands Commission:

"Gentlemen:

Texaco Inc. desires to go on record as objecting  
to the form of agreement being offered by the City  
of Long Beach covering its tide and submerged lands,  
which agreement is entitled "Field Contractor Agree-  
ment, Long Beach Unit, Wilmington Oil Field, Cali-  
fornia." A few of our objections to this contract  
are as follows:

1) The contract as now drafted does not provide  
for any specific well spacing, time between wells,  
location, or rates of production. The operational  
features are entirely under the control of the City  
of Long Beach. By this arrangement, the City  
could control the number of wells drilled and the  
production in the latter part of the 35-year con-  
tract period, thus resulting in little or no net

1 "profits, and to the extent of making a more  
2 favorable contract with someone else upon the  
3 termination of the existing contract. All  
4 existing facilities would then be turned over  
5 to the new contractor who would benefit materi-  
6 ally with only a nominal cash outlay.

7 2) The agreement provides that, after con-  
8 struction of the offshore island, the contractor  
9 shall undertake the drilling of a minimum of 40  
10 wells including injection and producing wells,  
11 and that at least ten of these wells be drilled  
12 into the townlot area. The idea of injecting  
13 water into the reservoir concurrently with ini-  
14 tial development may not be a sound engineering  
15 practice and could possibly result in premature  
16 bypassing of oil. This feature could result in  
17 a loss of revenue to all concerned.

18 3) The force majeure clause does not excuse  
19 the monthly payments to be made by the contractor  
20 pursuant to the provisions of the agreement. We  
21 believe the contractor should be excused from mak-  
22 ing these monthly payments when it is prohibited  
23 from performing its obligations for reasons be-  
24 yond its control, and

25 4) A strict interpretation of the Indemnity  
26 and Insurance Provision of the Field Contractor  
27 Agreement indicates that the Field Contractor  
28 could be held liable for claims and lawsuits  
29 arising out of alleged subsidence. Without a  
30 voice in the contract, the contractor should not  
31 be required to indemnify the City and other parti-  
cipants against such a liability.

A project of this magnitude and the many facets  
involved should provide a contract that is clear  
and explicit in every detail. This is not true  
of this agreement. The contract calls for many  
controversial provisions and no two prospective  
bidders will interpret certain provisions in the  
same manner. One bidder may base its bid on a  
literal reading of the contract, while another on  
what it believes was intended. This is most un-  
fortunate where a contract is being offered for  
public bidding.

In summary we strongly believe that it will prove  
equally important to the state, as the part owner  
of the submerged lands involved, and to the pros-  
pective bidder, that the contract proposed by the  
City of Long Beach provide for a definite, speci-  
fic plan for development of these large reserves.  
Such plan should set forth those fundamental fea-  
tures such as the wells, zonal spacing, time be-  
tween wells, and the rates of production. With  
regard to the timing of secondary recovery opera-  
tions, including the drilling of service wells  
and rates of water injection, the Contractor  
should be required to formulate and submit such  
plans in line with prudent operations and sound

1 "engineering practices. The contract as now  
2 proposed leaves all of the operational features  
3 under the future control of the City of Long  
4 Beach. This makes it impossible at this time  
5 to determine the rates of production to be ob-  
6 tained and the amount of oil to be recovered  
7 from this reservoir. Therefore, a prospective  
8 bidder will not be sure of his estimates of the  
9 net profits which might be realized from enter-  
ing this contract. It is in the best interest  
of the State to obtain the optimum development  
of these reserves and to receive a bid which  
will provide the State its maximum share of  
income from this operation. We, therefore,  
request that the form of agreement presently  
submitted by the City not be approved by the  
State Lands Commission.

10 Very truly yours,

11 T. W. Bell "

12 MR. HORTIG: (continuing) Mr. Chairman, certainly  
13 not speaking for Texaco, who are represented here today and I  
14 am sure will be heard from later, I would like to call atten-  
15 tion of the Commission to the fact that as a matter of timing  
16 and by the nature of receipt of clearance for reading this  
17 letter into the record, which was prepared on December 18,  
18 1962, Texaco did not have the advantage with respect to oper-  
19 ating controls and specifications, of standards and conditions  
20 so as to modify or include comments in line with the provisions  
21 now included in the recommendation before the State Lands Com-  
22 mission for control conditions to be directed and carried on  
23 cooperatively between the City of Long Beach and the State  
24 Lands Commission; and as to those phases, I would expect that  
25 Texaco would expect to present some modifying statement.

26 As to the business aspects of their letter, I  
27 would feel they are in the best position to indicate to the  
28 Commission whether any of those require modification in the  
29 light of the changed form of contract which is being consid-  
30 ered by the Commission here today, as against the time this  
31 analysis was originally prepared.

1 MR. CRANSTON: Does that complete your presentation,  
2 Frank?

3 MR. HORTIG: Yes, sir; unless there are any further  
4 questions from the Commission or the Committees.

5 SENATOR DOLWIG: Mr. Hcrtig, is there a specific  
6 reason that the agreement is proposed to include all the other  
7 tracts and not just Tract Number 1 -- for the State to enter  
8 into an agreement on Number 1 and not the other tracts?

9 MR. HORTIG: I believe, Senator Dolwig, the answer is  
10 that under the existing ordinance and probably in compliance  
11 with the other statutes relating to the development of oil and  
12 gas, there could not be development of Tract 1 only, without  
13 including Tracts 3 through 91, being the upland portion of the  
14 operations.

15 SENATOR DOLWIG: Why is that?

16 MR. HORTIG: Because the people owning the oil and gas,  
17 if any there be under the upland, at the present time would be  
18 precluded from developing oil and gas beneath their property  
19 because there is still an anti-drilling ordinance in the City  
20 of Long Beach which preclude them from direct drilling in the  
21 Town Lot area of Long Beach.

22 Therefore, if operations were undertaken by the City  
23 of Long Beach for oil and gas, which would not result in ability  
24 for the owners of the upland area to drill for their own oil and  
25 gas, this would present a serious question. I expect the City  
26 of Long Beach would be in court explaining why they should be  
27 permitted to continue with an operation of that type.

28 Therefore, it is essential that the total area be  
29 developed under a unit plan, so that every equity ownership in  
30 the oil and gas has production, in fact.

31 As to Tract 2, the area at the eastern end of the

1 City, or the Alamitos Beach State Park parcel, this problem is  
2 still to be resolved and to be presented to the State Lands  
3 Commission as to whether to commit such tract into the unit  
4 development along with Tract 1 in the future; and there is a  
5 terminal date of January 1, 1964, up to which the State can or  
6 could commit Tract 2 to the unit development, or such later  
7 date that may be agreed to by the parties.

8 The other alternative, of course, that is still avail-  
9 able to the Lands Commission, since the court determination  
10 that the oil and gas in the Alamitos Bay State Beach Park parcel  
11 are under the jurisdiction of the Commission, is to consider  
12 whether to offer that parcel for separate development under a  
13 separate oil and gas lease.

14 SENATOR DOLWIG: That's a policy decision?

15 MR. HORTIG: That is a policy decision.

16 SENATOR DOLWIG: I have one further question. Will  
17 you tell us very briefly your understanding of how the State's  
18 share of the revenue would be determined under these proposed  
19 agreements, without going into the details?

20 MR. HORTIG: Yes, sir. From the known geology and as  
21 modified by additional data which will develop from drilling  
22 the producing wells in Tract 1, if the State Park parcel were  
23 to be allocated as part of the unit, then the production poten-  
24 tial of the State Park parcel would be calculated and oil would  
25 be allocated to the State's credit in the same proportion that  
26 it was calculated the State Park parcel was contributing to the  
27 production capacity of the entire unit area; and one hundred  
28 per cent of the revenue from that allocation of oil, which  
29 would be sold by the City as the unit operator, if this were  
30 authorized, or by the State's lessee who had committed the  
31 tract to the unit operations -- one hundred per cent of the

1 value of the oil so sold would accrue to the credit of the State.

2 If the State Park parcel is developed under a separate  
3 oil and gas lease, then one hundred per cent of the royalties  
4 and bonus that might be collected for such award would be simi-  
5 larly accrued to the State.

6 As to Tract 1, under existing State law whatever oil  
7 is allocated in the unit operation -- which is now estimated will  
8 amount to eighty-five per cent of the total production, roughly,  
9 allocated to Tract 1 -- when sold and after the cost of opera-  
10 tions have been paid and there is a remaining net profit, fifty  
11 per cent of that net profit from the oil and one hundred per  
12 cent of the net profit from any gas produced would be remitted  
13 to the State, and the remaining fifty per cent net profit from  
14 the oil would be retained by the City of Long Beach for trust  
15 purposes.

16 SENATOR DOLWIG: What about this one per cent you  
17 have mentioned in your exhibits?

18 MR. HORTIG: That one per cent is an overhead charge  
19 for administration.

20 SENATOR DOLWIG: Does that come from the top or out  
21 of the State's share?

22 MR. HORTIG: It is taken from the top, but there are  
23 certain other specific limitations which were put in to keep it  
24 from being applied to claims where it should not apply. Jay,  
25 would you comment on that?

26 MR. SHAVELSON: Yes. We were concerned with that one  
27 per cent in two respects. We didn't feel that the City, inso-  
28 far as it was operating the tract, should make any profit on  
29 that operation. If, on the other hand, its overhead cost would  
30 exceed one percent, that would be a proper charge against the  
31 oil revenues. So, against the agreement of one per cent to

1 other parties, as between the City and the State we prepared a  
2 bilateral agreement, under which that one per cent will be ac-  
3 counted to the State as oil revenue, that is fifty-fifty, and  
4 then the City will be entitled to deduct its actual costs of  
5 overhead for production -- which, under Chapter 29, it is allow-  
6 ed to do.

7 So I believe the way it is set up now, there is no  
8 chance of the City making a profit or suffering a loss from  
9 this one per cent.

10 MR. HORTIG: Insofar as it is attributable to Tract 1.

11 SENATOR DOLWIG: So it is still in the contract?

12 MR. SHAVELSON: It is in the Unit Operating Agreement  
13 and as against the other parties it will go to the City; and  
14 then the City will account for it to the State, and then will  
15 take a deduction of the actual costs for the matters for which  
16 that one per cent was obtainable.

17 SENATOR DOLWIG: Thank you. Does the State Lands Com-  
18 mission have a record of all payments made to the State since  
19 1955?

20 MR. CRANSTON: Yes, we do.

21 SENATOR DOLWIG: Could we have a copy of all the  
22 breakdown of all revenues accrued to the State and how they  
23 were determined, and how much went to Long Beach?

24 MR. CRANSTON: Frank, is that available?

25 MR. HORTIG: Yes.

26 MR. CHAMPION: Frank, may I ask a question? Admitting  
27 there are some imponderables here, but looking at the State pro-  
28 cedure and the Contractor's Agreement proposal, if the necessary  
29 legal adjustments were made, does it not now appear that it  
30 would be much more profitable to the State in terms of its  
31 ultimate revenue on Tract 2 to participate in the Unit Agreement?

1 MR. HORTIG: Emphasizing your opening premise, Mr.  
2 Champion, that there are some imponderables, and neglecting  
3 those for the moment, the answer to your question is yes.

4 MR. CHAMPION: In other words, that is the kind of  
5 expectation to which we might very well look. We have got a  
6 lot of things to see before we do it.

7 MR. HORTIG: That is correct. Of course, the situa-  
8 tion really resolves itself to this -- as to there being no  
9 choice as to a selection of procedures that could be applied to  
10 this area in terms of one procedure being more desirable than  
11 another. The service contract operation is the only way this  
12 procedure can be carried forward by the City of Long Beach as  
13 a trustee, and even though it could be shown, for example, that  
14 an oil and gas lease under a procedure with cash bonus might  
15 theoretically yield "X" additional dollars, this procedure is  
16 not available for application in this area because of the  
17 reversionary provisions in the tidelands grants.

18 So the actual benefits to accrue to both the City  
19 and the State are not going to be determined by selection of  
20 procedure so much as they are from affording the maximum oppor-  
21 tunity for the best competitive bidding on the one type of  
22 procedure which can be applied to this area -- which is the  
23 service contract approach.

24 MR. CHAMPION: But these do happen to coincide as  
25 to the greatest profit?

26 MR. HORTIG: Yes, and with the greatest probability  
27 for the greatest profit.

28 SENATOR O'SULLIVAN: Mr. Hortig, why are you limited  
29 to this method of bidding -- this type of agreement in the  
30 Long Beach Parcel 1?

31 MR. HORTIG: This goes back to my earlier statement,

1 Senator O'Sullivan, that the tideland grant acts by the Legis-  
2 lature to the City of Long Beach all prohibit transfer, convey-  
3 ance, alienation, or any infringement on any portion of the  
4 title as to the granted tide and submerged lands; and the only  
5 other method generally available for oil and gas development --  
6 as you know, sir, of course -- would be the normal form of oil  
7 and gas lease, which it has been felt would convey title and  
8 would raise a question.... I think the Attorney General's rep-  
9 resentative, Mr. Shavelson, would like to amplify on that.

10 MR. SHAVELSON: Yes. At the time this was our be-  
11 lief -- at the time of the original L.B.O.D. contract back in  
12 1938 or '39. However, today I don't think the issuance of an  
13 oil and gas lease by a grantee of Legislative-granted tide and  
14 submerged lands would be an alienation of those lands or a  
15 violation. As a matter of fact, we know, for example, that  
16 the City of Los Angeles is using the lease procedure and I  
17 don't think that they are violating their grant in doing so.

18 So I believe, just as a theoretical matter, the leas-  
19 ing alternative would be available if they choose to use it.  
20 I believe they feel that this method is a better one from their  
21 standpoint. They were forced into it in the first instance;  
22 now they think it is better.

23 SENATOR O'SULLIVAN: You are speaking here for the  
24 Attorney General?

25 MR. SHAVELSON: Yes.

26 SENATOR O'SULLIVAN: And he is the chief legal  
27 adviser of the State of California?

28 MR. SHAVELSON: Yes.

29 SENATOR O'SULLIVAN: And you feel the leasing method  
30 would be legal?

31 MR. SHAVELSON: Yes.

1           SENATOR O'SULLIVAN: And your testimony is directly  
2 contrary to what has been previously said by Mr. Hortig?

3           MR. SHAVELSON: I think what Mr. Hortig was saying --  
4 he was talking about the L.B.O.D. and Richfield contracts, and  
5 at that time there may have been some question.

6           In the case of City of Long Beach versus Marshall in  
7 the California Supreme Court, it was indicated that the lease  
8 would not be an alienation of the title on tideland grants.

9           SENATOR O'SULLIVAN: I meant no reflection on Mr.  
10 Hortig in any way. I merely assume he is speaking from an  
11 older decision of the courts.

12          MR. SHAVELSON: Not an older decision, but, rather,  
13 the terms of the tideland grants themselves say that the City  
14 cannot alienate these lands; and at one time I think there was  
15 a substantial doubt as to what would constitute an alienation.  
16 In my opinion - - I don't want this to be a final, binding  
17 opinion of the Attorney General's Office -- but in my personal  
18 opinion right now, issuance of a lease would not be an  
19 alienation.

20          MR. CRANSTON: Without seeking to determine the legal  
21 point, I would like to ask Mr. Hortig to comment on the rela-  
22 tive merits of revenues in the two methods.

23          MR. HORTIG: Yes, Mr. Chairman. We previously report-  
24 ed to the Commission on the relative merits and, in summary,  
25 the finding was that for offering a given area of known quality  
26 or even tentatively known quality, as has always been the case  
27 on tide and submerged lands offered by the City of Long Beach,  
28 that when proper accounting credit is given for all of the  
29 economic factors that differentiate the percentage of the net  
30 profits or percentage of the gross type contract of all State  
31 oil and gas leases, that in whatever form oil and gas

1 withdrawal was authorized by a government agency pursuant to  
2 public bidding, essentially the same ultimate net profit will  
3 result to the lessor or the contractor -- whether it be by  
4 percentage of the net profits route or an oil and gas lease.

5 Patently, the high bidder is offering to pay and com-  
6 pensate the landowner in a maximum amount which he can afford  
7 to pay, and whether he is going to pay this as a result of a  
8 percentage of net profit or as a royalty percentage and/or  
9 bonus, is going to be translated into either of those terms  
10 by his electronic computer, and in accordance with his ability  
11 to predict these imponderables in the future. So he offers to  
12 pay the same gross amount of money ultimately, irrespective of  
13 the form of contract offered to him.

14 Now, there are certain features that result in what  
15 appear to be at first blush really high bids. For example,  
16 one that is oft quoted -- this ninety-five per cent bid offered  
17 to Long Beach for operation of one of the existing parcels.  
18 This is not a net percentage when you realize that in that con-  
19 tract the City has to advance all the capital and continues to  
20 advance the capital for replacement of equipment that is becom-  
21 ing obsolete and depreciated, and must be replaced, with the  
22 result that a reasonable prediction can be made that by the  
23 time that contract has developed the oil to exhaustion in this  
24 particular area, the net to the City from that contract will be  
25 much closer to fifty per cent than to any other value; and a  
26 fifty per cent royalty from a State lease has been achieved  
27 and, indeed, fifty per cent royalty rates on which an additional  
28 cash bonus has been paid.

29 So the circumstances that require the selection of a  
30 method, I think, are actually the determining criteria and not  
31 which system is going to produce the most revenue.

1           Again, we have to make the distinction which Senator  
2 O'Sullivan has already discovered. There is also a difference  
3 in the matter of applicable taxes, depending upon the type of  
4 contract which is entered into.

5           MR. CRANSTON: I think by coincidence we are at the  
6 hour of twelve and we might recess now and reconvene at one  
7 fifteen, when the first order of business will be the Long  
8 Beach presentation.

9  
10                           ADJOURNED 12:00 NOON

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AFTERNOON SESSION, FEBRUARY 28, 1963 - 1:25 p.m.

1  
2 MR. CRANSTON: The meeting will please come to order.  
3 Before proceeding with the presentation by Long Beach, Frank  
4 Hortig will read two additional communications received from  
5 interested parties into the record.

6 MR. HORTIG: Yes, Mr. Chairman. Actually, it is a  
7 total of three. First, Standard Oil Company of California,  
8 Western Operations, Inc., addressed Honorable Alan Cranston,  
9 Chairman:

10 "Dear Sir:

11 This company holds oil and gas leases and other  
12 oil and gas rights on about 147 acres, or approxi-  
13 mately eight per cent, of the acreage in the  
Town Lot Area within the proposed Long Beach  
Unit Area.

14 At the invitation of the City along with other  
15 upland owners, we have participated in the formu-  
16 lation of the proposed Unit Agreement and Unit  
Operating Agreement which have been submitted  
for your approval by the City of Long Beach.

17 In our judgment, these documents represent a  
18 sound and practical program for development of  
19 the proposed Unit Area and for coping with the  
possibility of 'subsidence' therein. We are  
prepared to sign these documents if they are  
approved by your Commission.

20 We have carefully analyzed the proposed Field  
21 Contractor Agreement which has also been sub-  
22 mitted by the City for your approval. We believe  
23 it would satisfactorily implement the provisions  
of the Unit Agreement and Unit Operating Agree-  
24 ment, and we find nothing in it that would pre-  
vent this company from bidding if it is offered  
for bid in the form submitted to you.

25 Very truly yours,

26 H. G. Vesper "

27 Signal Oil and Gas Company, addressed to Honorable  
28 Alan Cranston, Chairman:

29 "Dear Sir:

30 We have carefully considered subject documents.  
31 (Subject documents being proposed Unit Agreement,  
proposed Unit Operating Agreement, and proposed

1 "Field Contractor's Agreement, Long Beach Unit,  
2 Wilmington Oil Field, California). In our  
3 judgment, the Unit Agreement and Unit Operat-  
4 ing Agreement represent a sound and practical  
5 plan for the development and operation of the  
6 proposed Unit Area. We are also of the opin-  
7 ion that the Field Contractor Agreement appro-  
8 priately implements the Unit and Unit Operating  
9 Agreements. We urge that these documents be  
10 approved.

11 Very truly yours,

12 Signal Oil and Gas Company

13 By ....

14 (Mr. Hortig continuing) I believe it is probably R. W. Heath,  
15 Executive Vice President.

16 Telegram to Alan Cranston, State Lands Commissioner,  
17 Capitol Building, Sacramento, California:

18 "Continental Eastern Corp. owner of approxi-  
19 mately 115 acres approves the Long Beach  
20 operating unit. Feel contract and present  
21 supplemental agreements are fair and equitable  
22 for all concerned. We believe it most econ-  
23 omical plan to be devised. We feel that area  
24 should be developed in one large unit rather  
25 than split up into a number of smaller units  
26 both for good oil field practice and economic  
27 reasons. We intend to sign all present agree-  
28 ments after their approval by State Lands  
29 Commission. We believe it in best interests  
30 of State of California, City of Long Beach and  
31 on shore landowners and lease owners to begin  
operation soon as possible.

Continental Eastern Corp. by  
E. C. Simmons, President "

MR. CRANSTON: Is the representative from Long Beach  
ready to come forward? Jerry Desmond, City Attorney, and  
H. G. Lingle, Assistant City Attorney.

MR. DESMOND: Mr. Chairman, members of the Commission,  
members of the Legislature, I want to note first the presence  
here of a number of people that have worked very hard on the  
contracts and the documents that are before the Commission for  
approval. I'd like to mention, first of all, that we also have  
here, representing the City Council, the former Mayor, Raymond

1 C. Kealer, who is the Chairman of the Council's Oil Committee,  
2 a petroleum engineer himself, and has been on the Council for  
3 approximately sixteen years.

4 In addition, Bert Bond, who is the Mayor Pro Tem for  
5 the City of Long Beach, is also here; in addition, our City  
6 Manager, John Mansell -- who, of course, has been living with  
7 this matter for a good many months.

8 Beside me is Deputy City Attorney Harold A. Lingle --  
9 who, together with Leonard Brock, who is also present, the  
10 Petroleum Administrator of the City of Long Beach, is really  
11 the author of these documents.

12 In addition, we have had advice and assistance from  
13 the Harbor Department and their very fine Petroleum Division.  
14 The Chief Petroleum Engineer of the Long Beach Harbor Depart-  
15 ment, Doctor Manuel Mayuga, is also present.

16 Mr. Harry Fulton, the Special Assistant to the City  
17 Manager, is also present.

18 I speak of the Long Beach people and I certainly want  
19 to express appreciation at this time for that which they have  
20 done certainly to the people themselves; and for the tremendous  
21 cooperation and wonderful working relationship with Frank  
22 Hortig and his entire staff, and certainly with Attorney Gen-  
23 eral Mosk's Office and, in particular, Deputy Attorney General  
24 Jay Shavelson, we are very appreciative.

25 We want to say, first of all, that the report which  
26 is before you, I think, does in a very excellent manner sum up  
27 some most complex and complicated written agreements, arrange-  
28 ments, exhibits, and all of the rest. I think it sets it forth  
29 clearly, accurately, and in an excellent manner.

30 The City of Long Beach hopes this year to undertake  
31 development of the largest oil reserve in the State of

1 California, the huge east Wilmington Oil Field, which underlies  
2 the shoreline area of Long Beach, as has been pointed out in  
3 this exhibit, and extends over an area of approximately 6,500  
4 acres. It includes 4,400 acres of tide and submerged lands held  
5 in trust by the City of Long Beach; in addition, 1800 acres of  
6 privately owned upland property; and 300 acres of tidelands in  
7 the former Alamitos State Beach Park, in which, although the  
8 property is in Long Beach, the minerals are owned exclusively by  
9 the State -- which is known as Tract Number 2.

10 As Mr. Hortig pointed out to you previously, gentlemen,  
11 the Alamitos Beach State Park is the area which was conveyed to  
12 the City of Long Beach in 1961 by the State of California. How-  
13 ever, there was a reservation of the minerals and those do belong  
14 entirely to the State of California, as they have, incidentally,  
15 since about 1932, although at that time it was known that there  
16 was oil in the area.

17 Core hole drilling operations conducted by the City  
18 during the past year confirmed earlier predictions of a large  
19 field; the existence of six production zones was proven.  
20 Petroleum engineers estimate that the East Wilmington Field,  
21 the center of which is in the Long Beach Harbor District, will  
22 yield about one and a half billion barrels of oil.

23 Orderly development of the field poses numerous prob-  
24 lems and challenges. First, it is located in a subsidence dis-  
25 trict and every effort must be expended to protect hundreds of  
26 millions of dollars worth of private and public property from  
27 land sinkage. In addition, the land underlies one of the most  
28 scenic water areas along the California coastline. It is import-  
29 ant that the natural beauty and utility of the area be preserved.

30 Proceeding in accordance with the State's subsidence  
31 control law and in compliance with City ordinance requirements

1 for controlled drilling, the City of Long Beach has prepared a  
2 development program for the East Wilmington Field.

3 May I at this point say that these documents have  
4 been prepared by the City, but at all times I have already  
5 mentioned the assistance and cooperation of both Mr. Hortig's  
6 staff and the Attorney General's staff; and the representatives  
7 of the State have been present during many, many meetings that  
8 were held, particularly before the Unit Agreement, Unit Operat-  
9 ing Agreement, came into final form.

10 The objective of the program is to produce the maxi-  
11 mum amount of recoverable oil and gas, while at the same time  
12 protecting the City from subsidence damage. Long Beach proposes  
13 to achieve this objective by means of a unitized oil development  
14 program under which waterflooding operations would be conducted  
15 in the oil zones to maintain underground pressures, thereby  
16 increasing oil recovery and preventing subsidence.

17 Similar unitized water injection programs currently  
18 are being conducted in the Harbor portion of the Long Beach oil  
19 fields with successful results. They have been highly success-  
20 ful both in arresting subsidence and increasing oil recovery.

21 On February 27, 1962, a year ago yesterday, the voters  
22 of the City of Long Beach by a three-to-one majority lifted a  
23 ban against drilling in the City's offshore area and approved  
24 drilling in the East Wilmington Field on a carefully controlled  
25 basis.

26 As the Chairman has previously mentioned, it has been  
27 known for quite a period of time there has been oil offshore.  
28 The subsidence problem had to be corrected first. Certainly,  
29 the citizens would not have removed the ban on drilling unless  
30 first the problem had been corrected and, secondly, the con-  
31 trols were placed in the new proceeding.

1           The City, right after the election in February of  
2 last year, commenced preparation of the agreements providing for  
3 development of the field as a single unit. The Unit Agreement,  
4 Unit Operating Agreement, and related exhibits were drafted,  
5 under which all owners of the oil and gas reserves would pool  
6 their interests, contribute to the cost of the proposed water  
7 injection program, and share proportionately in the oil recov-  
8 ered. Involved in the negotiations to form the new Long Beach  
9 Unit, in addition to the City, were seven oil companies:  
10 Richfield, Superior, Standard, Signal, Union, Continental Eastern  
11 and Jade -- which have Town Lot leases on nearly all of the  
12 ten thousand parcels of Town Lot property located in the upland  
13 portion of the field. Also represented at management negotia-  
14 tion meetings were an Independent Property Owners Oil Develop-  
15 ment Association, from which you heard this morning; the Long  
16 Beach Unified School District; and representatives of the State  
17 Lands Commission and the Attorney General.

18           May I mention at this time there was a question regard-  
19 ing the School District letter and perhaps what appeared to be  
20 a misunderstanding. The School District was represented at all  
21 of these meetings. They do know, I am sure, their rights.  
22 When Mr. Hortig was referring to there being no tax, he was at  
23 that time speaking of Track Number 1. The thirty-three acres of  
24 land which the School District informed you gentlemen about in  
25 their letter, of course, are all located on the upland areas and  
26 those are subject to the tax and that is the source of revenue  
27 for the School District. The Long Beach Unified School District  
28 covers not only schools in the City of Long Beach, but the City  
29 of Lakewood, Signal Hill, Avalon, and some other county towns.

30           The agreements and exhibits were completed in Septem-  
31 ber 1962, approved by the City Council and by the oil companies

1 involved, and they have been filed with you for final approval.

2 In compliance with the City's offshore drilling ordin-  
3 ance, the documents confine oil drilling operations to not more  
4 than four attractively landscaped drilling islands and require  
5 that all related activity be conducted through the industrial  
6 harbor district and not across the City's beach.

7 Mr. Lingle will now show a sketch, copies of which  
8 will be made available to the Commissioners, of the type of  
9 island that is proposed, has been designed by petroleum experts  
10 in the field. From four islands located in the offshore area,  
11 the entire field -- both the eighty-five per cent in Tract No. 1  
12 as well as the balance, the fifteen per cent remaining in the  
13 upland area as well as Tract Number 2, the former State Park  
14 area -- could all be reached and fully and economically developed.  
15 This is, as I have stated, one of the requirements of the City  
16 ordinance, which otherwise prohibited drilling in any other  
17 manner.

18 The documents give the City control with respect to  
19 matters related to subsidence prevention.

20 Provisions of both State law and the City Charter of  
21 Long Beach require that competitive bids be sought on the pro-  
22 posed development. Consequently, a Field Contractor Agreement  
23 also has been prepared and filed with you for approval, before  
24 being put out for bids.

25 To encourage efficiency and economy in operations and  
26 to produce the maximum economic quantities of oil, the contract  
27 provides for only one biddable factor -- a percentage of net  
28 profits. In fact, the bid form has been prepared and attached  
29 to the bid form will be the contract itself, and there will be  
30 one place where there will be an opportunity for the bidder to  
31 act, and that is to put in the percentage of net profits.

1           This contract also requires the successful bidder to  
2 advance payments against future production to the State and the  
3 City's tidelands trust. These payments amount to fifty-one mil-  
4 lion dollars within the first thirty-six months of operation.

5           Another basic part of the Field Contractor Agreement,  
6 as proposed by the City, calls for contracting for development of  
7 City-controlled tide and submerged lands as a single tract rather  
8 than splitting the area up into parcels. The Unit Agreements pro-  
9 vide for development of the private Town Lot area also by the  
10 City's contractor, and Long Beach believes that the inclusion of  
11 the State Park area in the unit under similar arrangement would  
12 be the most efficient procedure -- and, of course, that is a mat-  
13 ter you gentlemen will be concerned with at a later time.

14           Long Beach favors the development of the field as a  
15 single tract for various reasons -- in fact, insists it would  
16 have to be. This approach would, first of all, provide for the  
17 highest and best bid; it provides the most effective means of pre-  
18 venting subsidence; it best serves the principles of unitization,  
19 whereby a single unified operation is needed to obtain the maxi-  
20 mum efficiency and economic return from waterflooding. It is  
21 apparent that substantial operating economies could be realized  
22 through single parcel development.

23           Long Beach does not believe that the offering of the  
24 area as a single offering would detract from bidding. It is un-  
25 likely that any one company anticipates bidding, would be bidding  
26 for itself alone. The City anticipates the bidding would be by  
27 various companies, and the contract provides for this. It is  
28 felt that any individual or company qualified to bid on even a  
29 reasonable portion of the contract can either join a group  
30 interested in bidding, or organize one itself.

31           I think perhaps some of the historical review would be

1 of interest, because we have talked about the tidelands grant.

2 In the year 1911, following and observing the State  
3 policy to encourage communities to build harbors, grants were  
4 made to a number of cities. As a matter of fact, in that same  
5 year, the City of Oakland, the City of Los Angeles, the City of  
6 San Diego, and the City of Long Beach were all granted their  
7 tidelands for development of the harbor.

8 This was an entire grant of the fee title; there is  
9 no reservation of minerals for the State. The Long Beach  
10 grant embraced 13,000 acres, or more than twenty square miles.

11 Subsequent statutes, particularly the grant in 1925,  
12 which repeated the language of 1911, provided that the revenues  
13 from the lands might also be used for parks, parkways, highways,  
14 and playgrounds. These, however, must be on the tidelands,  
15 and under later statutes the expenditures must be for matters  
16 of statewide, rather than local, interest.

17 Even before the grant of 1911, Long Beach had com-  
18 menced to improve the tideland area. It had started the devel-  
19 opment of the Long Beach Harbor; the City bonded and taxed  
20 itself to finance work on the development of the inner harbor;  
21 but it was the discovery of oil on adjacent property in 1936  
22 which touched off a fabulous era of expansion for the Port of  
23 Long Beach.

24 All of the area, looking at the aerial photograph,  
25 which is, generally speaking, to the south -- Long Beach, as you  
26 know, faces south on San Pedro Bay -- all of it along the former  
27 coastline, the harbor and the naval station, is entirely re-  
28 claimed land outside the high tide line, and it has been devel-  
29 oped since 1938.

30 The City has had a number of test cases -- one, I  
31 believe in 1938 (I believe Mr. Shavelson mentioned it earlier

1 today) considered the matter and decided the City had the auth-  
2 ority to develop oil therein; the City could use the money for  
3 purposes of the grants from that oil production.

4 Piers built for harbor purposes also served as drill-  
5 ing platforms and revenue derived from production was used to  
6 build transit sheds and other harbor facilities.

7 Although they have brought great benefits to Long  
8 Beach, the tideland grants and matters related thereto have  
9 caused problems. First, came the fight against Federal owner-  
10 ship of all California tidelands. Next came a loss of revenue  
11 to the State of California. And third, and most important, came  
12 a virtual life and death struggle against subsidence -- land  
13 sinkage which accompanied the oil development.

14 First, now relating to the matter of the Federal claim  
15 in 1947, United States versus California, the United States  
16 Supreme Court ruled that the Federal Government had paramount  
17 rights over the tide and submerged lands. Long Beach was quick  
18 to assume a position of leadership in the fight of coastal  
19 states to avoid Federal seizure.

20 Oil was the principal issue in the tidelands battle  
21 with the United States and, because of its great stake as a  
22 trustee for the State, the City fought for retention of its tide  
23 and submerged lands. Long Beach supported the program of the  
24 National Association of Attorneys General to restore the tide-  
25 lands to the states, maintained representation in Washington,  
26 D.C. to assist in the effort, and operated a national public re-  
27 lations program designed to bring the truth of the State's cause  
28 to the public.

29 The California Senate Interim Committee on Tidelands  
30 reported in 1953, and I quote:

31 "Credit is due the City of Long Beach for refusing to

1 "accept proposals by Federal officials which  
2 would settle the City's problems at the expense  
3 of the State's cause...."

4 and there were many opportunities to do that. Long Beach was  
5 assured they would have full protection and all sorts of  
6 Federal grants and we would have full and entire control.

7 To go on with the quotation:

8 "Long Beach has consistently refused to make a  
9 separate agreement covering just its own situation  
10 and has stayed in the fight to preserve the con-  
11 stitutional principles being jeopardized."

12 Unquote, from the Senate Interim Committee.

13 The controversy over ownership of the tidelands was,  
14 of course, resolved with the signing of the Submerged Lands Act  
15 of 1953, which recognized that title rested in the coastal  
16 states and in their grantees.

17 Second: During the years of debate over ownership  
18 of the tidelands, Long Beach voluntarily impounded more than  
19 one hundred fifty million dollars from tideland oil production.  
20 This was more than the City then required to meet its trust  
21 obligation, so Long Beach in 1951 sought and received permis-  
22 sion of the State Legislature to spend half of its tideland  
23 income for public improvements.

24 Actually, the legislation in 1951, which passed the  
25 Legislature without a negative vote, declared surplus one-half  
26 of all of the oil income and also declared surplus one hundred  
27 per cent of the dry gas income; and before the bill was signed  
28 by the then Governor, Earl Warren, he first requested and was  
29 given assurances that it would be spent by the City only for  
30 public improvements of long range and of permanent nature,  
31 rather than for the general housekeeping activities of the

1 City, but still on municipal matters.

2 The taxpayers' suit challenged the act and ultimately  
3 in 1955, in the case of Mallon versus the City of Long Beach,  
4 the Supreme Court held that such proposed use of funds would be  
5 unconstitutional and ruled that half of the money should go to  
6 the State. It ruled that the intent of the Legislature must  
7 have been not to do an unconstitutional act in granting the  
8 tidelands grant funds and making an unconstitutional gift; that  
9 perhaps the Legislature meant to declare this surplus and that  
10 it would be returned to the grantor.

11 The following year (that was in 1955 -- the Supreme  
12 Court decision), in 1956, faced with prospects of further liti-  
13 gation of more than ten years, the then Attorney General, Pat  
14 Brown, advised the legislative committees at the time in urging  
15 approval of a compromise that his estimate was such litigation  
16 might continue for more than ten years' time; so the City of  
17 Long Beach and the State effectuated an agreement, A.B. 77,  
18 which became Chapter 29 in '56. Under that, the City immediately  
19 paid over to the State \$120 million to date itself back, then,  
20 to the declaration of surplus coming in 1951, and it is now  
21 obligated to pay half of all future tidelands oil revenue and  
22 all of the proceeds from dry gas to the State. The remaining  
23 half is used by the City of Long Beach only for tidelands trust  
24 purposes -- with a few exceptions only upon the approval of the  
25 State Lands Commission with the advice of the Attorney General,  
26 and only for projects which are first determined to be of state-  
27 wide rather than of local interest. I will mention a few of  
28 those in a few moments.

29 The largest of all the problems encountered by Long  
30 Beach in the production of tidelands oil was the creeping disas-  
31 ter known as subsidence. Sinking in the harbor district of

1 Long Beach was first noticed in 1940. The ground surface at the  
2 center of the Wilmington Oil Field began sinking at a rapid rate  
3 and, slanting out from this center, the subsidence eventually  
4 covered a twenty-square-mile bowl-shaped area.

5 Before a solution to the problem was found, the center  
6 of sinking had dropped to a depth of more than twenty-six feet,  
7 damages totaled ninety million dollars, and properties valued at  
8 five hundred million dollars were threatened with destruction.

9 The welcome answer to subsidence was water flooding to  
10 increase underground pressures in the oil field. With the help  
11 of the Attorney General's Office and the oil industry, Long Beach  
12 succeeded in obtaining and using the subsidence law to ward off  
13 disaster. This law enabled the City, the State, and private oil  
14 operators to cooperate in the formation of units and flooding  
15 cooperatives to repressure the oil field.

16 At the present time, three fault block areas in the  
17 harbor area have been unitized, both upland and tideland areas --  
18 just as is proposed in this Long Beach unit, both private and  
19 public property involved. The Supreme Court of the State approv-  
20 ed the unit agreement in early 1961. To date, 637 million bar-  
21 rels of water have been injected under pressure into the Wilming-  
22 ton Oil Field. At the present, the rate of injection is 535  
23 thousand barrels of water per day.

24 Results have been phenomenal. Sinking has been com-  
25 pletely stopped in all areas including the Long Beach Naval  
26 Shipyard, downtown Long Beach, and the entire harbor waterfront.  
27 Sinking at the center of the bowl now is less than three inches  
28 per year, as compared to a peak at one time of two and a half  
29 feet per year.

30 Also, the repressuring operations are greatly increas-  
31 ing oil recovery. Since large-scale repressuring was started in

1 1958, secondary recovery, which would never have been recovered  
2 by natural or primary means, already has paid for the program and  
3 paid an extra ten million dollars to the Long Beach tideland  
4 trust.

5 Since the start of tideland oil development in the  
6 Wilmington Oil Field in 1939, Long Beach tideland leases have  
7 produced a net revenue of more than \$360 million. The two City  
8 contracts now in effect, both obtained through competitive bidding  
9 are generally regarded as the best in the United States.

10 Quoting again from the Senate Interim Committee on  
11 Tidelands:

12 "Revenues to the City are probably the highest of any  
13 such contracts in the history of the oil industry.  
14 Under one contract with Long Beach Oil Development  
15 Company the City receives 85.85 per cent of the  
16 gross revenues of the oil produced and under the  
17 other contract with Richfield Oil Corporation, it  
18 receives 94.1 per cent of the gross oil revenues."

19 I think those figures are not quite accurate, but in that respect  
20 only. Further quoting:

21 "The City has netted over fifty-four per cent of the  
22 gross revenues...."

23 This is "netted" according to the Senate Committee report - -

24 "Netted over fifty-four per cent of the gross revenue  
25 on the L.B.O.D. parcel and over sixty-seven per cent  
26 on the Richfield Oil Corporation parcel."

27 "Netted" sixty-seven per cent on the Richfield Oil Corporation  
28 parcel. Further quoting:

29 "The committee commends the City of Long Beach for  
30 the outstanding example it has set in this tideland  
31 oil and gas development and improvement of its

1 "waterfront. The extremely high financial returns  
2 the City is obtaining establishes a goal for the  
3 State of California in its future development of oil  
4 and gas resources in submerged lands." End quote.

5 Waterflooding operations now being conducted are expect-  
6 ed to greatly increase profits from these two leases in the years  
7 to come. Water injection is expected to quadruple the production  
8 of oil during the remaining life of this tideland field.

9 The proposed new contract for the East Wilmington Field  
10 incorporates various improvements over the two existing contracts.  
11 Most important is the requirement to institute a water injection  
12 program from the start of development, to guard against subsidence  
13 and increase ultimate recovery. It is estimated that waterflood-  
14 ing operations will produce six hundred million barrels of oil  
15 over and above the nine hundred million that could be recovered  
16 by normal, primary oil development techniques.

17 Second in importance is the feature of having the bid  
18 based on a percentage of net profits. As Mr. Hortig very cor-  
19 rectly stated, this is different and we feel it is very definitely  
20 an improvement, because it will encourage efficiency and economy  
21 on the part of the operator. We feel that putting it on a net  
22 basis rather than gross, there is that incentive to develop in  
23 the most economical manner.

24 Long Beach firmly believes that it has used its share  
25 of the tideland oil money in the best interests of the State of  
26 California. Not one cent of the revenue produced has been used  
27 for non-trust purposes.

28 By far the biggest project undertaken by the City has  
29 been development of Long Beach Harbor. Marshland and salt flats  
30 just fifty years ago, today the Port of Long Beach is recognized  
31 as the most modern harbor in the United States, serving not only

1 California, but seven western states. The port currently handles  
2 approximately twelve million tons of cargo annually and leads all  
3 other west coast ports in handling dry cargo -- that is, cargo  
4 not carried in tankers. In keeping with the growth of Califor-  
5 nia and the West, the Port of Long Beach will double in size  
6 and increase tremendously in importance during the next twenty  
7 years.

8 Transformation of the scenic Long Beach shoreline into  
9 one of the world's finest water recreation areas is another ob-  
10 jective of the City. Several individual projects already have  
11 been completed, and others are in the advance planning stage.  
12 Improvements already completed include the Long Beach Marina, a  
13 haven for two thousand small craft. It is self-supporting, all  
14 of the revenue going back to the tideland trust fund. Eighty-  
15 one per cent of the boats moored in the Long Beach Marina are  
16 owned by persons who reside outside of the City of Long Beach.  
17 As I said earlier, projects must be of statewide interest, and  
18 I think this is a very good example of just that -- eighty-one  
19 per cent of the owners are not Long Beach residents.

20 A new Navy landing serving the Pacific Fleet and an  
21 Armed Services Y.M.C.A. for sailors, soldiers and airmen of the  
22 area are other examples of how tideland funds have been and will  
23 be used for trust purposes.

24 Long Beach has transferred approximately \$200 million  
25 dollars to the State of California from tideland oil and gas  
26 incomes since 1956. The letting of the new offshore contract  
27 will mean more than a billion dollars in revenue to the State  
28 during the next thirty-five years.

29 Several other coastal California areas still have  
30 prohibitions against development of oil reserves in their off-  
31 shore areas. We are confident that Long Beach can demonstrate

1 to the rest of the state that oil development operations can be  
2 conducted without detracting from the natural beauty and recrea-  
3 tional use of the California shoreline.

4 This statement is signed by Edwin W. Wade, the Mayor  
5 of the City; John R. Mansell, City Manager; Leonard W. Brock,  
6 Petroleum Properties Administrator, and by myself. We believe  
7 that action on the contracts that are before you will serve the  
8 best interests of the State of California, and that it offers  
9 maximum financial benefits to the State and the tidelands trust,  
10 as well as complete protection to the City of Long Beach.

11 I'd like to make some informal remarks, jumping around  
12 a bit. I had heard a question raised in Long Beach, and one  
13 hearing it and not being informed might otherwise get the im-  
14 pression that there was an oversight because there is no bonus  
15 provided for.

16 As Mr. Hortig explained this morning, the objective of  
17 the competitive bidding is to get the highest total return. If  
18 we were proceeding under State law -- if we were talking about,  
19 let's say, a wildcat area, unknown, and a substantial bonus of  
20 fifty or a hundred thousand dollars was offered and then a re-  
21 turn to the State of California of sixteen and two-thirds per  
22 cent -- that would be understandable.

23 In this instance, in order to achieve the maximum re-  
24 covery, as someone has said the bidder would have to have con-  
25 trol of Fort Knox. The bonus required would be certainly some-  
26 thing well over one billion dollars.

27 The contract has been drawn so that it will be most  
28 attractive to the greatest number of bidders. We have contacted  
29 more than eighty companies. In December, we asked for sugges-  
30 tions, a letter going out to forty-three different companies we  
31 thought might have some interest. Work has been done on the

1 contract for many, many months.

2 If this were drawn just for the benefit of small com-  
3 panies, without regard to the subsidence problem, without regard  
4 to what is the best return, perhaps this might otherwise be  
5 split up into parcels; but that is an expensive way of proceed-  
6 ing. The coordination would be lost; in the purchasing of  
7 equipment duplication would be, I think, very important. This  
8 type of operation was discussed at the time this was being  
9 worked out, but experienced oil people, oil companies and others  
10 agreed that, and urged, it be done on a single parcel basis.

11 I want to say, too, that also expensive would be this  
12 matter of the suggestion of dividing the oil production. The  
13 fact is, there is other oil available -- the City upland area,  
14 the State Park area --former State Park oil, the Harbor area  
15 oil -- all available. The State at the present time actually  
16 does not sell its royalty oil separately.

17 We want to comment on the matter of control of a  
18 sizable portion of production. I know that that has been men-  
19 tioned in Mr. Hortig's report. Actually, the State requirement  
20 is more than one million barrels of oil a day. That's the re-  
21 quirement of the State. The production in the State is now per-  
22 haps at around 800 thousand barrels a day; and, therefore, there  
23 are imports. The production from this area would be, perhaps,  
24 one hundred to one hundred fifty thousand barrels a day.

25 The City of Long Beach has a new tanker dock leased  
26 to Richfield, where tankers holding a hundred thousand barrels  
27 come in and unload in a day. So the amount of money, although  
28 sizable, does not create any monopoly situation. Monopoly  
29 would mean a control of the supply where there is no sufficient  
30 demand. This is set up so that there will be joint bidding;  
31 there will be combinations of companies, so actually the oil

1 production is going to be divided.

2 One of the most pressing problems before the City is  
3 the fact that it has in the area that has been referred to a  
4 number of times today a twenty-five year contract with the  
5 Long Beach Oil Development, which expires one year from next  
6 month, and March starts tomorrow. It expires in March of 1964  
7 and that is not something about which the City can just turn a  
8 switch and say, "Let's put that aside." There are wells produc-  
9 ing; there are adjoining areas being produced which would con-  
10 tinue to and which would drain the State oil; there are water  
11 wells injecting water, the subsidence remedial program.

12 Obviously, for these reasons, this isn't something  
13 we can just ignore; and unless action comes in the very near  
14 future, the City will have to turn its attention entirely to the  
15 matter of the Harbor area parcels, in which the State has a very  
16 great interest. We cannot wait longer. The citizens have re-  
17 moved the oil production ban in this controlled way, but that's  
18 the situation at the present time.

19 We feel that the companies are interested in bidding  
20 at the present time. They have moneys that they can't hold tied  
21 up just indefinitely. I think if we just think of the interest  
22 on the money that is represented in those barrels of oil not  
23 taken out, I think this is going to be, would be, a very im-  
24 portant figure.

25 I do not mean to be disrespectful in any way, but I  
26 do not feel that the discussion about how to spend this "if"  
27 money should be indulged in at this time, at the expense of pro-  
28 ceeding on the contract. We realize that there are questions  
29 raised, and proper questions. We do not feel that this matter  
30 can be held off and in abeyance while there is discussion if  
31 we develop it, will there be too much money for the City to

1 administer under the controls that are set up under Chapter 29.

2 I think of the cartoon that I saw once with a bone in  
3 the bottom of a pool, and the dog fighting with his reflection  
4 in that pool over whether which would go after the bone.

5 This is perfectly proper to discuss these things, yes;  
6 but it should not be at the expense of proceeding on the con-  
7 tract.

8 Finally, I want to urge the Commission to consider  
9 the fact that we have already said and we say very seriously  
10 we believe this is the best way to proceed. This is the way  
11 it should be done. If we are proven wrong, it would be at the  
12 time the bids are opened. If the bids are not good, they may  
13 be rejected. The contract itself, the award of the contract,  
14 must also be acted upon by the Lands Commission.

15 We definitely feel that a development of this nature  
16 in this form will not only bring a great return to the State of  
17 California, but it will also, as I mentioned earlier, be an  
18 example for a number of other communities along the coast who  
19 are fearful now about the spoiling of their beaches; and those  
20 controls will be lifted and vitally needed resources will be  
21 made available to the State.

22 Mr. Kealer, Councilman, is present and I believe was  
23 going to speak to the Committee briefly, to advise that what  
24 we have been discussing here is the thinking of the policy-  
25 making body, the City Council of the City of Long Beach.

26 MR. CRANSTON: You might first see if there are any  
27 questions that anyone wishes to ask.

28 GOV. ANDERSON: I have one. Jerry, I realize you are  
29 fairly adamant on the idea of one operator, one unit handling  
30 this; but before you came to this decision, did you go into  
31 the alternative of breaking it into more than one lease, with

1 the thought of still being able to control it as one operating  
2 unit, so that it would answer this charge we often hear that if  
3 it is just one operator it is a monopoly?

4 MR. DESMOND: That was discussed. Mr. Lingle called  
5 that to my attention just during the past week, about this be-  
6 ing explored.

7 GOV. ANDERSON: How deeply did you explore it? Did  
8 you find that it couldn't be done?

9 MR. LINGLE: It could be done. However, in the inter-  
10 est of the maximum return to the State, when we considered the  
11 tie-in of the unit, it was considered that one method you might  
12 do is that you might have one operator operate one parcel and  
13 another operator operate just for the City; and knowing our  
14 past experience, and everybody else's experience, the over-all  
15 loss of coordination and the over-all benefits of unitization,  
16 we determined it was far more feasible and more economic to  
17 control subsidence -- the amount of pressures, the amount of  
18 water you put in, the amount of oil you take out must be co-  
19 ordinated -- to have one operator for the whole unit.

20 GOV. ANDERSON: You are going to have this series of  
21 islands. Won't you be able to determine to some extent the  
22 amount that is taken out of each of these island operations?

23 MR. LINGLE: Let me get over to the engineer's role --  
24 I have been around quite a bit. It's like putting straws into  
25 a great big bowl of soup. It isn't like drawing a line on a  
26 map and saying, "You operate this square and you operate  
27 another square." Each one of these islands has to be operated  
28 in conjunction with the other and all islands have to be co-  
29 ordinated -- particularly in view of our subsidence problems;  
30 to maintain the pressure, to obviate subsidence, they must be  
31 coordinated.

1           GOV. ANDERSON: Couldn't that be coordinated as far  
2 as the subsidence is concerned and still have two or three lease  
3 operators?

4           MR. LINGLE: As I said, it could be; but at the expense  
5 of somebody to do this coordination -- and I fear it is going to  
6 come out of your pocket, Governor, and my pocket, in coordinating  
7 it and we will not reap the benefits that we can if we have the  
8 benefit of one operation.

9           GOV. ANDERSON: You don't think we have a chance of  
10 better operation -- in breaking it up we will have more success-  
11 ful bidders?

12          MR. LINGLE: That part, I don't know; but I am sure  
13 the loss of coordination and the loss of economy in purchasing  
14 would be a loss this way.

15          MR. CHAMPION: I have heard another reason advanced  
16 for doing this and I'd like to have your comment on it -- that  
17 there is a chance that you would have a larger bid regardless  
18 of these expenses by virtue of having one ownership control take  
19 a large pool. Do you believe that to be true, or is that an  
20 economic factor?

21          MR. LINGLE: I suppose that is a possible economic  
22 factor. However, the way this contract is written -- what we do  
23 foresee it is going to cost, it isn't just advancing the fifty  
24 million. It is going to cost an awful lot of money for three or  
25 four years. Nobody is going to have any cash coming in. That's  
26 why we designed the fifty million, which covers from this year  
27 until we have some net profits. It takes a large amount of money  
28 to take care of four islands, construct four islands, and drill  
29 until the oil comes forth.

30          By enabling companies to go together, as the contract  
31 permits, to form their own organizations in whatever manner they

1 want to, they then could pool their resources to take care of  
2 this large expenditure of capital. Whether or not there is  
3 some benefit to them by controlling all oil production, we  
4 don't know. It might end up in benefits.

5 MR. DESMOND: May I add to that answer: We definitely  
6 agree with Mr. Hortig's statement, that in view of the lower  
7 individual oil allocations, as well as the complex administrative  
8 problems, it is doubtful that the cumulative bids or the aggregate  
9 City and State revenues would be as great as in this plan.

10 SENATOR ARNOLD: How have you effected repressuriza-  
11 tion at the present time and what would be the difference under  
12 your new series of contracts as compared with what you have  
13 experienced so far?

14 MR. DESMOND: I think in a general way this could be  
15 answered: The sinking that did occur was first really observed  
16 (although going in the records it was noted just in passing even  
17 earlier) in 1940; but actually the repressuring -- which also  
18 has the wonderful asset, Senator Arnold, of having this great  
19 additional return which would not otherwise come -- the repres-  
20 suring really got under way in a large scale manner in the late  
21 1950s, so that we were there acting on a bowl that had already  
22 sunk a great deal before this started.

23 This, of course, is something the citizens of Long  
24 Beach do not want ever to happen again. Therefore, because of  
25 the great benefits that have come with the repressuring, we are  
26 ordered, really, by the City ordinance to provide that the plan  
27 will have this at the inception -- and this doesn't mean going  
28 out and drilling water wells first or anything of the kind. It  
29 has to be done in an orderly manner, and this, I think, is set  
30 forth in the appendix in Attachment A -- "Done in an orderly  
31 manner," and it will be done right at the outset; so that the

1 benefits of the secondary recovery will occur, as well as, we  
2 believe, eliminate any chance for sinking in the area.

3 SENATOR ARNOLD: The problem then is secondary recov-  
4 ery rather than repressuring?

5 MR. DESMOND: It is to avoid subsidence and also for  
6 additional oil recovery.

7 SENATOR ARNOLD: But you are correcting subsidence at  
8 the present time. How many leases do you have?

9 MR. DESMOND: There are two areas producing in the  
10 Tidelands area of the Harbor District. The Long Beach Oil  
11 Development has the contract which I mentioned expires a year  
12 from next month; and the Richfield Oil Corporation, although its  
13 wells are in the Harbor District -- it produces from just out-  
14 side the Harbor District and over to the Pine Avenue area of  
15 the downtown area of Long Beach. In those areas, the water  
16 flooding is under way at the present time and, as I say, it has  
17 stopped subsidence as well as bringing these tremendous addi-  
18 tional quantities of oil; and we are not going to allow this  
19 area, any new area, to sink and then go in and try to pump it  
20 up again. We feel at the present time -- I mean, at the opening,  
21 when a new area is developed -- it should have proper waterflood  
22 programs instituted at that time.

23 SENATOR ARNOLD: My question was: What is the differ-  
24 ence whether you had one lease, or three or four or five opera-  
25 tions in this parcel Number 1 as far as repressuring is concerned?

26 MR. LINGLE: One problem, Senator, you run into --  
27 which we believe we would run into -- is that if, as I tried to  
28 point out, it would all be forced to be coordinated, you could  
29 not ....

30 SENATOR ARNOLD: Let me ask you: Is it being coordi-  
31 nated at the present time?

1 MR. LINGLE: The existing is, yes; the presently exist-  
2 ing part of the field is being coordinated, when we had a series  
3 of different contracts and consolidated those contracts so we  
4 could coordinate them. One other thing -- we know the geology  
5 of the present part of the field. We do not know the geology of  
6 the unproved, undeveloped part of the field.

7 If I could go a little bit farther - - You can't just  
8 divide this thing up and say, "Company A, you take this part,"  
9 "Company B, you take that part," because Company A may have a  
10 refinery that it's got for oil and it may have a desire to pro-  
11 duce one part of the field at one rate; somebody else's economy  
12 might want to develop another part of the field at another rate;  
13 another company's economy might need something else. We would  
14 then have to dictate to each one of the parcels at what rate  
15 he would take this oil out.

16 GOV. ANDERSON: Won't you be doing that now, in a  
17 sense?

18 MR. LINGLE: We won't have to act as a referee. If  
19 we have one contractor, it for its own best interests will  
20 develop the whole thing as it sees fit.

21 GOV. ANDERSON: Supposing its determination won't be  
22 up to the best interests of the State and the City, won't your  
23 man step in and tell them to step it up?

24 MR. LINGLE: Yes, he will; but he steps into one com-  
25 pany and won't have to step into different motives of numbers  
26 of them.

27 GOV. ANDERSON: Couldn't it be more difficult to push  
28 one great big operator than two or three?

29 MR. LINGLE: I can't argue with that, but we don't  
30 believe it would be more difficult. We believe their best  
31 interests are going to be the same as our best interests, and

1 whatever the injection rates are for the whole field, we feel  
2 it would be simpler for us to deal with one group.

3 MR. CRANSTON: Doesn't the contract give you the  
4 power to control that?

5 MR. LINGLE: The contract does, and the City ordinance  
6 requires that.

7 SENATOR DOLWIG: Mr. Desmond, have you obtained  
8 permits and the necessary Federal authority for erection of  
9 those islands?

10 MR. DESMOND: Not as yet. There has been contact made  
11 with the Navy, also with the Corps of Engineers, to discuss with  
12 them whether or not this would present any problems. We have  
13 been assured -- the City has been officially informed that they  
14 see no problems at all.

15 SENATOR DOLWIG: As far as getting permits?

16 MR. DESMOND: That is right.

17 SENATOR DOLWIG: I have one further question. I asked  
18 this question this morning and I think you are perhaps in a  
19 better position to answer it; and that is, I see by your unit  
20 agreement you have working interests with Richfield and Jade  
21 Oil. Who is Jade Oil?

22 MR. DESMOND: I do not know. I have been told that  
23 they are on the board. I know ...

24 MR. LINGLE: Jade's president is a man by the name of  
25 Mitchell. They have offices in Los Angeles and Houston. They  
26 are listed on the Pacific Coast in the Los Angeles and San  
27 Francisco exchanges.

28 SENATOR DOLWIG: Insofar as the working interests are  
29 concerned, as I understand it the working interests have inter-  
30 ests on your Town Lots?

31 MR. DESMOND: That is correct.

1           SENATOR DOLWIG: How are they going to participate in  
2 this Unit Agreement? Are they going to produce oil on your Town  
3 Lot on the map here and there?

4           MR. LINGLE: If I can describe this thing -- the unit  
5 operator ends up in being the City, so under the Unit Agreement  
6 all of the oil is produced by the unit operator. All we do  
7 under the Field Contractor Agreement is to hire ourselves a set  
8 of hands to do the work.

9           SENATOR DOLWIG: Pardon me. I want to understand it  
10 as we go along. As far as your people that are mentioned here  
11 that have working interests, what are these -- leases with  
12 Long Beach?

13          MR. LINGLE: No, they are leases with the property  
14 owners. That's the working interests.

15          SENATOR DOLWIG: Are they going to be involved in the  
16 thing as far as this Unit Agreement is concerned?

17          MR. LINGLE: No, sir, not under the Unit Agreement.  
18 Under the Unit Agreement, there is no bidding. The only thing  
19 we are bidding is to get somebody to do the work for the City.  
20 Those working interests are going to get an allocated share of  
21 the over-all oil. There is a formula whereby you determine  
22 under a certain acreage what ratio should be attributed to that  
23 acreage as against all of it, and whoever has the lease will be  
24 delivered that amount of oil.

25          SENATOR DOLWIG: Is this going to come within Long  
26 Beach's share or the State's share?

27          MR. LINGLE: It's not coming out of either the City's  
28 Share nor the State's share. This is oil attributable to the  
29 private property on the uplands.

30          SENATOR DOLWIG: Let me get it straight. On the basis  
31 of the testimony this morning, there is a Long Beach ordinance

1 against drilling on the uplands, the so-called Towr Lot area.

2 MR. DESMOND: That's correct.

3 SENATOR DOLWIG: In other words, as far as the upland  
4 area, so we understand each other, we are talking now about the  
5 Town Lot?

6 MR. DESMOND: Correct.

7 SENATOR DOLWIG: There can't be any oil drilling on it?

8 MR. DESMOND: There can be no surface locations there.  
9 The oil there will be piped from these drilling islands extend-  
10 ing beneath the uplands.

11 SENATOR DOLWIG: Is that what you call slant drilling?

12 MR. DESMOND: Yes.

13 SENATOR DOLWIG: How far are the islands?

14 MR. DESMOND: The closest island cannot be any closer  
15 to Ocean Avenue than two thousand feet, so all of the uplands  
16 can be reached by the islands by slant drilling.

17 SENATOR DOLWIG: Is this the reason you have them in  
18 your Unit Agreement?

19 MR. DESMOND: Yes, so the uplands under the lease and  
20 the citizens who are going to get a royalty, this way they parti-  
21 cipate from the amount of oil from the uplands.

22 SENATOR DOLWIG: Are these provisions in the agreement?

23 MR. DESMOND: In the Unit Operating Agreement.

24 SENATOR DOLWIG: How are these citizens and working  
25 interests going to determine what their revenues are going to be  
26 under your slant drilling operation?

27 MR. DESMOND: As in any other unit -- we have other  
28 units of the same type -- this is by a formula, how much oil  
29 is attributable to a certain tract; and there is a formula  
30 attached to the Unit Operating Agreement; then whatever amount  
31 is assignable to the tract is then split up between the company

1 who had the lease and whoever the owner of the property is, in  
2 accordance with the terms of the leases, many of which differ.

3 SENATOR DOLWIG: So we can understand this, we have  
4 delineated how this is going to work as far as the State's  
5 share. I am talking primarily from the standpoint of how you  
6 are going to do your drilling.

7 MR. DESMOND: The surface locations will be on Tract  
8 Number 1.

9 SENATOR DOLWIG: In other words, that's where they  
10 are drilling and you are going to do slant drilling and go into  
11 the upland area and take out oil from there.

12 MR. DESMOND: By directional drilling.

13 SENATOR DOLWIG: And you have your working agreement ..

14 MR. DESMOND: Correct.

15 SENATOR DOLWIG: And the people who have the working  
16 agreement are going to get a certain percentage of the oil that  
17 is going to be taken out under Tract Number 1?

18 MR. DESMOND: Correct.

19 SENATOR DOLWIG: Wait a minute. The gentleman over  
20 there is shaking his head. I'd like to explore it.

21 MR. DESMOND: Similarly, the people in Tract Number  
22 One .....

23 SENATOR DOLWIG: Pardon me. So we understand, so we  
24 communicate, I am talking about the working interest as distin-  
25 guished from the people who own the land that have the lease  
26 agreements with the working interests. Let's keep that straight.  
27 Let's not talk about them. Let's talk about these two different  
28 entities.

29 MR. LINGLE: The City and State get a portion of the  
30 oil inevitably from under the uplands, and the people who have  
31 the working interests on the uplands will get a portion of the

1 oil on the tidelands.

2 SENATOR DOLWIG: How much, under this agreement?

3 MR. LINGLE: In accordance with the ratio. At this  
4 point we estimate if you take the whole pool and put it to-  
5 gether, the amount attributable to the City and State is eighty-  
6 five per cent; the amount attributable to the uplands is approxi-  
7 mately seven and one-half; the amount attributable to the State  
8 Park area is seven and one-half -- regardless of where the oil  
9 originally is in place.

10 SENATOR DOLWIG: On the seven and one-half per cent  
11 is this firm in this agreement?

12 MR. LINGLE: In accordance with all of it, the ratio  
13 of what you are going to get is from our information that we  
14 gather as we drill. We aren't being arbitrary.

15 SENATOR DOLWIG: Maybe Mr. Desmond can answer this  
16 question.

17 MR. DESMOND: I was going to say this is later ad-  
18 justed. There has to be something firm to get under way.  
19 Senator, this is really no different from the units which are  
20 presently in operation. This is the same type of an agreement  
21 whereby the Harbor area sections which are both upland and tide-  
22 land, which are both private and public ownership, operate;  
23 also, there, has there been an allocation under an equity  
24 formula, which is later adjusted as the development proceeds.

25 SENATOR DOLWIG: Let's assume this allocation. Let's  
26 take it a step further. Say seven and a half per cent goes to  
27 the uplands. Of this, how much does the working interest get  
28 and how much does the owner of the land get?

29 MR. DESMOND: We do not know what their leases are.  
30 That is entirely up to them.

31 SENATOR DOLWIG: Depends on their lease?

1 MR. DESMOND: There has been quite a range. We have  
2 been advised this leasing has been going on for some time.

3 SENATOR DOLWIG: Now, would you relate this to the  
4 net profit matter? Where does this seven and one-half per cent  
5 relate to it? In other words, what I am interested in is:  
6 Where does the State come out in this?

7 MR. DESMOND: The State and the City will receive, we  
8 assume at the present time, the oil attributable to that portion  
9 of the pool which is represented by tide and submerged lands,  
10 will be eighty-five per cent and so of the ....

11 SENATOR DOLWIG: Pardon me, we have gone over this.

12 MR. DESMOND: The net return will be divided.

13 SENATOR DOLWIG: What I am interested in is where does  
14 the seven and one-half per cent come in insofar as the determina-  
15 tion of the net profit is concerned?

16 MR. DESMOND: It does not.

17 SENATOR DOLWIG: It does not come in? Is that paid  
18 off from the top?

19 MR. LINGLE: If their share of the oil were seven and  
20 a half per cent, they also pay seven and a half per cent of the  
21 expense and it does not enter into the field contract or the  
22 agreement. If we could set the field contract and agreement  
23 aside for a minute, everyone will pay expenses in the same  
24 ratio as they have oil.

25 SENATOR DOLWIG: This is what I want to know. The  
26 upland owners will have to pay their share of the expenses and  
27 this is figured into the net profit. I think that straightens  
28 that out. Now, you are familiar with the Marshall decision, I  
29 am sure?

30 MR. LINGLE: Yes.

31 SENATOR DOLWIG: What effect does the Marshall decision

1 have, or does it have, insofar as these agreements are concerned,  
2 if any?

3 MR. DESMOND: I would say that the basis for sharing  
4 with the City -- that there is no violation of the trust in any  
5 way in so using the tidelands for development of oil; that that  
6 answer came from the Marshall case, and it is one of the founda-  
7 tions upon which we base these contracts.

8 SENATOR DOLWIG: And you feel under the Marshall deci-  
9 sion there would be no problem so far as using funds for trust  
10 purposes under these agreements?

11 MR. DESMOND: That's right.

12 SENATOR DOLWIG: Are you familiar with the statement  
13 the State Analyst made?

14 MR. DESMOND: You mean just recently in the budget  
15 report?

16 SENATOR DOLWIG: Yes.

17 MR. DESMOND: Yes.

18 SENATOR DOLWIG: Are you in agreement or disagreement  
19 with the Analyst?

20 MR. DESMOND: Well, now, he made several statements.

21 SENATOR DOLWIG: About the second one.

22 MR. DESMOND: I definitely disagree and I think perhaps  
23 he must have been misinformed -- I know he must have been mis-  
24 informed as to some of the items he mentions as being question-  
25 able on expenditure of funds. As to that, I know he is wrong  
26 entirely. He also said in that message that he believes that a  
27 further look at the allocation of the funds between City and  
28 State should be made. This is his recommendation to the Legis-  
29 lature. We are not looking forward to that, but I imagine that  
30 that is going to take place, that study, and we are ready to  
31 cooperate with the Senate.

1           SENATOR DOLWIG: Mr. Desmond, would it be possible to  
2 get an itemization of account of the moneys that Long Beach has  
3 spent for trust purposes from 1955 until 1962?

4           MR. DESMOND: Certainly.

5           SENATOR DOLWIG: And also the projected expenditures  
6 for trust purposes if this agreement is approved and consummated?

7           MR. DESMOND: We would be very happy to. As to the  
8 first question, as to those expenditures already made, under  
9 State law we do report annually to the State Lands Commission.

10          SENATOR DOLWIG: Mr. Desmond, I want you to know that  
11 I asked this information from the Legislative Analyst and he has  
12 indicated he has had a real problem, and I hope you will assist  
13 me and we won't have any problem.

14          MR. CHAMPION: Aren't those available? They are fully  
15 available in our proceedings.

16          MR. HORTIG: Our only problem is no one asked us.

17          SENATOR DOLWIG: I think I should clarify my statement,  
18 then. I have not been able to get the information from the  
19 Legislative Analyst. He consulted with the State Lands Commis-  
20 sion staff and they do not have the information, and this is the  
21 reason I am asking Long Beach to give it to me.

22          MR. CRANSTON: Senator, I believe it is appropriate  
23 that the Lands Commission give it to you. We have these in our  
24 possession and we will be happy to give them to you.

25          GOV. ANDERSON: Have you been asked for them, Mr.  
26 Hortig?

27          MR. HORTIG: No, sir -- not for what Senator Dolwig is  
28 now asking. The legislators have reviewed our records; the  
29 Analyst has reviewed our records. All of them have been avail-  
30 able, but we have never been asked specifically for what Senator  
31 Dolwig has requested.

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GOV. ANDERSON: Would we have cooperated with them?

MR. HORTIG: Of course.

MR. CRANSTON: Why don't we divide the burden? We will give them the figures on what has occurred up to date, and Long Beach will furnish figures on projected expenditures.

SENATOR O'SULLIVAN: Mr. Desmond, how much, in your opinion, will that Parcel 1 yield over its lifetime?

MR. DESMOND: As Mr. Lingle said earlier, we are moving over to the engineering, particularly petroleum engineering; but we do not disagree in any respect with the statements made in Mr. Hortig's report, which indicated perhaps one and a half billion barrels of oil -- one and a half billion dollars; one and a half billion barrels of oil is expected to underly the Town Lot areas and Parcel 1, - - Parcel 1, Parcel 2 and the Town Lot areas are expected to yield a billion and a half barrels.

SENATOR O'SULLIVAN: How much will Parcel 2 yield?

MR. DESMOND: That is estimated to be seven and a half per cent of that amount.

SENATOR O'SULLIVAN: And Parcel 1?

MR. DESMOND: About eighty-five per cent.

SENATOR O'SULLIVAN: And the Town Lot area is the balance?

MR. DESMOND: That's right -- about seven and a half per cent.

SENATOR O'SULLIVAN: Now, who did the geophysical work on it?

MR. DESMOND: Our petroleum properties administrator, Mr. Brock.

SENATOR O'SULLIVAN: Is he here?

MR. DESMOND: Yes.

1           SENATOR O'SULLIVAN: Was this done under contract with  
2 a private organization?

3           MR. DESMOND: The only - - There was a contract only  
4 for the core exploration.

5           SENATOR O'SULLIVAN: All of the rest was done by em-  
6 ployees of the City of Long Beach?

7           MR. DESMOND: I would say that this area has been  
8 under study for many years and I wouldn't, I couldn't say off-  
9 hand. Doctor Mayuga, the chief petroleum engineer of the  
10 Harbor, made a considerable study and I think there were probably  
11 consulting firms in the past years who have given information  
12 on it.

13           SENATOR O'SULLIVAN: Mr. Brock is your petroleum  
14 engineer?

15           MR. DESMOND: The petroleum properties administrator  
16 for the City.

17           SENATOR O'SULLIVAN: And he is here?

18           MR. DESMOND: He is here, yes.

19           SENATOR O'SULLIVAN: As the Attorney for the City,  
20 have you been relying on his opinion for these factual matters?

21           MR. DESMOND: Yes, sir.

22           SENATOR O'SULLIVAN: Will he be available throughout  
23 the day.

24           MR. DESMOND: Yes.

25           SENATOR O'SULLIVAN: And at other times to furnish  
26 information?

27           MR. DESMOND: Yes, sir.

28           SENATOR O'SULLIVAN: Now, the Unit Agreement doesn't  
29 become effective until you have got the commitment from the  
30 landowners on shore, is that right?

31           MR. DESMOND: From at least sixty per cent.

1           SENATOR O'SULLIVAN: Sixty per cent. Do you have  
2 that commitment?

3           MR. DESMOND: They are not actually committed, but we  
4 have assurances which we know are reliable that actually perhaps  
5 ninety-five per cent, or maybe ninety-eight per cent, of the  
6 area will be committed at the appropriate time.

7           SENATOR O'SULLIVAN: Well, you're a lawyer?

8           MR. DESMOND: Yes.

9           SENATOR O'SULLIVAN: They haven't signed anything yet,  
10 have they?

11          MR. DESMOND: They have signed letters, in which they  
12 have advised you gentlemen -- or, pardon me, I should say the  
13 Commissioners, that they intend to sign as soon as they are  
14 given that opportunity; and there was one letter read this morn-  
15 ing from one of the companies that controls fifty-three per cent  
16 of the area, fifty-three per cent of that necessary sixty per  
17 cent, and it has suggested to the Commission as soon as this is  
18 approved they are ready.

19          SENATOR O'SULLIVAN: Is there any danger of some of  
20 them holding out?

21          MR. DESMOND: We are assured there is not. One of  
22 those companies has been in this area and been paying the stand-  
23 by rental for many, many years. They are very eager, and cer-  
24 tainly their lessors are even -- well, they are equally inter-  
25 ested in that company proceeding.

26          SENATOR O'SULLIVAN: Thank you. Did you want to add  
27 to that?

28          MR. DESMOND: This is Mr. Lingle, the Deputy City  
29 Attorney.

30          MR. LINGLE: This is a little different than an  
31 ordinary unit, where somebody could drill from anyplace. The

1 only place they can drill is from these islands, and in order to  
2 reap any benefit from the large amounts of delay rentals they are  
3 paying, to get anything out of the oil, would be to get into the  
4 unit. They haven't got any other drillsites where, on the Town  
5 Lot, they can drill and frustrate us and drain the unit.

6 SENATOR O'SULLIVAN: Is this your opinion, Mr. Hortig?

7 MR. HORTIG: Yes, sir.

8 SENATOR O'SULLIVAN: There isn't any danger of anyone  
9 holding out or bludgeoning ...

10 MR. HORTIG: Not in the majority.

11 SENATOR O'SULLIVAN: How about the minority?

12 MR. HORTIG: There could be a minority, could be a  
13 small minority; but the small minority can't affect the applica-  
14 bility and the development of the area, even though they do not  
15 choose to join the unit.

16 MR. DESMOND: Out of this many parcels, if any unit  
17 more than an acre would be considered, we have very definite and  
18 satisfactory assurance from all except one or two, and we just  
19 haven't heard; and those are very minor and could in no way block  
20 the operation -- though we haven't heard one way or the other.

21 SENATOR O'SULLIVAN: Did you draft the operating  
22 agreement?

23 MR. DESMOND: That was done, as I said earlier, Senator,  
24 by Mr. Lingle. (Mr. Lingle shook his head) I admire his work -  
25 I am prejudiced. The agreement was drafted -- I think Mr.  
26 Hortig's report also mentions it and I had also -- there were a  
27 great number of meetings held with the management committee;  
28 there was a legal committee established; and I would say it was  
29 very definitely a combination. I think that this unit, although  
30 very complicated, in general is not very much different from the  
31 unit agreements in the Fault Blocks II, III, and IV in the

1 Harbor District areas.

2 SENATOR O'SULLIVAN: Were the unit agreements drafted  
3 in conference with oil companies?

4 MR. DESMOND: Yes, sir.

5 SENATOR O'SULLIVAN: Which oil companies?

6 MR. DESMOND: There were seven. I had mentioned this  
7 earlier -- I think you were not in the room just at that time.  
8 There were seven oil companies: Richfield, Superior, Standard,  
9 Signal, Union, Continental, and Jade. In addition, represented  
10 at the meetings were members of the staff; representatives of  
11 the staff of the State Lands Commission and of the Attorney  
12 General; also a very large group of property owners who have  
13 formed themselves into the Independent Property Owners Oil Devel-  
14 opment Association; and also, the Long Beach Unified School  
15 District was present.

16 SENATOR O'SULLIVAN: Now, I am familiar with five of  
17 those companies. What about -- I think we discussed Jade. How  
18 about Continental Eastern?

19 MR. DESMOND: They did participate and because they  
20 have leases in the area.

21 MR. CRANSTON: I think he wants to know who they are.  
22 Do you know who they are?

23 MR. DESMOND: No.

24 SENATOR O'SULLIVAN: Mr. Lingle?

25 MR. LINGLE: I don't know that. Continental Eastern  
26 is a corporation. It has had operations in the Long Beach area  
27 for some time.

28 SENATOR O'SULLIVAN: Do you know anything about their  
29 assets?

30 MR. LINGLE: No, sir; I don't.

31 MR. CHAMPION: These particular companies participated

1 because they all had working interests in the upland area?

2 MR. LINGLE: Yes, sir.

3 SENATOR O'SULLIVAN: So no other companies in the  
4 upland area participated in the drafting of these agreements?

5 MR. DESMOND: That is true. The Unit Agreement and  
6 the Unit Operating Agreement were worked out through a series of  
7 meetings, with the working interest owners present and partici-  
8 pating. That, of course, is separate entirely from the Field  
9 Operator's contract.

10 SENATOR O'SULLIVAN: Now, that Field Operator contract,  
11 how did that come about? Who did that?

12 MR. DESMOND: Mr. Lingle, I know, spent a great deal  
13 of time on this, I would say. Mr. Shavelson, I know, is very  
14 familiar with every line in that contract. It has been gone  
15 over not only by him individually, but also there have been  
16 great exchanges of correspondence. They have been of great  
17 assistance to us. As I mentioned earlier, this draft has been  
18 under development from about September of last year. We had  
19 asked for suggestions, comments. We have been in contact with  
20 as many as eighty different interested parties that had sugges-  
21 tions.

22 Mr. Lingle has with him a letter which he sent out in  
23 December, asking for any final suggestions of forty-three com-  
24 panies at that time; so we have had, I'd say, a lot of people  
25 looking at this and making suggestions -- but it is Mr. Lingle's  
26 contract.

27 SENATOR O'SULLIVAN: This contract -- Field Contract,  
28 Unit Agreement, Wilmington Oil Field, was discussed with forty-  
29 three operators?

30 MR. LINGLE: That is not a fair statement. I sent out  
31 a letter early in January saying that we were near the final

1 stages of this contract and the letter solicited any comments,  
2 and it went to forty-three companies. Some responded and some  
3 did not. We sought ideas, and we were willing to listen to any-  
4 body who wanted to talk; but it is the City's contract.

5 SENATOR O'SULLIVAN: The first general notice of this  
6 contract went out in January of this year?

7 MR. LINGLE: No sir, that is not right. It went out  
8 as early as September last year. Along in January, we informed  
9 people that we thought we were along toward a final contract and  
10 if they had any additional suggestions, we were available for  
11 consultation.

12 SENATOR O'SULLIVAN: Mr. Desmond, maybe you can answer  
13 this question.

14 MR. DESMOND: Pardon me, Senator. Mr. Lingle does  
15 have that letter, if it is of any assistance. I must have been  
16 in error when I said the month of December. December 26, 1962,  
17 a memo from Mr. Lingle to me, that he was mailing the following  
18 letter to all companies who requested any information concerning  
19 the Field Contractor Agreement, and it said:

20 "We anticipate that our proposed Field Contractor  
21 Agreement for the operation and development of the  
22 Long Beach Unit will be placed for bid early next  
23 year. We are now in the process of final review of  
24 the Field Contractor Agreement. If your company  
25 has any final suggestions, we would welcome them  
26 as soon as possible."

27 SENATOR O'SULLIVAN: Preceding that time -- preceding  
28 the time when you drew your first draft of the Field Contractor  
29 Agreement, had you conferred with any oil companies?

30 MR. LINGLE: We had not conferred with them as to the  
31 form of the contract, no sir. In the course of the negotiations

1 as this Unit Agreement was developed, the principles behind the  
2 Field Contractor Agreement had been discussed with many people --  
3 how we were going to implement the Unit Agreement.

4 SENATOR O'SULLIVAN: So that prior to September of  
5 last year you didn't contact or discuss the boilerplate that  
6 went into this contract with any oil company?

7 MR. LINGLE: I don't believe so.

8 SENATOR O'SULLIVAN: And subsequent to September of  
9 last year until the December letter, you did not call it to  
10 their attention?

11 MR. LINGLE: No, sir. That isn't correct. Along in  
12 September -- from September on, we put out several drafts. Each  
13 time, I think we printed up a hundred of them and sent them to  
14 anybody and everybody between the time we were drafting to people  
15 who wanted them. We distributed our ideas at that time to any-  
16 body who wanted them.

17 SENATOR O'SULLIVAN: Did you discuss this - - What  
18 were the names of the companies who contacted you between  
19 September and December?

20 MR. LINGLE: Well, among many - - let's see: Shell,  
21 Union, Mobil, Standard, Richfield, Signal. In addition, besides  
22 lawyers, we talked to Continental, Phillips, Humble if I haven't  
23 mentioned them ....

24 SENATOR O'SULLIVAN: Did any of these companies show  
25 an interest in this type of contract?

26 MR. LINGLE: Yes sir, they did.

27 SENATOR O'SULLIVAN: Did all of them?

28 MR. LINGLE: No sir, not all of them.

29 SENATOR O'SULLIVAN: Do you recall how many and which  
30 ones?

31 MR. DESMOND: Senator, just at the opening of the

1 afternoon session, Mr. Hortig read into the record, I think, two  
2 or three additional letters from companies that have expressed  
3 interest in this and specifically say that they have read the  
4 contract and they are satisfied, and there is no reason why they  
5 should not bid on it.

6 SENATOR O'SULLIVAN: Well, how many companies to your  
7 knowledge are interested in bidding on this? Can you tell me  
8 their names? At this point, we are almost to a contract and I  
9 think it would be of interest to the members of the Committee to  
10 know.

11 MR. DESMOND: It's a little difficult. We, of course,  
12 hope that there are a number of bidders. We realize, of course,  
13 there's going to be combinations of companies. I have heard of  
14 three different combinations -- the accuracy of which I couldn't  
15 vouch for at all. We have been of the opinion that there would  
16 be at least three different bids, by three different combinations  
17 Whether those combinations will actually effectuate themselves  
18 or not, I couldn't say with assurance.

19 SENATOR O'SULLIVAN: You can't list the names of the  
20 companies that are interested?

21 MR. DESMOND: I think we have - - The companies who  
22 have already written to the Commission are certainly among those  
23 that we have heard: Standard, Richfield, Signal.

24 MR. HORTIG: Excuse me, Mr. Desmond. There are two  
25 letters received today which were read into the record, in which  
26 there is an affirmative statement that the company would be  
27 interested in bidding; and, for example, quoting from the  
28 Standard Oil Company letter:

29 "We find nothing in it (that is, in the agreements)  
30 that would prevent this company from bidding if  
31 it is offered for bid in the form submitted to you."

1 The same sentence is contained in the letter from Signal Oil and  
2 Gas. A telegram was received from Continental Eastern Corpora-  
3 tion. These simply urge approval of the documents before the  
4 Commission, but do not make any specific statement with respect  
5 to submitting a bid.

6 MR. DESMOND: We would hope that among the bidders - -  
7 it's not for us to set up the agreements, of course - - we would  
8 hope that among the bidders would be Humble and Mobil and  
9 Standard and Signal, Richfield, Shell, and Union.

10 MR. CRANSTON: Senator, just as a point of information,  
11 we have advised the industry of this hearing and asked if they  
12 wished to have representatives here from the various companies  
13 to tell us what they think of the contract in its present form,  
14 and their views as far as the contract is concerned at the  
15 present time.

16 SENATOR O'SULLIVAN: This matter will be covered in  
17 the hearing?

18 MR. CRANSTON: Yes.

19 SENATOR O'SULLIVAN: How much, in your opinion, will  
20 be required to finance this first five years under this particu-  
21 lar agreement? Do you have any idea?

22 MR. DESMOND: I think that is something Mr. Brock or  
23 Mr. Hortig would come in on. I do not have any thought on that.

24 MR. CRANSTON: I would like to ask one question relat-  
25 ing to this: Have there been any objections up to this moment  
26 from companies who were not consulted in the drafting of the  
27 Unit Agreement, who were not presently involved in the Unit  
28 Agreement now?

29 MR. DESMOND: No, there have not. Your reference was  
30 to the Unit Agreement?

31 MR. CRANSTON: Yes.

1 MR. DESMOND: Yes, sir.

2 SENATOR DOLWIG: Is Tract Number 2 covered by your  
3 Unit Agreement?

4 MR. DESMOND: It is not. However, it makes it pos-  
5 sible to add it, too, if the State desires to.

6 SENATOR DOLWIG: Wouldn't it be possible from the  
7 State's standpoint, if it were not included - - You indicated  
8 there would be slant drilling. If Tract Number 2 is not in it  
9 at this time, it could be a derogation to the State's interests?

10 MR. DESMOND: We feel the State will want to go in  
11 this fine development. This does allow for that. This is  
12 getting over to the Attorney General's field, but I understand  
13 it is the opinion of the Attorney General that permissive legis-  
14 lation should be enacted at this session, which would allow such  
15 joining of the State area to the Unit.

16 SENATOR DOLWIG: Just one other question: This calls  
17 for public bidding?

18 MR. DESMOND: Yes, sir.

19 SENATOR DOLWIG: Was it the L.B.O.D. that was  
20 negotiated?

21 MR. DESMOND: That was a competitive sealed bid.

22 SENATOR DOLWIG: As I remember it, but I may be wrong -  
23 as I remember it, you did put it to public bid but wasn't the  
24 bidding thrown out and then negotiated?

25 MR. DESMOND: No sir. It was put out for bid a  
26 second time.

27 SENATOR DOLWIG: And the highest bidder negotiated  
28 the contract?

29 MR. DESMOND: Yes. That was in 1939, Senator, and I  
30 don't remember the details. I have only read about them, but it  
31 is my understanding - - I know the second contract, the contract,

1 was strictly on a competitive basis. That is what our charter  
2 requires, and the State law.

3 MR. CHAMPION: Just to complete this question Senator  
4 Dolwig raised, permissive legislation has been raised to permit  
5 the State Tract 2 to join this Unit.

6 MR. HORTIG: To clarify that point, it is Senate Bill  
7 298.

8 MR. CRANSTON: Jerry, would you like to clarify why the  
9 City feels this method is preferable to the bonus-royalty method  
10 used elsewhere?

11 MR. DESMOND: Yes. Under present State law, the pro-  
12 ceeding is on the sliding scale basis, with as low as sixteen  
13 and two-thirds per cent. I think this method, compared to the  
14 neighboring area which is developed under State leases -- what  
15 we still call the Monterey Island -- I think the return to the  
16 State and to the City will be far greater than any of the perhaps  
17 seventy leases developed, far greater; and, as I said before,  
18 if it were put on that sort of basis with the bonus, in order to  
19 make it come out anywhere near the same amount of return, some-  
20 body would have to advance perhaps a million -- a billion to two  
21 billion dollars at the most; and that has not been, of course,  
22 suggested in Mr. Hortig's report nor by us.

23 MR. CRANSTON: Of course, the State approach is a  
24 fixed bonus with a sliding biddable royalty, which would not re-  
25 quire such a vast amount in the beginning. Would you comment on  
26 that?

27 MR. DESMOND: Yes. I think the figure that I read,  
28 just taking one of the two leases in the Long Beach area, under  
29 the lease operating contract with Richfield there has been a net  
30 of sixty-seven per cent. There is no State lease, I am sure,  
31 that has ever come close to that royalty.

1 MR. CRANSTON: Any other questions? Glenn?

2 GOV. ANDERSON: Yes. I believe there was a letter  
3 this morning that commented there should be a sort of minimum  
4 schedule of production, sort of implying that the City manage-  
5 ment towards the end of this proposed lease could control the  
6 production downward, making it more beneficial to the new bidder  
7 at the end of the period to bid higher than the present holder.  
8 Would you take that up?

9 MR. DESMOND. Yes, and to take up Mr. Hortig's com-  
10 ment on that, when that was written, that was December 18th.  
11 Various points raised there have been, we believe, covered  
12 since that time in the contract itself, and in the agreement  
13 that has been entered into between the City and the State.

14 GOV. ANDERSON: So that the City management couldn't  
15 really control the thing downward toward the latter few years  
16 of the operation?

17 MR. DESMOND: This, again, is going to be on a net  
18 basis, and I think that the interest of the City and the State  
19 is going to be identical with that of the operator.

20 MR. CHAMPION: While Mr. Desmond is still before us,  
21 I'd like to ask Mr. Hortig a question. The City becomes the  
22 operator here and has the responsibility. However, the State  
23 has at least a half interest. What, in the operation agreement,  
24 controls, or what checks does the State have upon this operation  
25 by the City? In what way can the State interest be brought into  
26 the operation once it is approved?

27 MR. HORTIG: Well, Mr. Champion, one, by application  
28 of the administrative requirements which are imposed on the  
29 State Lands Commission by Chapter 29 of the Statutes of 1956 to,  
30 in broad general terms, supervise and coordinate with the City  
31 with respect to any operations in granted tide and submerged

1 lands in Long Beach, including auditing review of financial  
2 disbursements on the operation; to give advance approval to any  
3 operating contract changes which the City desires to make, which  
4 must be considered and approved in advance by the State Lands  
5 Commission; to review annually the expenditures by the City of  
6 Long Beach of its share of the trust funds for trust purposes;  
7 and then, in more specific detail rather than general, there is  
8 attached to your agenda item today as Exhibit A a series of con-  
9 tract conditions which would be agreed to between the City and  
10 State as a condition of approval by the State Lands Commission,  
11 which would build into the operation some additional review and  
12 approval responsibility in the Lands Commission for all opera-  
13 tions and future approvals within the framework of the operating  
14 contracts considered here today and, particularly, the specifica-  
15 tion of some operating standards to assure that all operations  
16 will be conducted in accordance with the best engineering prac-  
17 tice to accomplish the most effective development in the field  
18 and the best long-range interest for the City and State, as a  
19 matter of contract requirement between the City and State but  
20 not as a contract requirement between the City and the operator  
21 contract to be approved.

22 MR. CHAMPION: In your view in this particular aspect,  
23 that is, the State's ability to review and to some extent have a  
24 voice in the operation -- is this contract superior to, or the  
25 same as, or inferior to the provisions under our present opera-  
26 tions in the Long Beach area?

27 MR. HORTIG: It would be superior to our present opera-  
28 tions in the Long Beach area.

29 MR. CHAMPION: For what reason?

30 MR. HORTIG: For the reason that this is the first time  
31 that an operating contract has had to be brought to the Lands

1 Commission for advance approval and, therefore, for the first  
2 time the staff has been in a position to suggest to the Commis-  
3 sion these ancillary agreements for operating conditions with  
4 respect to Long Beach and for control and supervision.

5 All the prior operating contracts on which we do have  
6 a supervisory responsibility under Chapter 29 relate to only con-  
7 tracts that the City entered into prior to Chapter 29; and, there-  
8 fore, we can only supervise and recommend up to the point that  
9 was provided in the contracts at that time. But this contract,  
10 particularly with Exhibit A which is under discussion here for  
11 additional agreements, we believe -- and I think the Attorney  
12 General will concur in this, and this was the purpose of these  
13 additional agreements -- was to assure the Lands Commission a  
14 maximum control, which the Commission is entitled to under the  
15 statutory authority of Chapter 29. This, of course, could not  
16 have been written into contracts which were entered into before  
17 the Long Beach situation was a responsibility of the Commission.

18 MR. CHAMPION: Speaking only to this aspect of the con-  
19 tract, are you satisfied with the provisions so far as the Lands  
20 Commission's relationship to the operating party and the City?

21 MR. HORTIG: We are satisfied that the proposals before  
22 the Commission for approval constitute the maximum that can be  
23 recommended in the State interest under the existing scope of  
24 statutory law.

25 MR. DESMOND: May I just add, of course we realize the  
26 work conducted by the State Lands Division and the staff has  
27 more things proposed than they can now cover. We have already  
28 advised Mr. Hortig -- and we mean this very sincerely -- that we  
29 hope that the State in this kind of operation, as important as it  
30 is to them, will have people who will be there side by side work-  
31 ing. Now, we are the trustee; we are the manager; we are the

1 general partner; and we do have to make the decisions, but they  
2 will be made in the open and we hope with full advice from the  
3 State at all times. We will welcome it. We will feel better if  
4 they are there rather than to attempt to cover things just by re-  
5 ports and by correspondence.

6 MR. CRANSTON: Are there any further questions? If  
7 not, thank you very much. Councilman Kealer, do you wish to  
8 speak?

9 MR. KEALER: Very briefly, Mr. Chairman. First, I'd  
10 like to express my appreciation for being given the privilege of  
11 speaking here. Commissioner Cranston, Governor Anderson, and  
12 Commissioner Champion, merely the Council has delegated me to  
13 indicate to you the policy of the City, which you have been lis-  
14 tening to for some time, and that is, the City wanted, first, the  
15 very best type of contracts for the benefit of the City and the  
16 State; and, secondly, that it could be done as expeditiously as  
17 possible with all the proper safeguards in them.

18 I am Chairman of the Harbor Oil Industries for the  
19 City and have seen a number of these drafts, and from time to  
20 time suggestions were made. A few times I met with the staff of  
21 the Lands Commission and the Attorney General's Office and the  
22 Council, so we are very familiar with what this is all about.  
23 After the final drafts were submitted to the Council, they did  
24 adopt as their policy that these are the best things for the  
25 City and the State, as well as for the Town Lot owners -- and  
26 this was after endless conferences. We believe this is best.

27 We want the Commission to know we will do the very best  
28 possible to get this on the road and get it going effectively,  
29 and it is the objective of the Council that as long as we have  
30 agreement we can go ahead for the best interest of all of us.

31 MR. CRANSTON: Perhaps as an engineer you can answer

1 the question that was asked by Senator O'Sullivan as to the ex-  
2 pense involved.

3 MR. KEALER: If I did, it would be a guess. Let me  
4 answer in another way to a question Senator Dolwig asked and  
5 that is on the working interest of the Town Lot owners. To put  
6 it in a practical oil field way -- the land, the oil people have  
7 leased from the landowners, for which they pay a certain percent-  
8 age of the production. Let's assume the upland Town Lot owners  
9 have a ten per cent production based on sand count. Therefore,  
10 the leasing companies will have to pay those royalty owners what-  
11 ever their interest may be right off the top and whatever is left  
12 is their working interest.

13 I believe when Mr. Brock testifies before you, Mr.  
14 Chairman, he will be able to give you much more accurate informa-  
15 tion about cost estimates, et cetera.

16 MR. CRANSTON: If there are no further questions, may  
17 we ask Mr. Brock to come forward?

18 MR. CHAMPION: While Mr. Brock is coming forward, Mr.  
19 Hortig, do you have any estimate of the development costs?

20 MR. HORTIG: No, sir. We have reviewed Mr. Brock's  
21 estimates and I think under the circumstances he should report  
22 on them first hand. Inasmuch as the City under this proposed  
23 agreement is intended to be the operator, if so approved, we did  
24 not put in any staff time other than in a review capacity and did  
25 not prepare an independent estimate on this matter.

26 MR. BROCK: I believe the question now is capital  
27 investment?

28 MR. CRANSTON: Yes. I think you wanted to know the  
29 cost, Virgil, of the first three years -- the first five years.

30 MR. BROCK: I don't have those figures directly at hand  
31 but as I recall it's someplace between sixty and seventy million

1 dollars that the contractor will be in the hole some time during  
2 the first three years. In other words, as soon as there is oil  
3 production, he is going to start recouping his funds and, natur-  
4 ally, this depends on the rate of development -- how fast he  
5 drills his wells, and whether all islands are to be built at once  
6 or whether there is to be a delay between islands.

7 As I recall, including the advance payments, the deep-  
8 est he would be in the hole would be right at seventy million  
9 dollars.

10 SENATOR O'SULLIVAN: That's for the entire contract on  
11 Tract 1?

12 MR. BROCK: That's for Tract 1 only. Everybody else  
13 would be paying their own expenses during that time.

14 SENATOR O'SULLIVAN: Is there a rate at which the ex-  
15 traction should be made? Who controls that?

16 MR. BROCK: The city manager.

17 SENATOR O'SULLIVAN: Will control how fast the oil will  
18 be extracted?

19 MR. BROCK: That's right.

20 SENATOR O'SULLIVAN: Is there a criteria set up in  
21 the agreements for that?

22 MR. BROCK: Good oil field practice, good engineering  
23 practice. At present, that's about all we can do. That's all  
24 we can do because we don't know how much oil is there, nor the  
25 productivity of these zones.

26 SENATOR O'SULLIVAN: How much do you figure there is?

27 MR. BROCK: The figures which were quoted were by the  
28 engineering committee, which was the engineering committee for  
29 the unit. They were based on assumptions that the zones in this  
30 area will be productive to the same rates and extent that the  
31 same zones in Wilmington will be. We only have eight holes

1 scattered through sixty-seven hundred acres and this isn't very  
2 much -- eight core holes; and this isn't very conducive to an  
3 accurate estimate. We do believe that this figures of close to  
4 one and a half billion barrels is a representative figure.

5 SENATOR O'SULLIVAN: Did the City finance putting the  
6 core holes in?

7 MR. BROCK: Well, it came out of the tideland revenue  
8 fund.

9 SENATOR O'SULLIVAN: How much did that cost?

10 MR. BROCK: Right at six hundred thousand dollars.

11 SENATOR O'SULLIVAN: Do you think it would be worth-  
12 while to do any further investigation before you let the lease?

13 MR. BROCK: No, I don't think that anything is to be  
14 gained at this time. Possibly after the contract is let, there  
15 may be some additional work done solely to locate the islands.  
16 I believe the figures that we have obtained from the core holes  
17 are adequate for a bid.

18 SENATOR O'SULLIVAN: You have been the engineer on the  
19 other Long Beach properties?

20 MR. BROCK: I have worked on them.

21 SENATOR O'SULLIVAN: How long have you been in Long  
22 Beach?

23 MR. BROCK: I have been with the City since '53; I  
24 was with L.B.O.D. three years prior to that, and I was foreign  
25 one year.

26 SENATOR O'SULLIVAN: You don't think anything would be  
27 gained by spending some more money to investigate that oil down  
28 there, to find out how much is there?

29 MR. BROCK: No. I think when you get to a certain  
30 range in magnitude of barrels, I don't think the bid is going to  
31 be influenced very much whether there is another half of it or

1 another couple million less.

2 SENATOR O'SULLIVAN: Isn't it a fact that companies  
3 spend a lot of money on exploration?

4 MR. BROCK: In what way?

5 SENATOR O'SULLIVAN: Companies spend a lot of money on  
6 oil exploration, to find fields. They don't go out and drill  
7 dry holes.

8 MR. BROCK: That's right. We know the field is here.

9 SENATOR O'SULLIVAN: Wouldn't the fact that you knew  
10 there was another million dollars of oil mean you would have  
11 better bids, or the bids would be higher?

12 MR. BROCK: I don't think it would be much higher --  
13 the point being the contract is on the net profits. He makes  
14 profits on the operations on a percentage basis, and the percent-  
15 age profit on a billion and a half operation isn't going to be  
16 any higher than it would be on a billion barrel operation.

17 SENATOR O'SULLIVAN: That's all.

18 MR. HORTIG: Mr. Chairman, may I suggest in behalf of  
19 our secretary a short breather, if at all possible?

20 MR. CRANSTON: Let's take a five-minute break and we  
21 can continue with other parties from Long Beach, or oil companies  
22 and other parties.

23 (Recess 3:20-3:35 p.m.)

24 MR. CRANSTON: Will the meeting please come to order?  
25 I think it might be advisable to have a show of hands now, as to  
26 those who will desire to give testimony. (Three) We are ready  
27 to take whoever wants to start and we will go on from there.  
28 Mr. Scott, would you state your identification for the record?

29 This is a statement of L. E. Scott, Assistant to the  
30 President of Pauley Petroleum Inc., objecting to the adoption by  
31 this Commission of the City of Long Beach tidelands development

1 program as submitted this date.

2 Pauley Petroleum Inc., Los Angeles, California, is  
3 presently engaged in offshore tideland operations in the State of  
4 California, Louisiana, and Mexico. This company along with its  
5 partners, has in the past few years paid to the State of Cali-  
6 fornia an excess of 24.7 million dollars for tidelands leases.  
7 We are presently engaged in the development and production of  
8 these leases; therefore, we appear here today as an experienced  
9 operator and one fully cognizant of the problems involved.

10 We recommend that the State Lands Commission reject the  
11 proposal that is being submitted by the City of Long Beach for  
12 the following reasons:

13 1. The State Lands Commission has not been submitted  
14 adequate and sufficient information to permit it to make a final  
15 decision involving an oil and gas reservoir containing in excess  
16 of one and one-half billion barrels of oil, and worth somewhere  
17 between four and one-half and five billion dollars. This is one  
18 of the world's largest known oil reserves and will, in a very  
19 short time, represent in excess of fifty per cent of all of Cali-  
20 fornia's known oil producing reservoirs.

21 At the present time there are approximately 3.6 billion  
22 barrels of oil known to be producible in the State of California.  
23 The daily production in California is approximately 815,000 bar-  
24 rels a day, which is about 300,000,000 barrels a year. At this  
25 rate, in a little more than three years California will have de-  
26 pleted its oil reserves by more than a billion barrels. All of  
27 the oil producers in California, particularly the majors, are  
28 frantically drilling their fee lands, inside locations which  
29 ordinarily would not be drilled, in order to keep California's  
30 production up. This is being done for many reasons which we will  
31 go into later in this statement.

1           2. We object to this proposal on the grounds that, as  
2 written, it is monopolistic in its inception, and monopolistic  
3 and discriminatory as planned in the final results. This Commis-  
4 sion should seek out, at a full public hearing, all of the factor.  
5 surrounding the preparation of these documents, and what they  
6 really mean. We feel that the proposal, as written, is not in  
7 the public interest of the State of California and must, there-  
8 fore, be rejected.

9           A review of the documents submitted by the City of  
10 Long Beach indicates that it is the desire of the City of Long  
11 Beach, as well as some favored operators, to call for bids on  
12 Tract Number 1 as a single parcel. Why is this monopolistic?  
13 This will require the successful bidder, or consortium or combine  
14 that acquires the bid on Tract Number 1, to obligate itself to  
15 spend approximately 51 million dollars in recoverable bonus money  
16 plus build up to four ten-acre islands, plus drill at least forty  
17 wells in the first year after completion of the first island.  
18 Reliable engineers have stated it will cost a company between  
19 ninety and one hundred million dollars in initial investment to  
20 carry out the development of Tract Number 1 as proposed by the  
21 City of Long Beach.

22           It is our feeling that this tremendous investment re-  
23 quirement is fully intended to eliminate competition and to chill  
24 the bidding for the average offshore operator. I ask this Com-  
25 mission how many companies in the United States can commit them-  
26 selves to spend one hundred million dollars on any one project?  
27 Your attention is directed to paragraph 23, page 21, of the Field  
28 Contractors' Agreement, wherein the Field Contractor is not per-  
29 mitted to pledge or hypothecate this contract without first se-  
30 curing the consent of the City Manager of Long Beach. Here,  
31 again, is an obvious effort to eliminate reasonable size offshore

1 operators from bidding. In other words, the bidder cannot go to  
2 its bank or financial institution and secure adequate capital to  
3 carry on this development program without first receiving the con-  
4 sent of the City Manager.

5 Reference is also made to paragraph 32, page 32, en-  
6 titled FORCE MAJEURE. Pursuant to said paragraph, an operator  
7 must continue to pay the 51 million dollars over the three-year  
8 period, even though he is shut down by court order or by injunc-  
9 tion. Requiring an operator to make such substantial payments  
10 when ordered to cease production or operations is unfair. This  
11 is another effort to make it difficult for a reasonable size com-  
12 pany to bid. How many companies can continue to pay out 50 mil-  
13 lion dollars while they are not permitted to drill, operate, or  
14 produce because of the provisions of the FORCE MAJEURE clause?  
15 To make this requirement and not excuse payment while in litiga-  
16 tion is unthinkable. This is just another method used to elimin-  
17 ate competition and to allow certain companies to gain control of  
18 a fabulous oil reserve at a non-competitive price.

19 3. Mr. Chairman, there is another major factor involved  
20 in putting out the Long Beach property in one parcel. It is  
21 obvious that certain oil companies desire to control all of Tract  
22 Number 1 in order to monopolize and control the oil production,  
23 oil prices and oil imports on the west coast for years to come.  
24 Let's look at the daily production for October 1962 of many of the  
25 California operators. These figures are taken from the Conserva-  
26 tion Committee of California Oil Producers - Company Records of  
27 California Oil and Gas Production - October 1962:

28 SUMMARY FOR OCTOBER 1962: Major Companies Actual Production B/D

29	Richfield Oil Corp.	69,551
30	Shell Oil Company	61,513
	Socony Mobil Oil Company	46,680
31	Standard Oil Company	143,016
	Texaco, Inc.	48,818
	Tidewater Oil Company	53,617
	Union Oil Company	68,308
	Signal Oil and Gas Co.	40,310

1           It will be argued that the award of Tract Number 1 to  
2 any one operator or group of operators will not create a monopoly  
3 of the crude oil market in the State of California. We wish to  
4 point out that at the present time Richfield Oil Company produces  
5 approximately 69,000 barrels of oil a day; Union, 68,000; Signal,  
6 40,000; Standard Oil of California, 143,000; Texaco, 48,000;  
7 Tidewater, 53,000. If any one of these companies is awarded  
8 Tract Number 1 under the bidding procedure recommended by the  
9 City of Long Beach, it would more than double their present daily  
10 production in California. With the exception of Standard of Cali  
11 fornia, it would be necessary to add together the daily produc-  
12 tion of several of these companies to obtain the amount of oil  
13 equal to the anticipated daily production from the Long Beach  
14 Harbor Tract Number 1, which is estimated to be 150,000 barrels  
15 a day.

16           It is my opinion that any time the daily production of  
17 a major refiner is doubled, tripled, or quadrupled by virtue of  
18 one bid, a very bad situation is being created which will lead  
19 to the monopoly of the crude oil market on the west coast of  
20 California and of the United States as a whole. At the same  
21 time, it will permit the operators to process their own crude and  
22 exclude the purchase of crude from other onshore and tidelands  
23 operators in California not having refining capacity. We think  
24 this is in violation of the public interest and welfare of the  
25 State of California, of the oil industry, and of the nation as  
26 a whole.

27           Last week a statement appeared in the trade journals  
28 that oil and gas exploration in the United States is at a nine-  
29 teen year low. If one company, or group of major refiners, con-  
30 trol this oil, a great detriment is being done to the State of  
31 California and to the oil producers who operate in this state.

1 Do you think for one minute that any one of these companies is  
2 going forward with an aggressive exploration and development pro-  
3 gram onshore in northern or southern California and look for oil  
4 when they have, by one stroke of the pen and by one preconceived  
5 contract, more than doubled, tripled, or quadrupled their daily  
6 production in the State of California? Why should any company  
7 continue to search for oil where risks are high when they can buy  
8 it from Long Beach and, at the same time, gain control of produc-  
9 tion, prices and imports in this state?

10 We must insist, Mr. Chairman, that this proposal be  
11 rejected in its entirety and that the staff of the State Lands  
12 Commission, the Attorney General of the State of California, and  
13 representatives of the City of Long Beach be instructed to sit  
14 down and attempt to work out some reasonable basis on which this  
15 tremendous tidelands oil field can be put up on some equitable,  
16 fair, impartial basis, where all operators can have a fair and  
17 equal opportunity to bid on these lands.

18 4. We object to the price being paid for the crude oil  
19 under the Long Beach proposal. In our opinion, it will permit  
20 the sale of the Long Beach oil at a price lower than is presently  
21 being required by the State of California for their offshore  
22 tidelands oil. Under the Long Beach agreement, the contractor  
23 will have the exclusive right to take any and all oil allocated  
24 to Tract Number 1 by the Unit Operator or, at the option of the  
25 Field Contractor, he may obtain a financially responsible pur-  
26 chaser to purchase any or all allocated oil to Tract Number 1 by  
27 the Unit Operator and to take delivery of such oil in accordance  
28 with the Unit Operating Agreement. Any contract for such purpose  
29 must be approved in advance by the City Manager. You will note  
30 that the State Lands Commission has no control over the ultimate  
31 prices paid for the crude oil under this proposal, nor has the

1 Commission any way to force the oil to be sold to anyone other  
2 than the Field Contractor or his designated purchaser. This is  
3 the key to the whole monopolistic plan.

4 The Long Beach Contract provides that the value of the  
5 oil shall be on the basis of the price equal to the average of  
6 the price to be posted and paid by continuing purchasers of sub-  
7 stantial quantities of crude oil in the field for oil of like  
8 gravity on the day such oil is run into Field Contractor's tanks  
9 and/or pipelines (Page 9, line 17, of the Field Contractor's  
10 Agreement):

11 "Except as otherwise herein provided, oil allocated  
12 to Tract No. 1 shall be valued on the basis of a price  
13 equal to the average of the prices posted and paid by  
14 continuing purchasers of substantial quantities of crude  
15 oil in the Field for oil of like gravity on the day such  
16 oil is run into Field Contractor's or purchaser's tanks  
17 and/or pipelines. 'Continuing purchasers of substantial  
18 quantities of crude oil,' as used in this section, shall  
19 mean purchasers who have, during the preceding twelve  
20 (12) calendar months, purchased an average of at least  
21 three thousand (3,000) barrels of crude oil per day. If  
22 no such purchaser posts and pays a price in the Field on  
23 said day for oil of like gravity, or if the only pur-  
24 chaser or purchasers who so post and pay a price are the  
25 Field Contractor or one or more of the persons compris-  
26 ing the Field Contractor, then the price hereunder shall  
27 be the arithmetic average of such prices as may be posted  
28 on said day for oil of like gravity by Standard Oil Com-  
29 pany of California, Union Oil Company of California and  
30 Socony-Mobil Oil Company, Inc., or their respective suc-  
31 cessors, in the following fields: Wilmington, Huntington  
Beach, Signal Hill, and Inglewood. The above price shall  
be computed to the closest tenth of each degree of grav-  
ity and the closest tenth of a cent per barrel for the  
pricing of each delivery of crude oil by applying the  
price for each full degree of gravity to the even gravity  
and interpolating upward for each tenth degree of gravi ty."

25 If Field Contractor, or one of the persons compris-  
26 ing the Field Contractor, purchases oil from others in  
27 the Field, the price of the oil taken by such person shall  
28 not be less than the price paid by such person to others  
29 for oil of like gravity in the Field."

28 What does this pricing formula mean insofar as Long  
29 Beach and the State of California is concerned and how does it  
30 affect other operators in the State of California?

31 This company has recently acquired an oil and gas lease

1 known as Parcel 9A, and referred to as State Lease 2933.1,  
2 in the Santa Barbara area. (And I would like to say that it  
3 cost us \$6,100,000.) The State Lands Commission in its lease  
4 form provides as follows: (Paragraph 3, line 7, page 3)

5 "The Lessee agrees to account for and pay to the  
6 State in money as royalty on oil a percentage, deter-  
7 mined in accordance with the schedule attached hereto  
8 marked Exhibit B, and by reference made a part hereof,  
9 of the current market price at the well of, and of any  
10 premium or bonus paid on, all oil production removed or  
11 sold from the leased lands. The current market price  
12 at the well shall be determined by the State and shall  
13 not be less than the highest price in the nearest field  
14 in the State of California at which oil of like gravity  
15 and quality is being sold in substantial quantities,  
16 subject to an appropriate allowance for the cost of  
17 delivery of such oil to onshore storage and transporta-  
18 tion facilities. Said money royalty on oil shall be due  
19 and payable not later than the twenty-fifth day of the  
20 calendar month following the calendar month in which the  
21 oil is produced."

22 Under the Long Beach contract the Operator is going to  
23 bid net profits on Tract Number 1 and will receive the average  
24 posted price paid by certain companies. The companies that ac-  
25 quire other oil and gas leases offshore throughout the State of  
26 California (such as we did under Parcel 9A in the Santa Barbara  
27 Channel area), must pay the State of California the highest price  
28 paid for oil. This creates an unfair competitive situation since  
29 the operators who own other tideland oil and gas leases are re-  
30 quired to sell oil on parcels of tidelands lying outside of the  
31 Long Beach area at the highest price. It means that the companies  
who control the oil in the Long Beach area are going to buy their  
oil cheaper than operators of other State-owned leases. How can  
an independent producer compete with this sort of discriminatory  
pricing? It seems to me that we must have one pricing formula  
for all of the California tidelands. If we do not, we will have  
a situation where oil from Tracts Number 1 and Number 2 are being  
sold cheaper and making less profit for the State of California  
and the City of Long Beach than the State is making from other  
tideland parcels under their present pricing formula.

1           We are all aware of the situation which existed in Cali-  
2           fornia a short time ago when one company posted a price for oil  
3           of forty cents a barrel less than one of the other big producers.  
4           If there is a forty cent differential in the price of crude oil,  
5           then the average price received by Long Beach would be twenty  
6           cents a barrel less than the highest price paid for the crude by  
7           one of the major purchasers. What does this really mean, gentle-  
8           men? Let's take a look at it. It means that any company posting  
9           prices in any one of the fields set forth in the Long Beach con-  
10          tract can either lower or raise the price, like a window shade in  
11          a house, in those areas; or raise or lower the posted price for  
12          crude under Tract Number 1, and thereby manipulate the price and  
13          the profit the State of California and the City of Long Beach and  
14          the Field Contractor (if it happens to be an independent producer)  
15          are receiving from Tract Number 1.

16                 What does a company have to lose that happens to be the  
17          Field Contractor and also the purchaser and the refiner? The City  
18          of Long Beach and the State of California will have a lower price  
19          for their crude and will be receiving less money than they ordi-  
20          narily would. The City of Long Beach and the State of California  
21          will receive less net profits from Tract Number 1, but, at the  
22          same time, if the Field Contractor happens to be the purchaser  
23          AND the refiner, it will pick up that additional profit in his  
24          manufacturing profits and would actually be given a windfall by  
25          manipulation of the posted price.

26                 This agreement, as now submitted by Long Beach to this  
27          Commission, gives the exclusive control of this 1.6 billion bar-  
28          rels of oil to the Field Contractor or to his designated purchas-  
29          er. It does not give the City of Long Beach, nor the State of  
30          California, any protection whatsoever in order to dispose of this  
31          crude outside the contract. The contract is silent on whether or

1 not the Field Contractor must buy the oil even though he cannot  
2 sell it. The draft as submitted to the State Lands Commission  
3 staff in September 1962 had a firm obligation on the part of the  
4 contractor to buy the oil or to dispose of it. That language has  
5 now been changed insofar as oil is concerned. It is requested  
6 that the companies who wrote this contract explain whether or not  
7 it was the intention of the drafters of same to force the contrac-  
8 tors to buy. There must be some provision in this contract for  
9 the disposal of crude in the event the Field Contractor cannot  
10 find a market. The Field Contractor is required to buy all  
11 natural gasoline extracted from wet gas. We think this provision  
12 is unfair because it places an impossible burden on the contrac-  
13 tor when he doesn't have a market. This is just another device  
14 to eliminate competition by placing an onerous market provision  
15 upon operators who cannot market large quantities of natural  
16 gasoline.

17 No one company can agree to buy all of this oil unless  
18 there is a market. How many companies can actually absorb 75,000  
19 to 150,000 barrels of oil a day in their refinery? To my know-  
20 ledge, none of them. The only way this could be done is to cut  
21 off purchases and stop buying oil from the balance of the produc-  
22 ers in the State of California. We submit to this Commission this  
23 is exactly the plan of action to be taken by certain companies in  
24 the event they can monopolize the Long Beach Oil Field.

25 It is submitted to this Commission this is exactly what  
26 will happen in the event you permit this complete parcel of land  
27 to be put into the hands of one group of companies having control  
28 of the pricing and the refining processes in this State. They  
29 plan to reduce their purchases from independent producers through-  
30 out the State of California which, in turn, will result in the  
31 reduction of the posted price in all fields because the

1 independent contractor will be forced to sell his oil at lower  
2 prices.

3           Once you have created a soft market for crude oil in  
4 California, then the posted price will be lowered through manipu-  
5 lation by the refiners and thereby the State of California, the  
6 City of Long Beach, and the independent producers throughout the  
7 State will receive less money for their oil, not only on the Long  
8 Beach parcel, but on other California tidelands and on other oil  
9 fields owned by the cities of this State. This is a monopolistic  
10 plan in the crudest form.

11           Since the preparation of my presentation, the staff has  
12 suggested that small refiners be permitted to purchase a portion  
13 of the crude under competitive bidding every six months. What  
14 this means is that 'hard-put' small refiners would have to pay  
15 the highest price for his crude under sealed bids while the  
16 majors, who tie up the balance of the Long Beach crude, would  
17 pay the "average posted price" which they fix themselves. This  
18 merely accentuates the unfairness of this whole contract.

19           It also means that, unlike the major refiners, the  
20 small refiner cannot have a long range supply of crude in order  
21 to plan capital investments and arrange for imports.

22           If the small refiners are required to bid for crude,  
23 then we recommend that all of the crude under Tract Number 1 be  
24 put out for bid on an annual basis. In this manner all companies  
25 large and small, would be treated alike. Some may argue that the  
26 State and City should not take the risk and gamble on the oil  
27 market. The City and State are actually assuming all of the  
28 risks under a "net profits" arrangement so a little more risk  
29 should not matter. The only people who can lose would be the  
30 citizens of California.

31           5. Mr. Chairman, the State Lands Commission has, since

1 1955, taken the position and adopted a policy of putting up  
2 alternate, or every third, parcel in even the most risky wildcat  
3 areas. Also, this Commission has limited the size of parcels de-  
4 pending upon their potential productivity. This Commission has  
5 always endeavored to cut up parcels in such a manner so as to  
6 keep a complete geologic structure of any major size from being  
7 acquired by any one company or group. We think this is a prudent  
8 policy and strongly recommend that you continue to follow this  
9 policy at Long Beach. Your attention is directed to the State  
10 Public Resources Code, Section 6871.4, which limits the size of  
11 the tideland parcels to 5,760 acres. It reads as follows:

12 "

13 SIZE OF PARCELS TO BE LEASED:

14 The Commission may divide the lands within the area  
15 proposed to be leased into parcels of convenient  
16 size and shape and shall prepare a form of lease or  
17 leases therefor embracing not to exceed 5,760 acres  
18 in any one lease. (Added by Stats. 1955 ch 1724,  
19 18; amended by Stats 1957 ch 2166, 5.)

20 The Federal regulations for Federally-owned tidelands are similar

21 Why did the Legislature of the State of California and  
22 the Federal authorities deem it advisable to limit the size of  
23 even wildcat parcels? It is very easy to understand in that they  
24 desired to prevent the monopoly of oil fields by any one company  
25 or group. It is submitted that the Long Beach tract of land must  
26 be divided into several parcels and put out to bid, one at a time,  
27 in order to gain the full benefit of free competitive bids.

28 6. We would also like to call the attention of this  
29 Commission to the provisions in the Field Contract Agreement  
30 wherein the City of Long Beach and the State of California would  
31 pay the Operator 3.75 per cent interest on any advance bonus pay-  
ments. This is the first time in my experience that a landowner  
has been required to pay the oil operator interest on the money  
which the Operator paid the landowner. Here, again, is another

1 example of how some companies are trying to monopolize this tract  
2 by raising the bid price so high it cuts out the competition.  
3 The State of California, and certainly the City of Long Beach, ca-  
4 borrow money at much less than 3.75 per cent interest. We think  
5 this is against the best interests of the State of California and  
6 its citizens. We think this provision should be stricken.

7           7. It is also our feeling that the money payments set  
8 forth in the Field Contract Agreement are bonus payments and  
9 should be made payable twenty-five per cent at the time the Opera-  
10 tor bids and twenty-five per cent on the anniversary date for the  
11 next three succeeding years. We do not think the City Manager of  
12 Long Beach should be given the discretion to call or not to call  
13 for these moneys. If the City of Long Beach and the State of  
14 California are entitled to the money, then they should receive it  
15 at a specified time. This will create no hardship on industry  
16 members in that it will permit them to arrange their financial  
17 payments pursuant to contract.

18           A question has been raised as to what kind of payments  
19 these are. Are they advance royalty payments or are they, in  
20 fact, recoverable bonus payments which must be capitalized. If  
21 they are advance royalty payments, then they can be written off  
22 in the year payment is made. I understand that some competent  
23 tax authorities state that these are bonus payments and must be  
24 capitalized. If this is the case, it could be disastrous. This  
25 is one of the most important and vital points that must be re-  
26 solved and results made known to all bidders prior to the call  
27 for bid. The question of whether or not these payments are ex-  
28 pense items or capital items will materially affect the amount of  
29 the bid of any company -- regardless of whether or not it be net  
30 profit, bonus, royalty, or otherwise.

31           It is strongly recommended that this Commission instruct

1 the staff of the State Lands Commission and the Attorney General  
2 to secure a ruling from the Internal Revenue Service on final  
3 drafts of this proposed contract as to how these and other ex-  
4 penditures are to be treated taxwise. It may be that one or  
5 more of the companies involved in the preparation of these con-  
6 tracts may be already secured a ruling from the Internal Revenue  
7 Service. If this is the case, I suggest that they come forward  
8 and advise the Commission in open hearing as to the results of  
9 their findings and furnish the staff with a copy of the ruling.  
10 This would save considerable time. If no one has received such  
11 a ruling, then one must be received prior to the bidding date.

12 8. It should be pointed out to the Commission that if  
13 Tract Number 1 is permitted to be controlled as one parcel by  
14 major domestic refiners, it will vest control in these domestic  
15 refiners of the import of foreign oil into the State of Cali-  
16 fornia and to the west coast. Why is this the case? It is eas-  
17 ily understood since the foreign import quotas are determined by  
18 the amount of domestic oil put through domestic refineries. For  
19 example: If a company has a refinery with an input of 150,000  
20 barrels of oil a day, it will be permitted to bring in foreign  
21 import of 10.5 per cent of the domestic refined input. Therefore  
22 if a company, or group of companies, should control this estimat-  
23 ed 150,000 barrels a day production from Long Beach, regardless  
24 of whether or not they can make a nickel out of it, it will allow  
25 these companies to bring in an excess of 15,000 barrels of crude  
26 a day to the west coast. This will bring in more cheap oil and  
27 ultimately reduce the posted price. It is recommended that the  
28 State Lands Commission invite major oil importers to come for-  
29 ward, in public hearing, and explain the import quota and how  
30 much they make by virtue of being able to increase their imports  
31

1 by gaining control of this Long Beach oil.

2 9. We understand it is anticipated that the  
3 Operators will have to bid on this Long Beach proposal within  
4 a very short time after the Commission approves same.

5 I have not gone into the many questions we have  
6 regarding this contract as submitted today. It would take  
7 hours to set forth the various and sundry problems that must  
8 be resolved before any company can bid on these parcels.

9 Regardless of what this Commission does today, or  
10 sometime in the future, it is strongly recommended that you  
11 allow at least two hundred seventy days between the call for  
12 bids and the date bids are filed.

13 It is also recommended that you instruct the staff  
14 to hold public hearings on the form of the proposed contract,  
15 as you will recall, Mr. Chairman, was done in 1955 on the  
16 State lease form ....

17 MR. CRANSTON: That's what we are doing now.

18 MR. SCOTT: I don't just mean on general principles.  
19 I mean what the contract means.

20 MR. CRANSTON: That's what we are having this  
21 hearing for.

22 MR. SCOTT: I don't think anybody can tell you what  
23 the contract means, the way it is written. I would like to  
24 have each paragraph and every paragraph explained by the  
25 people who wrote it, the City of Long Beach, so everyone knows  
26 exactly what the obligations are.

27 I think the Texas Company letter went to that point  
28 very vividly this morning, when it was read into the record,  
29 that they don't know what it means. I don't know what it  
30 means. It's just a bunch of phrases thrown together.

31

1 MR. SCOTT: (Continuing with statement) It is  
2 also recommended that you instruct the staff to hold public  
3 hearings on the form of the proposed contract in order that  
4 all members of the oil industry may make a critique and learn  
5 what the contract really says and means.

6 The present contract is difficult to understand and  
7 interpret. A representative of one of the companies involved  
8 in the preparation of this contract summed up the contract  
9 proposal as follows:

10 "It is a hodge-podge of ideas to be submitted to  
11 the State Lands Commission for approval."

12 I think no one could possibly describe this contract  
13 any better.

14 Mr. Chairman, in conclusion, we would like to state  
15 that we do not wish to oppose a program unless we are able  
16 to offer a constructive way of doing it better.

17 We believe we have several alternatives in mind  
18 which could permit the State Lands Commission to put Tract  
19 Number 1 and Tract Number 2 out on an equitable, fair and  
20 competitive basis, which will permit all companies to  
21 participate.

22 At the same time, it will eliminate any possibil-  
23 ity of monopoly or cartel arrangement which would put the  
24 control of the oil business into the hands of a few operators  
25 and refiners in this State.

26 These recommendations follow:  
27  
28  
29  
30  
31

1 (a) It is our recommendation that the State Lands Com-  
2 mission put Tract Number 2 up for bid immediately, using the old  
3 form of lease and either calling for a cash bonus bid with a  
4 fixed royalty formula; or, if the Commission prefers, put up  
5 Tract Number 2 for bid on the basis of a fixed cash bonus payment  
6 and let the operators bid on a royalty basis.

7 On February 25, 1963, this company formally requested  
8 that Tract Number 2 be leased pursuant to present existing laws;  
9 a copy of our request is hereby introduced as evidence as part  
10 of this presentation. (Letter is as follows, addressed to State  
11 Lands Commission, attention Mr. F. J. Hortig, Executive Officer,  
12 Reference: Request for Call for Bid on California Tidelands  
13 Parcel):

14 " It is requested that the State Lands Commission call  
15 for bids pursuant to Section 6871.3 of the Public Re-  
16 sources Code of the State of California and other  
17 applicable statutes, laws, and regulations on the fol-  
18 lowing described parcel which is also delineated in  
19 red on the attached map and made a part hereof by  
20 reference:

21 That certain parcel of land bounded on the northwest  
22 by the southwesterly prolongation of the northwesterly  
23 line of Block 50 of Alamitos Bay Tract, as per map  
24 recorded in Book 5, Page 137, of Maps in the Office  
25 of the County Recorder of said County; on the northeast  
26 by the southwesterly line of said Alamitos Bay Tract  
27 and the southwesterly line of Tract No. 5325, as per  
28 map recorded in Book 58, page 54, of said Map Records;  
29 on the southeast by the southeast boundary line of the  
30 City of Long Beach; and on the southwest by the south-  
31 west boundary line of the City of Long Beach.

Your attention is directed to the language of  
Section 6871.3 which reads, in part, as follows:

"... or whenever a person who possesses the qualifica-  
tions provided in this chapter makes written request  
thereof, the Commission may, subject to the provisions  
of Section 6871.4, offer the same for bidding at such  
times and in such parcels as the Commission shall  
determine to be in the best interests of the State."

It is further requested that this application be  
called to the attention of the State Lands Commission  
at its regular meeting in Sacramento on February 28,  
and that appropriate action be taken at that time to  
authorize a call for bids on such parcel under the only  
statutory procedure presently authorized. "

1 Under the present statutes, the State Lands Commission  
2 cannot put up Tract Number 2 under the Long Beach formula because  
3 it is not permitted by the statutes. However, we think ample  
4 language can be written into the lease contract which would re-  
5 quire the successful operator to enter into a reasonable and  
6 equitable unit agreement with the Long Beach people pursuant to  
7 presently existing statutory authority.

8 We have just reviewed the recently introduced Senate  
9 Bill Number 298 which permits the State of California, as Oil  
10 Operator, to unitize Tract Number 2 with the tidelands in Long  
11 Beach. We are strongly opposed to this bill since it not only  
12 permits the unitization of Tract Number 2 with the tidelands in  
13 Long Beach, but it socializes the oil business insofar as the  
14 California tidelands are concerned and puts it under State owner-  
15 ship and State control. This is against our free enterprise sys-  
16 tem of government in this nation, and we oppose it completely and  
17 absolutely. This bill has also been referred to by some as a  
18 "two-page Proposition Four."

19 (b) It is recommended that the State Lands Commission  
20 and the City of Long Beach cut Tract Number 1 into several par-  
21 cels and put them out for bid, one at a time. This could be done  
22 even though the bids are received only two or three hours apart.  
23 It would permit reasonable size oil companies to participate in  
24 these offshore bids, and at the same time, give the State of  
25 California and the City of Long Beach the best possible bids.

26 It is also recommended that the City of Long Beach  
27 and the State of California seriously consider fixing the roy-  
28 alty and/or net profits which they want to secure and let the  
29 companies bid on a cash payment, payable over a three-year period  
30 with twenty-five per cent of the cash payment accompanying the  
31 bid. Cash bidding has been used by the State Lands Commission

1 for the past seven years and has been eminently successful. One  
2 condition of the bid could be that one of the parcels carved out  
3 of Tract Number 1 would be designated as Operator-Field Contrac-  
4 tor parcel, and the other parcels could be designated as Non-  
5 Operating Field Contractor, or the Operator could be chosen by  
6 lot upon award of contract on all parcels. We do not envision  
7 any delay if you went this way in splitting these parcels, Mr.  
8 Chairman. You put them out in one day, but you split them apart  
9 so you know how much money you have invested.

10 I am fully aware of the provision intentionally placed  
11 in the City ordinance which was passed by the voters of Long  
12 Beach last year requiring the operation to be in a single tract.  
13 We believe this problem can be taken care of very easily by a  
14 properly drawn document. If it cannot, then the State Lands Com-  
15 mission should, if its sovereignty is subordinate to the City of  
16 Long Beach, reject this proposal until it is resubmitted to the  
17 voters which would permit more than one company, or more than one  
18 group of companies, to participate in Tract Number 1.

19 It is very interesting to note that this unit area has  
20 about ninety parcels on shore that are owned by separate compan-  
21 ies and individuals. You also have Tract Number 2 owned by the  
22 State of California. This agreement very easily takes care of  
23 the unitization of ninety-one parcels. If ninety-one divided  
24 interest parcels can be unitized, then we see no reason why you  
25 cannot make it one hundred parcels, or one hundred and one, or  
26 one hundred and two.

27 It is imperative that the State permit participation  
28 by all operators in the State of California and, at the same  
29 time, assure the greatest return to the City and to the State.

30 (c) In the event the Commission does not want to  
31 split these parcels up into separate divided tracts, then it is

1 suggested that they be split into undivided interests and put  
2 out to bid, one interest at a time, two hours apart. We suggest  
3 that one interest be for thirty per cent; one interest for twenty  
4 per cent; three interests of ten per cent each; and four inter-  
5 ests at five per cent each. The contract could designate the  
6 company winning the thirty per cent bid as the Operating Field  
7 Contractor. All other undivided participants in Tract Number 1  
8 would be designated as Non-Operating Field Contractors. This  
9 would permit the smallest to the largest company to participate  
10 on an undivided basis, assume their proportionate share of the  
11 risk, cost, and expense, and receive their proportionate share  
12 of the profits. At the same time, it would permit the City and  
13 State to secure the best possible bids. This was anticipated by  
14 the City of Long Beach at the time they drew the Field Contractor  
15 Agreement since this agreement provides that there may be more  
16 than one Field Contractor and only one of them can be the  
17 Operator.

18 It is suggested that the State set the net profits  
19 and/or royalties and receive bids on a cash bonus payment, pay-  
20 able over the three-year period with twenty-five per cent down  
21 at the time of bid. The bonus payment should be free and clear  
22 of any interest charges but would be recoverable, by the success-  
23 ful bidder, out of their proportionate share of their oil in the  
24 same way they would recover their proportionate share of the  
25 cost in the event it were a net profits bid. Here, again, I see  
26 no reason why undivided interest owners should not bid on a net  
27 profits formula if the State so desires. The State and City  
28 could fix the amount of cash bonus they want and let each bidder  
29 bid on a net profit or royalty basis.

30 (d) It is strongly recommended also that the Commis-  
31 sion consider receiving bids where a landowner's free royalty is

1 fixed, plus a per cent of the net profits, and call for bids on a  
2 cash payment basis, as set forth in paragraph (c) above. The  
3 State is in dire need of immediate cash and receiving cash bids  
4 can generate hundreds of millions of dollars if the parcel is  
5 cut up into reasonable sizes.

6 The State and City might also consider a type of con-  
7 tract that fixes a free landowner's royalty and percentage of net  
8 profits and have the companies bid on the cash bonus basis. The  
9 bonus would be recovered the same as set forth above; or, if the  
10 State and City prefers, they could set the amount of bonus de-  
11 sired and the amount of net profits desired, and let each opera-  
12 tor bid on the free royalty, or any combination, under this  
13 formula.

14 Now, I believe Mr. Desmond said just a few minutes ago  
15 they might generate a billion dollars here. I never thought it  
16 would get that high. I thought you might generate from three  
17 hundred fifty to four hundred fifty million dollars. It would  
18 probably depend upon the royalty rates. Somebody will tell you  
19 this is too much money to hit the industry for in one day. Your  
20 attention is directed to the Louisiana sale in the Federal lands  
21 last year. I believe forty-eight million dollars were paid in  
22 a two-day period. I also believe there was five hundred million  
23 dollars in cash returns to the losers. So I don't think you are  
24 going to hurt these people if you bring these out on the bonus  
25 bid basis. We would certainly like our opportunity to partici-  
26 pate, where we can get a portion of this.

27 In conclusion, Mr. Chairman, we recommend that the  
28 State of California reject the proposal as submitted and remand  
29 it to the staff of the State Lands Commission and to the City of  
30 Long Beach to work out a formula and contract which will permit  
31 Tract Number 1 to be divided into numerous parcels where each

1 operator can have a fair and equitable opportunity to win a bid  
2 under a free, competitive situation.

3 In the event the State of California and the City of  
4 Long Beach cannot reach an equitable agreement permitting free,  
5 competitive bidding by more than one company or group of compan-  
6 ies, then it is recommended that the State Lands Commission refuse  
7 to approve any bidding arrangements which would vest title to  
8 Tract Number 1 in one operator, or one group of operators, and  
9 refer this matter to the State Legislature in order that proper  
10 legislation may be passed to accomplish this purpose.

11 There are many other problems which time does not per-  
12 mit us to discuss completely here and we hope the Commission will  
13 go into the following points at a later date:

14 1. Ad valorem and other taxes;

15 2. Question of why City of Long Beach should reimburse  
16 pre-unit expenses of onshore operators. (We do not know how much  
17 this obligation is, but it should be looked into).

18 3. Advisability of Unit Operator's authority to settle  
19 claims up to \$250,000 without prior consent;

20 4. Does the Onshore Operator have a veto of bids on  
21 Tract Number 1 by refusing to commit onshore parcels to the  
22 Unit; (Now, that point was discussed a little earlier and we have  
23 the letters here, I understand, that the operators will commit;  
24 but if they haven't signed that Operating Agreement and Unit  
25 Agreement at the time they open these bids, how do you know they  
26 are going to be signed? I think the time for that signing is be-  
27 fore bidding on Tract 1, so that is at least committed.)

28 5. Legality and advisability of including the Long  
29 Beach Oil and Development Company lands in the Unit by consent of  
30 Operators rather than through competitive sealed bids when that  
31 contract expires next March.

1           That completes my presentation for the present time,  
2 Mr. Chairman, unless there are any questions.

3           MR. CRANSTON: Thank you very much. Are there any  
4 questions?

5           MR. CHAMPION: I have one. Without disputing the  
6 argument, in two or three places you do indicate that there  
7 would be great advantages to a single operator, both in import  
8 position and so on. Do you think that would reflect itself in  
9 the amount of money that came to the State or are the other fac-  
10 tors involved going to reduce that amount?

11          MR. SCOTT: My objection is based primarily on the  
12 City of Long Beach having one operator.

13          MR. CHAMPION: But what I am asking: You indicate that  
14 due to price factors, and so on, having one operator would reduce  
15 the amount of money the State would receive -- having just one  
16 operator, or one group of operators.

17          MR. SCOTT: It has nothing to do with the operation --  
18 it has to do with the price they pay for the crude.

19          MR. CHAMPION: That is right. Now, you say elsewhere  
20 that there would be great advantages that would come to this  
21 single company or this group of companies because of their import  
22 advantages or other things. Do you think they would pay us a  
23 substantial advantage to have those?

24          MR. SCOTT: Yes, they might, if they don't have com-  
25 petition; but when you get six million barrels of oil, you would  
26 have eliminated any competition on a reasonable basis and you  
27 would actually get less money, in my opinion. If you cut this  
28 up in smaller portions -- it's like if you've got a ten-thousand-  
29 acre piece, you get so much for it and if you cut it up into ten  
30 lots, you get much more.

31          MR. CHAMPION: I have one more question. You say we

1 would discourage exploration and that undoubtedly is true in  
2 terms of the winning bidder. Wouldn't that lead other companies  
3 to redouble their efforts in order to hold their place in the  
4 California market?

5 MR. SCOTT: Not necessarily. You get one company to  
6 come in and other companies come in -- the one company acts as a  
7 catalyst; but you wouldn't have the incentive to drill unless  
8 you have a solid market.

9 MR. CHAMPION: One thing I'd like you or Mr. Hortig to  
10 comment on and that is the change which took place between the  
11 September and December draft, on how to determine the price of  
12 oil. What was the reason for that?

13 MR. SCOTT: It wasn't the price of the oil....

14 MR. HORTIG: It was to furnish a market.

15 MR. CHAMPION: Didn't you also make some reference to  
16 the change, the difference between buying at the highest price  
17 and the average price?

18 MR. HORTIG: That was not changed.

19 MR. CHAMPION: That was not changed?

20 MR. SCOTT: The price is the average posted price.

21 MR. CHAMPION: That was not changed?

22 MR. SCOTT: That is not.

23 MR. CHAMPION: But between our policy and the one  
24 offered here there is a difference, and I'd like to know the  
25 basis for that difference, too.

26 MR. SCOTT: Mr. Lingle is probably in the best position  
27 to answer both the question of the market price and furnishing  
28 the market, and, what is actually the second question, the bases  
29 which went into consideration for establishing the method of  
30 fixing the price for the oil on the market.

31 MR. DESMOND: I think he is, too, because of the

1 statement I made earlier. This was not prepared, despite several  
2 comments by Mr. Scott, this was not prepared by a company. There  
3 are inconsistencies - - he talks about going to the City and the  
4 City is going to do this; at other times he talks about it in a  
5 different fashion, as being prepared by the companies. This has  
6 been prepared by Mr. Lingle and has not been dictated by any oil  
7 company at all.

8 We have explained fully, including to the company that  
9 Mr. Scott represents here today. They have been solicited for  
10 advice. We have heard none of these comments previously from Mr.  
11 Scott or anyone in that company, except some general talk about  
12 a monopoly. If they can't get into it, it is a monopoly -- they  
13 don't win.

14 MR. LINGLE: The question about selling the oil: Mr.  
15 Shavelson and I discussed this several times. Rather than have  
16 other contracts which have to be approved, in this field contract  
17 we have the price schedule in here, and the Field Contractor has  
18 to pay us for that oil at that price. Rather than worrying about  
19 selling the oil as such and going around and getting the money,  
20 the Field Contractor there is obligated to pay us for the oil at  
21 the price fixed in the contract.

22 GOV. ANDERSON: Is that a fixed price or does it vary?

23 MR. LINGLE: It could vary. One thing I would like to  
24 point out -- that this contract also provides that the City and  
25 the State are paid on the tenths of gravity; they are not paid  
26 on the even gravity method. The differential between the 22  
27 gravity and the 23 gravity, the State and City will receive com-  
28 pensation for.

29 MR. CHAMPION: The other question is as to the differ-  
30 ence in the way in which the price was arrived at.

31 MR. HORTIG: Your reason for the average price.

1 MR. LINGLE: Our price is based upon the average posted  
2 price and in the event that average posted price is controlled, we  
3 would have other averages in the area to look to.

4 MR. CHAMPION: Why did you not use the other?

5 MR. LINGLE: Why did we not go to the higher price?

6 MR. CHAMPION: Yes.

7 MR. LINGLE: We thought we would limit competition that  
8 way. In talking to various companies - - we have other City oil  
9 fields which the State is not involved in. These are City uplands  
10 We recently put one of these out and got a very fortunate bid of  
11 sixty eight per cent of the net; and in the process of this it  
12 was pointed out that certain companies would be reluctant to bid  
13 on a contract whereby they had to pay the highest posted price.  
14 They wished to pay on the basis of the average posted price, not  
15 the higher price.

16 GOV. ANDERSON: Mr. Lingle, I am somewhat concerned  
17 about this monopoly of the market problem, and I was just looking  
18 at the discussion Mr. Scott made, I think (c) on page 13, where  
19 if we feel that we could not split up the parcels into separate  
20 tracts because of the ease of handling the unit that way -- did  
21 you consider the possibility of separating it into interests of  
22 thirty per cent, twenty per cent, ten per cent, and so on --  
23 which I understand then would mean that it would be operated by  
24 the Operating Field Contractor but that the production would be  
25 distributed in proportion to shares of the individual share  
26 owners? Did you discuss that?

27 MR. LINGLE: Yes. Mr. Brock and I and other City peopl.  
28 have discussed this and considered this. Again, the complexities  
29 of coordinating all these things - - frankly, what we were worry-  
30 ing about was the pockets of the City and State and how we could  
31 draw the best contract. We did not worry about any particular

1 oil companies, what would benefit them best. What we wanted was  
2 how we could get the most money, administered efficiently by the  
3 smallest staff possible.

4 GOV. ANDERSON: Couldn't you have it administered  
5 efficiently by the smallest staff with the ownership separated  
6 as suggested there?

7 MR. LINGLE: I would have to look into this. We con-  
8 sidered this, Governor; and frankly, we thought with separate  
9 companies, whereby we would have to provide different shipping  
10 facilities, and so on, it would cost us more than when it was  
11 handled all alike.

12 GOV. ANDERSON: I think we want to get the most money  
13 for the City of Long Beach and the State of California, and  
14 efficient handling -- but I think, too, we have to be concerned  
15 about the market.

16 SENATOR O'SULLIVAN: This question is addressed to the  
17 Deputy Attorney General. Under this set of agreements, will any  
18 ad valorem taxes come to the local districts in Long Beach or  
19 anywhere else by reason of the sharing of the profits by the com-  
20 panies that bid on this?

21 MR. SHAVELSON: Yes. The City of Long Beach has  
22 recently enacted an Oil Production License Act. That is one of  
23 the things you are referring to. Under that, the portion of the  
24 tax equal to the percentage of net profit that will be retained  
25 by the bidder will go to the City of Long Beach for general  
26 municipal purposes, as presently contemplated. For example, if  
27 the bid should be seventy-five per cent, then twenty-five per  
28 cent of that tax would end up in the hands of the City. So I  
29 think, to answer your question, at least as far as that tax is  
30 concerned....

31 SENATOR O'SULLIVAN: Now, is that tax from the entire

1 receipts? Is that one of the costs that the State will retain  
2 too?

3 MR. SHAVELSON: No, Senator, that will come completely  
4 out of the share of the successful Field Contractor. It will  
5 not reduce the money going to the State.

6 SENATOR O'SULLIVAN: Where do you say that?

7 MR. SHAVELSON: It is a mathematical matter.

8 SENATOR O'SULLIVAN: It does say it in there?

9 MR. SHAVELSON: That is the result. It does say it,  
10 yes; but not in so many words.

11 SENATOR O'SULLIVAN: Will the State of California be  
12 paying ad valorem taxes?

13 MR. SHAVELSON: Only to the extent that the State is  
14 sharing, as in any situation where its lessee or contractor has  
15 to pay taxes. In other words, this will be a factor which will  
16 enter into their consideration in the amount of the bid they  
17 are going to make. This is going to be one of their expenses,  
18 but there will be no direct revenue that the State will not be  
19 sharing otherwise because of these taxes.

20 MR. CHAMPION: The taxes will then be directed against  
21 their net profit.

22 MR. SHAVELSON: Did I make myself clear on that?

23 SENATOR O'SULLIVAN: Yes - - well, not too clear, if  
24 I can have a written explanation of that?

25 MR. SHAVELSON: All right.

26 MR. CRANSTON: Senator Arnold?

27 SENATOR O'SULLIVAN: I have several more. As I under-  
28 stand it, there will be no ad valorem taxes levied as such, is  
29 that correct? Under this set of agreements there will be no ad  
30 valorem taxes as such levied.

31 MR. SHAVELSON: I don't quite understand.

1           SENATOR O'SULLIVAN: You know what an ad valorem tax  
2 is, of course. You have just spoken of the license tax.

3           MR. SHAVELSON: Yes.

4           SENATOR O'SULLIVAN: A regular ad valorem tax. The  
5 reason that the City had to enact this statute for the license  
6 is that they couldn't enact an ad valorem tax.

7           MR. SHAVELSON: No, this is not on the State's immu-  
8 nity from taxation. This is not a tax on the State at all; it  
9 is on the contractor.

10          SENATOR O'SULLIVAN: The reason Long Beach did this  
11 was because under this type of agreement there could be no ad  
12 valorem tax collected on the share of oil which a company would  
13 get because the company isn't getting a share of oil; isn't  
14 that right?

15          MR. SHAVELSON: That is correct. The company has no  
16 interest.

17          SENATOR O'SULLIVAN: So you answered my question.  
18 There are no ad valorem taxes levied under this agreement.

19          MR. SHAVELSON: As far as the State's interest is  
20 concerned.

21          SENATOR O'SULLIVAN: As far as anybody's interest is  
22 concerned, because you have another type of tax substituted by  
23 ordinance. Isn't that it?

24          MR. SHAVELSON: Essentially.

25          SENATOR O'SULLIVAN: Now, in regard to the contract on  
26 land called the Long Beach Oil Development land, can that Long  
27 Beach Oil Development land be included in the Unit here without  
28 any further consent by any party to the agreement after it is  
29 executed?

30          MR. SHAVELSON: If it should be decided to extend the  
31 Unit to include the lands in the area of the Long Beach Harbor

1 division, there is a provision that requires the consent of  
2 fifty-one per cent of the particular owners to that inclusion;  
3 but in the event there is considered to be a subsidence problem,  
4 then that provision can be waived.

5 SENATOR O'SULLIVAN: This is a field that has already  
6 been pumped?

7 MR. SHAVELSON: Yes.

8 SENATOR O'SULLIVAN: It has been tapped -- they have  
9 taken oil out of it?

10 MR. SHAVELSON: Yes.

11 SENATOR O'SULLIVAN: Now, after this Commission ap-  
12 proves this set of agreements and subsequently, assuming they  
13 were executed, at some future date that land which has already  
14 been drained somewhat could be included in the Unit; is that  
15 right?

16 MR. SHAVELSON: That's correct.

17 SENATOR O'SULLIVAN: Without any further action by the  
18 State of California?

19 MR. SHAVELSON: Yes - - well, of course, it is in the  
20 existing - - Did the Senator mean whether it will be included  
21 in this Unit without further action by the State Lands Commis-  
22 sion? The way the agreement is presently written, that would  
23 be true.

24 SENATOR O'SULLIVAN: Now, that block of oil land has  
25 already been tapped, hasn't it?

26 MR. SHAVELSON: Yes.

27 SENATOR O'SULLIVAN: On what basis will it share; or,  
28 if it goes into this Unit, will it be on the same basis as the  
29 other lands that exist there?

30 MR. SHAVELSON: There is a provision for negotiating  
31 the amount of the tract assignment that will be attributable to

1 new parcels, whether they be to the east or to the west.

2 SENATOR O'SULLIVAN: But the State of California, this  
3 Commission, will not be a party to those negotiations, will it?  
4 Or to this set of agreements?

5 MR. SHAVELSON: Except to the extent that it will  
6 participate in general under Chapter 29, that would be correct.

7 SENATOR O'SULLIVAN: What would be the control under  
8 Chapter 29?

9 MR. SHAVELSON: Well, to keep track of what the City  
10 is doing. This could be changed by a further supplemental agree-  
11 ment to assure that the City did not negotiate the entry of new  
12 lands into the unit without the consent of the State Lands Com-  
13 mission; and I think that might be a desirable further agreement.

14 SENATOR O'SULLIVAN: So under the present agreement,  
15 it is a fact that those lands could be included?

16 MR. SHAVELSON: That is correct.

17 SENATOR O'SULLIVAN: And if Unit 1, which has never  
18 been tapped, or this passionate purple piece here .....

19 MR. HORTIG: That is Unit 2.

20 SENATOR O'SULLIVAN ... was included in the Unit, and  
21 then this subsequent land that has been partially drained was  
22 included on the same basis, the State could lose some interest  
23 in the oil, couldn't it?

24 MR. SHAVELSON: If this area were unitized, no - - If  
25 Tract Number 2 came into the Unit later or never came into it?

26 SENATOR O'SULLIVAN: If it was included in the Unit  
27 and then later on you take in this unit that had been already  
28 drained, if they didn't have anything to say about the agreement,  
29 there is a possibility the State could lose some oil?

30 MR. SHAVELSON: Yes, that's correct.

31 SENATOR O'SULLIVAN: And that is under the draft of

1 agreement that we have here?

2 MR. SHAVELSON: Yes. There is one thing, Senator --  
3 One of the side agreements that we have proposed is that the City  
4 cannot enter into a further agreement authorized by the Unit  
5 Agreement without consent of the State Lands Commission. Now, I  
6 think that could very likely apply to this situation, but I think  
7 before I make a definite answer in that respect it may be necess-  
8 ary to make it a little more specific in that regard.

9 SENATOR O'SULLIVAN: Is this an agreement that is not  
10 included here, though?

11 MR. SHAVELSON: It is in Exhibit A to the item.

12 SENATOR O'SULLIVAN: This is proposed changes to this  
13 set of agreements?

14 MR. SHAVELSON: Yes, sir. This is a bilateral under-  
15 standing between the City and the State, to make sure that the  
16 City does not exercise its interests to the detriment of the  
17 State.

18 SENATOR O'SULLIVAN: May I ask you -- Did you discuss  
19 the advisability of the Unit Operator's authority to settle  
20 claims up to \$250,000?

21 MR. SHAVELSON: Well, that was considered to be a  
22 policy matter.

23 SENATOR O'SULLIVAN: That is included in the agreement?

24 MR. SHAVELSON: Yes, it is.

25 SENATOR O'SULLIVAN: And there is no limitation on who  
26 the claims are against or who the claims are from?

27 MR. SHAVELSON: That is correct.

28 SENATOR O'SULLIVAN: Now, earlier I asked some ques-  
29 tions about the onshore operators. I note here a question is  
30 raised, Number 4 at the end of Mr. Scott's statement: "Does the  
31 onshore operator have a veto of bids on Tract 1 by refusing to