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TRANSCRIPT OF  
MEETING  
of

STATE LANDS COMMISSION  
SACRAMENTO, CALIFORNIA

March 28, 1953

PARTICIPANTS:

THE COMMISSION:

Honorable Alan Cranston, Controller, Chairman  
\*Honorable Glenn M. Anderson, Lieutenant Governor  
Honorable Hale Champion, Director of Finance

\* (Present at morning session only)

Mr. F. J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL:

Mr. Jay L. Shavelson, Deputy Attorney General

(This typewritten portion of the proceedings covers matters other than Item 19 -- Unit Agreement, Unit Operating Agreement, Exhibits, and Field Contractor Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County - L.B.W.O. 10,155. Item 19 has been reproduced on stencils and is in mimeographed form)

I N D E X  
(In accordance with Calendar Summary)

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
1. Call to order			
2. Confirmation of minutes meeting of Jan.24, 1963			
3 PERMITS, EASEMENTS, RIGHTS-OF-WAY, NO FEE			
(a) Div. of San Francisco Bay Toll Crossings	5	1	2
4 PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE			
(a) William & Edith Daley	8	2	2
(b) George W. Ladd	4	3	2
(c) Rancho Palos Verdes Corp. and Capital Company	1	4	2
(d) Trigood Oil Company	12	5	3
(e) Pacific Gas & Elec. Co.	6	8	3
(f) Standard Oil and Shell Oil	7	9	3
(g) Standard Oil of Calif. Western Operations Inc.	10	10	3
(h) Texaco Inc.	9	11	4
(i) Richfield Oil Corp.	11	13	4 (Deferred)
(j) Richfield Oil Corp.	13	15	4
MOTION ON CLASSIFICATION 4 except (i)		-----	4
5 CITY OF LONG BEACH			
(a) Add'n No.9 Pier A	2	16	4
6 Authorization for issuance of supplemental patent Michael Kimerer, 20 ac. school lands El Dorado County	16	18	5

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I N D E X  
(In accordance with Calendar Summary)  
continued

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
7 Approval revised description Parcel 13, Santa Barb. Co.	15	20	5
8 Authorization to offer proposed oil & gas lease Orange County Parcel 14	14	21	5
9 Confirmation transactions of Executive Officer:	3		6
Calif., Dept Fish & Game		25	
Shell Oil Co.		24	
Standard Oil Co, of Calif.		25	
Texaco Inc.		24	
10 10 Informative only:			
(a) Major Litigation	17	26	6
Motion on Number 7 under litigation -----			7
(b) Report on legislation	18	29	7
11 11 Further review contracts Long Beach Unit, Wilmington Oil Field	19	34	Pages 1 thru 122, mimeographed form
12 12 Next meeting			8

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I N D E X  
(In accordance with calendar items)

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ITEM ON  
CALENDAR

PAGE OF  
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Pages 1-122 incl.  
in mimeographed form

Next meeting

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1 MR. CRANSTON: The meeting will please come to  
2 order. First item is confirmation of the minutes of meeting  
3 of January 24, 1963.

4 GOV. ANDERSON: Move.

5 MR. CHAMPION: Second.

6 MR. CRANSTON: Approval moved, seconded, so  
7 ordered. Is there anyone here on any item other than the  
8 Long Beach Wilmington Oil matter, which they would like  
9 heard briefly before we take that up? We will take that  
10 up first, so the many people attending in connection with  
11 that matter do not have to sit through the rest of the  
12 calendar. (No response) If there is no other matter before  
13 us, we will not proceed in the normal manner, but will pro-  
14 ceed to take up the oil matter.

15 (Item 19 -- Unit Agreement, Unit Operating  
16 Agreement, Exhibits, and Field Contractor  
17 Agreement, Long Beach Unit, Wilmington Oil  
18 Field, Los Angeles County -- L.B.W.O.10,155 --  
19 was then taken up by the Commission and the  
20 proceedings in connection therewith have been  
21 reproduced in mimeographed form)

22 \*\*\*\*\*

23 MR. CRANSTON: If that completes this item on  
24 the agenda (referring to Item 19, above) we will now revert  
25 to the regular agenda.

26 Item 3 -- Permits, easements, and rights-of-way

1 to be granted to public and other agencies at no fee,  
2 pursuant to statute:

3 Applicant (a) -- Division of San Francisco Bay  
4 Toll Crossings -- Right-of-way over submerged lands of San  
5 Francisco Bay, San Mateo and Alameda counties, for widening of  
6 bridge, in accordance with map entitled "San Mateo-Hayward  
7 Bridge" numbered M-5001-1; replacing Easement P.R.C.1829.9.

8 MR. CHAMPION: Is this the agreement that was  
9 reached on this esthetic problem?

10 MR. HORTIG: No. The esthetic problem related to  
11 a power transmission line that paralleled this. This is an  
12 easement for a new crossing to be built by the Division of  
13 San Francisco Bay Toll Crossings, paralleling the existing.

14 MR. CRANSTON: Approval is moved, seconded, and  
15 without objection, so ordered.

16 Item Classification 4 -- Permits, easements, leases,  
17 and rights-of-way pursuant to statutes and established rental  
18 policies of the Commission:

19 Applicant (a) William Daley and Edith Daley --  
20 10-year lease, Lot 17, Fish Canyon Cabin Site, Los Angeles  
21 County, annual rental \$65;

22 Applicant (b) George W. Ladd -- one-year renewal  
23 of Lease P.R.C. 400.1, 2.34 acres submerged lands of San  
24 Joaquin River, San Joaquin County, for floating boat sheds  
25 and marine ways, total rental \$280.80;

26 (c) Rancho Palos Verdes Corporation and Capital

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Company, tenants in common -- Assignment to Palos Verdes Properties, a partnership composed of Rancho Palos Verdes Corporation, and Capital Company, of Lease P.R.C. 322.1, covering tide and submerged lands of Portuguese Bend, Los Angeles County;

Item (d) Trigood Oil Company -- Assignment to American Metal Climax, Inc. of interest in Oil and Gas Lease P.R.C. 145.1, Rincon Oil Field, Ventura County, covering oil and gas zones below a depth of 5500 feet underlying lands described in Exhibit A;

Item (e) Pacific Gas and Electric Company -- Permit to dredge approximately 2,360 cubic yards fill material from submerged lands of San Joaquin River, adjacent to P.G.& E.'s Antioch Power Plant, Contra Costa County, for purpose of creating a water-intake channel, at royalty of three cents per cubic yard;

Item (f) Standard Oil Company of California and Shell Oil Company -- Deferment through October 13, 1963, of drilling requirements, Oil and Gas Lease P.R.C. 2198.1, 3840 acres tide and submerged lands offshore Santa Barbara County -- to permit further review and evaluation of geological and geophysical data;

Item (g) Standard Oil Company of California, Western Operations, Inc. -- Deferment through Oct. 4, 1963 of drilling requirements, Oil and Gas Lease P.R.C. 2199.1, 3840 acres tide and submerged lands offshore Santa Barbara County;

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(h) Texaco Inc. -- Deferment through October 2, 1963 of drilling requirements, Oil and Gas Lease P.R.C. 2206.1, 3840 acres tide and submerged lands offshore Santa Barbara County;

(i) Richfield Oil ....

MR. HORTIG: Mr. Chairman, as to item (i), the applicant has requested that consideration of this item be deferred and the staff so recommends.

MR. CRANSTON: Item (i) will go over.

Item (j) Richfield Oil Corporation -- Amendment of legal description of Easement P.R.C. 2932.1, 11.685 acres tide and submerged lands, Santa Barbara Channel, Santa Barbara County, to conform with position of pipeline as installed.

MR. CHAMPION: Moved.

MR. CRANSTON: Approval is moved on all items except (i), seconded, and so ordered.

Item 5 -- City of Long Beach -- Approvals required pursuant to Chapter 29/56, 1st E.S. Project (a) Addition No. 9, Pier A, Berths 6 and 7, Remedial Work (1st phase) -- Estimated subproject expenditure from March 29, 1963 to termination of \$70,000, 100% estimated as subsidence costs.

MR. CHAMPION: Move approval.

MR. CRANSTON: Approval is moved, seconded, made unanimously.

Item 6 -- Authorization for Executive Officer to

1 proceed with issuance of a supplemental patent, in the name  
2 of the original applicant, Michael Kimerer, subject to  
3 reservation of all minerals, for purpose of perfecting title  
4 to twenty acres school lands, El Dorado County.

5 MR. CHAMPION: Move approval.

6 MR. CRANSTON: Approval is moved, seconded, so  
7 ordered.

8 ITEM 7 -- Approval of revised description for  
9 Parcel 13 proposed oil and gas lease, Santa Barbara County,  
10 increasing parcel from 500 to 505.36 acres.

11 MR. HORTIG: Mr. Chairman, explanation is in order  
12 that by approval of the revised description the Commission  
13 will authorize a legal description for lease offer which  
14 will conform with the legal description that has already  
15 been published.

16 MR. CHAMPION: Moved.

17 MR. CRANSTON: Approval is moved, seconded, made  
18 unanimously.

19 Item 8 -- Authorization for Executive Officer to  
20 offer proposed oil and gas lease, Orange County -- Parcel 14.

21 MR. HORTIG: This, Mr. Chairman, will be the first  
22 in the sequence of lease offering series of parcels approved  
23 by the Commission for offer in Orange County.

24 MR. CHAMPION: Move approval.

25 MR. CRANSTON: Approval is moved and seconded, so  
26 ordered.

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MR. CRANSTON: Item 9 -- Confirmation of trans-  
actions consummated by the Executive Officer pursuant to  
authority confirmed by the Commission at its meeting on  
October 5, 1959.

MR. CHAMPION: Move confirmation.

MR. CRANSTON: Confirmation is moved, seconded, so  
ordered.

Item 10 -- Informative only, no Commission action  
required. (a) Report on status of major litigation.

MR. HORTIG: Mr. Chairman, in addition to the  
written report on the status of major litigation, I must re-  
port to the Commission that on March 14, 1963 the United  
States Solicitor General requested the Supreme Court to  
determine the location along the California coast of a three-  
mile limit, which the United States contends divides Cali-  
fornia and United States jurisdiction over lands offshore of  
the mainland. The request from the Supreme Court is in the  
form of a motion for leave to file supplemental complaint on  
original complaint.

MR. CRANSTON: Section 6210 of the Public Resources  
Code of the State of California provides: "The Commission  
shall represent the State in all contests between it and the  
United States in relation to public lands."

Therefore, in consideration of the action under-  
taken by the United States Solicitor General, I wish to have  
it recorded that it is the intent of the State Lands Commission

1 to proceed fully with the defense of the interests of the  
 2 State in accordance with its statutory authority. The  
 3 Executive Officer is authorized and directed to undertake  
 4 full implementation of this defense of California's interests.

5 Would you like a motion to that effect?

6 MR. SHAVELSON: Yes, Mr. Chairman. That might be  
 7 a good thought.

8 MR. CHAMPION: I will move this.

9 MR. CRANSTON: Mr. Champion moves to the effect of  
 10 what I have just stated and I second the motion, and it is  
 11 so ordered.

12 MR. SHAVELSON: Before final budgetary arrangements  
 13 are made for this defense, there are possible certain minor  
 14 expenditures and the Attorney General's Office is fresh out  
 15 of money, and we are going to solicit cooperation from the  
 16 State Lands Commission in that regard concerning retaining  
 17 our services in this case.

18 MR. CHAMPION: My guess is that the State Lands  
 19 Commission will immediately say it is fresh out of money and  
 20 refer it to the Department of Finance. We will be glad to  
 21 take it under consideration.

22 MR. CRANSTON: Anything else on litigation or  
 23 legislation?

24 MR. HORTIG: No.

25 MR. CRANSTON: Item 19 -- We have done that  
 26 already.

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Confirmation of date, time and place of next meeting -- It will be Thursday, April 25, 1963, 10:00 a.m. in Sacramento, and possibly run again in the afternoon.

If there is nothing further, we stand recessed.

ADJOURNED 2:48 P.M.

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CERTIFICATE OF REPORTER

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I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing eight pages, together with pages one through one hundred-twenty-two covering Item 19 (which have been reproduced separately on stencils and placed in mimeographed form), are a full, true, and correct transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION at Sacramento, California on March 28, 1963.

Dated: April 10, 1963.

Louise H. Lillico

STATE LANDS COMMISSION  
SACRAMENTO, CALIFORNIA

March 28, 1963

CALENDAR ITEM 19

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

MR. CRANSTON: If there is no other matter before us, we will not proceed in the normal manner, but will proceed to take up the oil matter. Frank, do you have anything to say to start it? I believe you have certain matters that have been given to you to be read into the record.

MR. HORTIG: Yes, Mr. Chairman. If I might suggest that I read the prepared agenda item, which I believe would be the most expeditious presentation of a summary of the status of the matter being heard by this Commission, and then present the data which have been submitted for reading into the record, this would then set the entire scene for the further discussion and amplification which both the City of Long Beach and probably industry desire to present to the Commission for the record.

With approval of that program, I will proceed to read:

At the State Lands Commission meeting of February 28, 1963, the documents relating to the Long Beach Unit of the Wilmington Oil Field were considered. Several requests for related technical and legal information were made by the Chairman of the Special Subcommittee of the Senate Research Committee, and Senator Dolwig, who were present at the meeting.

In answer to these specific requests, the staff has submitted the following information to Senator Virgil O'Sullivan, Chairman of the Special Subcommittee of the Senate Research Committee, on the dates noted:

1. A complete history and royalty analysis of State Oil and Gas Lease P.R.C. 186.1. Forwarded March 18, 1963.
2. A legal memorandum prepared by the Office of the Attorney General dated March 22, 1963, relative to ad valorem tax consequences of the proposed Field Contractor Agreement,

1 Long Beach Unit. Forwarded March 25, 1963.

2 The following information was furnished Senator Richard J.  
3 Dolwig on the dates noted:

- 4 1. A legal memorandum prepared by the Office of the Attorney  
5 General dated March 22, 1963 relative to the seaward  
6 boundaries for Tracts Nos. 1 and 2 of the proposed Long  
7 Beach Unit. Forwarded March 25, 1963.
- 8 2. A review of the revenues and expenditures related to the  
9 City of Long Beach Tideland Trust operations for the  
10 period February 1, 1956 through December 31, 1962, in-  
11 cluding estimated costs for future projects. Forwarded  
12 March 25, 1963.

13 At the meeting of February 28, 1963, Mr. D. E. Clark, repre-  
14 senting Shell Oil Company, apprised the Commission of his  
15 company's opposition to, or questioning of, certain provi-  
16 sions of the Unit Agreement as follows:

- 17 A. It is their belief that Article 6.3, which provides for  
18 additions of public lands to the Unit by resolution of the  
19 City Council of the City of Long Beach could deprive the  
20 City and the State of substantial future income and would  
21 favor certain operators over others.

22 In reply to the above contention, the Office of the  
23 Attorney General has issued a memorandum to the State  
24 Lands Commission dated March 22, 1963, wherein they state:

25 "It is our opinion that under the present proposals, the  
26 State Lands Commission would retain the power to approve  
27 the terms of any such agreement for the joinder of addi-  
28 tional public lands in the Unit, and thus to prevent their  
29 inclusion upon terms unfavorable to the State. This  
30 would be true regardless of any finding by the City Coun-  
31 cil as to subsidence danger."

- B. The question of the legality of Article 16 of the Unit  
Agreement relating to relief of Unit obligations and sur-  
render of Working Interests, in two respects:

1. As applied to the City, Mr. Clark questioned whether  
these provisions might not involve a violation of the  
prohibition against alienation contained in the legisla-  
tive grants.

2. Mr. Clark also questioned the validity of the option  
right contained in Article 16 (whereby continuing partici-  
pants may elect to acquire the interest of a withdrawing  
participant) under the rule against perpetuities.

In answer to the above question, the Office of the  
Attorney General by memorandum dated March 22, 1963,  
states that (quoting in part):

"It is our opinion that Article 16 may not be construed  
so as to allow the City to convey any interest in Tract  
No. 1 in violation of trust conditions."

1 and also that:

2 "It is our opinion that the 'option provision' in Section  
3 16.1 does not violate the rule against perpetuities, al-  
4 though it may be operable for a period in excess of a life  
in being plus twenty-one years."

5 Discussions at the meeting of February 28, 1963, which fol-  
6 lowed a presentation made by Mr. L. E. Scott, representing  
7 Pauley Petroleum, regarding monopolistic control of Cali-  
8 fornia production if Tract No. 1 is committed to contract in  
9 one parcel, have warranted further review. Accordingly,  
10 representatives from the Office of the Attorney General, the  
11 City of Long Beach, and the State Lands Commission conferred  
12 with the Chief of the Los Angeles office of the Anti-Trust  
13 Division, United States Department of Justice, to explain the  
14 essential factors relative to the proposed Long Beach Unit  
contracts. Subsequently, the Executive Officer invited the  
15 Chief of the Los Angeles Anti-Trust Division to attend the  
16 March 28, 1963 State Lands Commission meeting (this meeting  
17 today) to present his comments and suggestions. However,  
18 the Assistant Attorney General, Anti-Trust Division, U.S.  
19 Department of Justice, Washington, D.C., has by letters sub-  
20 mitted comments and procedures which the staff suggests be  
21 read into the record, since these are considered to be of  
22 mutual interest to those in attendance.

23 Further staff reviews of the pertinent factors contained in  
24 the Unit documentation and reviews with industry of the  
25 primary issues are continuing.

26 MR. HORTIG continuing: I should bring to the attention of  
27 the Commission at this point (and copies are attached as the last  
28 page of your supplemental Long Beach agenda item) the pendency of  
29 Senate Resolution Number 100 by Senators O'Sullivan, Arnold, Murdy,  
30 and Teale, in which it is proposed that the Senate resolve:

31 "That the State Lands Commission be requested to withhold  
its determinations with respect to all of the documents  
relating to a bid offering by the City of Long Beach for  
the extraction of oil, gas and hydrocarbons from the East  
Wilmington Oilfield; and, further,

That the State Lands Commission be encouraged to continue  
public hearings and reviews by its staff relating to such  
existing or proposed documents, recognizing the value of  
such hearings and review to insure maximum participation by  
all those who may be concerned and who may aid in a final  
determination of the most appropriate approach for such  
extraction which will be to the maximum equitable benefit  
to the State, the City of Long Beach and the industry; and,  
further,

That the Senate Rules Committee assign this resolution for  
study to the General Research Committee of the Senate, direct-  
ing such committee to make a thorough physical, legal and  
economic appraisal of the proposed oil, gas and hydrocarbon

1 "extractions, as expeditiously as possible, and to report  
2 its recommendations thereon to the Senate at this session  
of the Legislature."

3 MR. HORTIG continuing: Returning to the subject matter  
4 of the letter from the Anti-Trust Division, copy of which is at-  
5 tached to the Commissioners' calendars following the last page of  
6 "Memorandum on Attorney General's Opinion":

7 " UNITED STATES DEPARTMENT OF JUSTICE  
8 WASHINGTON, D.C.

9 March 19, 1963

10 Mr. F. J. Hortig, Executive Officer  
11 State Lands Commission  
12 State Lands Division  
13 State of California  
14 State Building  
15 Los Angeles 12, California

16 Dear Mr. Hortig:

17 This is in reply to your letter of March 15, 1963 to  
18 Stanley E. Disney, Chief of the Los Angeles Office of the  
19 Antitrust Division, which invites comments by the Antitrust  
20 Division concerning the proposed lease of certain reserves  
21 in the Wilmington oil field by the City of Long Beach and  
22 the State of California.

23 I understand that Messrs. Disney and Somerville have  
24 discussed this proposed lease with representatives of your  
25 office and that during said conference two matters were  
26 raised. First, can the Antitrust Division state whether  
27 there is any present or future danger that the operation  
28 of the lease in accordance with its terms, by the success-  
29 ful bidders, may involve any violation of the antitrust  
30 laws, and second, can any provision be made to insure that  
31 some part of the crude oil produced from the reserve is  
made available for purchase by small companies who are  
not parties to the lease.

With reference to the first problem, the Antitrust  
Division has announced publicly a policy of studying  
proposed plans of operation which are submitted to it, and  
of announcing whether it considered such plans to be legal  
or illegal within the framework of the antitrust laws and  
further of obligating itself, if later developments after  
the plan has gone into operation make it appear that it is  
illegal, to challenge this legality solely by civil process.  
The procedure for seeking such a determination by the Anti-  
trust Division is outlined in a bulletin of the Department  
of Justice, a copy of which is enclosed. \*

The second problem, namely that of providing some part  
of the crude for smaller companies, is completely independ-  
ent from the first problem and a solution to the one problem  
does not automatically solve the other. If a reasonable

DEPARTMENT OF JUSTICE

November 1, 1962

THE ANTITRUST CLEARANCE AND RELEASE PROCEDURE

The Department of Justice is not authorized to give advisory opinions to private parties. However, it has a program which has been in operation for a number of years, that permits the submission of certain matters to the Antitrust Division for "release" or "clearance" letters. It is desirable that this procedure be fully understood in order that both its availability and advantages, and its limitations, may be known by those who are concerned with antitrust problems. This is accordingly a statement of the program for the guidance of those who may wish to take advantage of it and of the staff engaged in its operation.

Antitrust "release" letters permit an advance review of business plans for proposed operations to ascertain whether they involve risk of criminal prosecution if adopted. There is no requirement that such plans or proposed operations be submitted to the Department of Justice and any such submission is a purely voluntary undertaking to secure the advantage of an advance review. The procedure involved is relatively simple and informal. The elements of the procedure are these:

1. A request for a release or clearance letter must be submitted in writing to the Department of Justice.

2. The submission must contain a full disclosure regarding a specific business proposal. If additional facts or data concerning the proposal are sought by the Antitrust Division, the information sought must be supplied upon request.

3. The submission must relate to a plan or program that is purely prospective and not operative. No consideration will be given to a request for an expression as to operations which are being conducted at the time.

4. The facts and plans disclosed must affirmatively show that the plan and the proposed operations will be fully consistent with the antitrust laws.

5. In the event of such a submission and showing, a release letter will be issued waiving the Government's right to institute criminal proceedings against the parties involved based upon their putting into effect the plan or proposal submitted.

6. In the event of a submission which does not affirmatively show that the plan and proposed operations will be fully consistent with the antitrust laws, the Government may refuse to take a position or make any comment upon the proposal; or the Government may advise the parties that the proposal appears to be contrary to the antitrust laws, if that is the case.

7. The Government in any event reserves the right to institute civil proceedings if it appears that the legality of the activities or program in question should be tested.

8. If the plan in actual operation or the activities engaged in go beyond the statements set forth in the submission made to the Department of Justice, the Government reserves the right to proceed either civilly or criminally.



1 "amount of the crude were made available to the smaller  
2 independent companies, it would enable them to afford a  
3 greater degree of competition to the company or companies  
4 which were the successful bidders than otherwise. I under-  
5 stand that at the conference of Mr. Somerville and Mr. Disney  
6 with representatives of your office, they suggested that one-  
7 eigh~~th~~ of the total recovery might be made available to re-  
8 finers or oil distributors who meet the definition of 'small  
9 businesses' and who were independent insofar as control by  
10 any major oil company is concerned. I believe that the sug-  
11 gession which they made merits your consideration and recom-  
12 mend that the proposal be adopted if possible.

13 Mr. Disney will not be able to attend the meeting of the  
14 State Lands Commission on March 28, 1963 in Sacramento, Cali-  
15 fornia, but please be assured that this office and Mr. Disney's  
16 office stand ready at any time to confer with you or repre-  
17 sentatives concerning the proposed oil lease insofar as it  
18 may involve the application of the federal antitrust laws to  
19 the private parties desirous of bidding on the lease.

20 Sincerely yours,

21 /s/ Lee Loevinger  
22 Assistant Attorney General "  
23 Antitrust Division "

24 MR. HORTIG continuing: Mr. Chairman, we have also re-  
25 ceived the following letters, with request that they be written  
26 into the record, the first of which was received on March 20th,  
27 addressed to the State Lands Commission, from Pauley Petroleum Inc.,  
28 signed by Mr. L. E. Scott, and states:

29 "Gentlemen:

30 I am in receipt of the transcript of the above cap-  
31 tioned hearing and would like to make two corrections  
32 thereto:

33 Line 21, page 117 - The sentence reads: 'I believe  
34 forty-eight million dollars were paid in a two-day period.'  
35 It should read: 'I believe four hundred twenty-eight mil-  
36 lion dollars were paid in a two-day period.'

37 Line 25, page 119 - The figure 'six million barrels  
38 of oil' should read '1.6 billion barrels of oil.'

39 It is requested that these changes be read into the  
40 record.

41 Yours very truly,

42 L. E. Scott "

43 From Signal Oil and Gas Company, addressed to the  
44 Chairman:

1 "Dear Sir:

2 This letter will supplement and clarify our letter  
3 to you dated February 25, 1963, regarding subject documents.  
4 (The subject documents being the proposed Unit Agreement,  
5 Unit Operating Agreement, and Field Contractor Agreement,  
6 Long Beach Unit, Wilmington Oil Field, California)

7 It is our intention to execute the proposed Unit  
8 Agreement and Unit Operating Agreement so as to commit our  
9 oil and gas leases in the Townlot Area to the proposed  
10 Long Beach Unit, Wilmington Oil Field, California.

11 Very truly yours,

12 SIGNAL OIL AND GAS COMPANY

13 By James K. Wootan, Vice President"

14 Letter of March 27, 1963, addressed to the Chairman  
15 from Standard Oil Company of California, Western Operations, Inc.:

16 "Dear Sir:

17 We advised you in our letter of February 27, 1963, in  
18 brief, that:

19 1. We held oil and gas interests in the Townlot Area  
20 within the proposed Long Beach Unit Area on about 147 acres,  
21 or about 8 per cent of the acreage in the Townlot Area.

22 2. We are prepared to sign the proposed Unit Agreement  
23 and Unit Operating Agreement if they are approved by your  
24 Commission.

25 3. We find nothing in the proposed Field Contractor  
26 Agreement that would prevent this company from bidding if  
27 it is offered for bid in the form submitted to your Commis-  
28 sion.

29 Regarding these points we should like to add that:

30 1. Since our last letter we have made a commitment to  
31 acquire additional oil and gas interests in the Townlot  
Area aggregating approximately 170 acres. This acquisition  
brings our total acreage to approximately 317 acres, or  
about 16 per cent of the acreage in the Townlot Area.

2. If the proposed Unit Agreement and Unit Operating  
Agreement are approved by your Commission, we are willing  
to sign them before the City of Long Beach invites bids on  
the proposed Field Contractor Agreement and will do so if  
requested by the City.

3. If the Field Contractor Agreement is offered for  
bid in the form submitted to you, our present plan is to  
submit a joint bid on this agreement with certain other  
companies. In the event our group is the successful bidder,  
Standard's interest in the Field Contractor Agreement will  
not be more than 50 per cent and will probably be less.

Very truly yours,

(signed) H. G. Vesper "

1 Letter of March 27, 1963 from Richfield Oil Corporation  
2 addressed to the Commission, attention of the Chairman:

3 "Gentlemen:

4 Please refer to our letter to the Commission dated  
5 February 26, 1963 relating to "Unit Agreement, Unit Operat-  
6 ing Agreement, Exhibits, and Field Contractor Agreement,  
7 Long Beach Unit, Wilmington Oil Field, Los Angeles County --  
8 L.B.W.O. 10,155", which was Item 28 on the calendar for  
9 the meeting of the Commission held February 28th last.

10 In that letter we stated that we hold oil and gas  
11 leases on 1,015 acres, or approximately 53%, of the  
12 'Participating Townlot Area,' as defined in the Unit docu-  
13 ments above referred to; that we participated in the nego-  
14 tiation with the City and other parties holding leases in  
15 the Townlot Area of the drafts of unit agreement, unit  
16 operating agreement and exhibits thereto, in the forms  
17 thereof submitted to the Commission; and we stated without  
18 condition or equivocation that we are willing to commit all  
19 oil and gas leases that we hold in the 'Participating Town-  
20 lot Area' to a unit so constituted.

21 In spite of the commitment contained in our letter  
22 which was read into the record at the hearing on February  
23 28th one witness, Mr. L. E. Scott, representing Pauley  
24 Petroleum, Inc., subsequently raised the question: 'Does  
25 the onshore operator have a veto of bids on Tract Number 1  
26 by refusing to commit onshore parcels to the Unit....?'  
27 (Page 118 of the transcript of the February 28th hearing.)  
28 Another witness, Mr. Durland Clark, representing Shell Oil  
29 Company, subsequent to the reading of our letter into the  
30 record, said: 'We must have the advance written assurance  
31 from those companies holding Town Lot leases that they will  
commit their lands to the Unit irrespective of whether any  
one or more of them qualifies as a successful bidder. Other-  
wise, they hold an absolute veto power on legitimate bidders,  
a matter we must assume escaped the attention of the draft-  
ers of this provision.' (Page 138 of the transcript of the  
February 28 hearing).

Mr. Scott's question and Mr. Clark's statement disreg-  
ard the clear language of our letter and are completely  
unjustified. We are willing to commit all oil and gas  
leases that we hold in the Participating Townlot Area to a  
unit constituted by the unit agreement, unit operating agree-  
ment, and exhibits in the form thereof, respectively, sub-  
mitted to the Commission at its meeting on February 28th  
last, regardless of who may be the successful bidder for the  
Field Contractor Agreement covering the tide and submerged  
lands held in trust by the City of Long Beach and referred  
to as Tract No. 1 in the above mentioned form of unit  
agreement.

The foregoing is the position of Richfield, and we be-  
lieve that it is implicit in the situation that it must be  
the position of every landowner or lessee in the Participat-  
ing Townlot Area. Far from having a 'veto power' of any  
kind, there is no way any owner or lessee in such area can

1 "develop his property for oil and gas except by joining a  
2 unit which also embraces the tide and submerged lands be-  
3 longing to the State and City.

4 It should be borne in mind, however, that the State and  
5 City are not forming a unit plan which will include the  
6 Townlot Area merely to benefit the landowners and lessees  
7 in that area. The unit is being formed because the princi-  
8 pal oil and gas reservoir in the East Wilmington Field,  
9 namely, the Ranger Zone, underlies the Participating Townlot  
10 Area (which includes the downtown business section of Long  
11 Beach east of Pine Avenue) as well as the tide and submerged  
12 lands. The two areas have a common system of reservoir  
13 pressure. Wells drilled into tide and submerged lands would  
14 eventually lower the reservoir pressure underlying the down-  
15 town area of Long Beach, and, as experience in that city  
16 has demonstrated, could well result in subsidence, -- the  
17 sinking of the surface of the land to a degree which would  
18 result in danger to life and in enormous damage to extremely  
19 valuable properties.

20 Obviously, the best solution for all interested parties  
21 is to have a unit plan under which all wells can be drilled  
22 from offshore islands, and which will permit the maintenance  
23 of underground pressure in the entire reservoir, both off-  
24 shore and upland. Under these circumstances no Townlot Area  
25 interest could afford to stay out of such a unit, no matter  
26 who operates the tide and submerged lands for the State and  
27 City. This is why all oil companies which had oil and gas  
28 leases in the Participating Townlot Area were glad to parti-  
29 cipate in the negotiations of the unit documents.

30 We are willing to commit our oil and gas leases in the  
31 Participating Townlot Area in the manner provided in, and  
subject to all the provisions of, Article 13 of the form of  
Unit Agreement which has been submitted to the Commission  
for approval. We will actually execute the unit documents  
promptly after the approval by the Commission of the docu-  
ments in the form thereof now submitted to the Commission  
and after the approval by the Commission of a form of Field  
Contractor Agreement, and we will deposit such executed  
agreements in escrow under an appropriate escrow agreement  
with the City and State which will provide that the executed  
agreements shall become effective under and subject to the  
provisions of Section 13.3 of the Unit Agreement in the form  
thereof now before the Commission.

We will appreciate it if you will have this letter read  
into the record at the meeting of the Commission to be held  
on March 28, 1963.

Respectfully submitted,

RICHFIELD OIL CORPORATION

By R. W. Ragland, Vice President "

MR. CRANSTON: Frank, do you have a tabulation of who  
has stated that they favor the general plan and who has stated

1 they oppose it? Who is of record at this point?

2 MR. HORTIG: No, sir, I do not have it before me. I  
3 believe we could approximate it. We have letters or statements  
4 of approval from Richfield Oil Corporation; Standard Oil Company  
5 of California, Western Operations, Inc.; Signal Oil and Gas Com-  
6 pany; telegram of approval from Jade Oil Company; and letter of  
7 approval from the Long Beach Unified School District.

8 The letters of objection have been received, and state-  
9 ments of objection, from Shell Oil Company, from Pauley Petroleum,  
10 and Texaco Inc.

11 I believe that is a fairly complete resume of both  
12 sides of the documentation, Mr. Chairman.

13 MR. CRANSTON: I would like to welcome Senator  
14 O'Sullivan to our deliberations here. I apologize for our ar-  
15 rangements and that you cannot sit with us, which is because we  
16 cannot meet in the Capitol Building due to the fact of the Senate  
17 and Assembly meetings; but I hope you and the other Senators or  
18 Assemblymen will consider yourself part of the meeting and make  
19 whatever comments you wish as we go along. We will be happy to  
20 hear from you.

21 I think it would be appropriate to hear from Jay  
22 Shavelson of the Attorney General's Office at this time, and hear  
23 what he has to report.

24 MR. SHAVELSON: Thank you, Mr. Chairman. Our office has  
25 put in many months of effort on this project, fully realizing its  
26 importance to the State and to the City of Long Beach. Through-  
27 out our participation, of course, I think it goes without saying  
28 that we have never attempted to influence policy decisions, but  
29 simply to see that the documentation that was presented to the  
30 Commission was legally sufficient -- whether it complied with  
31 applicable statutes and to the extent possible that it said what

1 it meant to say. Now, our efforts, as you know, culminated in a  
2 sixty-page legal memorandum that has been in the hands of the Com-  
3 mission since January 25, 1963, and in the course of that memoran-  
4 dum we could not, of course, deal with every possible legal ques-  
5 tion that might arise under these agreements. I think that would  
6 maybe take thousands of pages. But we did try to answer all the  
7 questions that had to our knowledge been raised by members of  
8 industry at that time and which were suggested by the State Lands  
9 Division staff, and which we ourselves thought were pertinent to  
10 the particular issues.

11 At the last meeting of the State Lands Commission, a  
12 number of additional legal questions arose and we have attempted  
13 to deal with those as well in supplementary memoranda which were  
14 made available to the Commission and to the interested legislators.  
15 Since they have been available, we won't attempt in detail to go  
16 into our reasoning, but I would like to state briefly the ques-  
17 tions that were discussed and our conclusions.

18 The first question that we discussed was a question  
19 raised by Senator Dolwig as to whether or not the seaward bound-  
20 aries of the original unit and participating areas might encroach  
21 upon the claims of the United States under the terms of the Sub-  
22 merged Lands Act and Outer Continental Shelf Lands Act of 1953.  
23 The original participating area is described in the exhibits to  
24 the Unit Agreement and its seaward boundary is a metes and bounds  
25 description that is well within the minimum claims of the State of  
26 California, even if all of the contentions of the United States  
27 were ultimately sustained -- which, incidentally, we hope they  
28 will not be. The seaward boundaries of the original unit area  
29 are in terms of the southerly boundary of the City of Long Beach  
30 and that line, again, is within the minimum claims of the State of  
31 California, with certain margins of safety provided by the fact

1 that the State's ownership and the City's ownership under the  
2 Submerged Lands Act are measured from the low tide line rather  
3 than the high tide line; and, furthermore, we fully anticipate  
4 that the Federal rule regarding artificial accretions will be  
5 applicable rather than the State law. So we don't think that  
6 raises a serious question concerning the Unit Agreement.

7 Another question which we have discussed is whether the  
8 Field Contractor's interest will be subject to ad valorem taxa-  
9 tion and, if so, what will be the basis of valuation. In response  
10 to this question, we met with various members of the County Assess-  
11 or's Office, together with the City Attorney -- Mr. Lingle of the  
12 City Attorney's Office of Long Beach. After meeting with them, we  
13 ascertained that they are presently working on this -- they have  
14 asked the County Counsel to prepare an opinion upon a related  
15 question, and that is whether an interest of an oil and gas lessee  
16 in tax exempt lands will be valued without deduction of the les-  
17 sor's interest. Although that opinion has not been rendered, it  
18 seems at least very possible that in light of the DeLuz and  
19 Texaco Company decisions that they may reach the conclusion that  
20 that interest will be taxable without such a deduction; and if  
21 they should do that, it is also possible that the Field Contrac-  
22 tor's interest in this instant transaction will be likewise valued  
23 without deduction for the interest payable to the State.

24 We have gone into this legal question. I was not auth-  
25 orized to issue an opinion of the Attorney General's Office on  
26 this because of the shortness of the time and the fact that it  
27 does affect other State agencies and would require consultation  
28 with them, and would require, I believe, the issuance of a formal  
29 opinion, a formal consensus of the Attorney General's Office,  
30 rather than just my own analysis.

31 However, I have written a memorandum, in which I have

1 set forth the decisions which I consider most closely analogous,  
2 attempting to set forth both the similarities and the differences  
3 in the present transaction; and I think it is fair to say that  
4 there is at least some possibility that the Field Contractor's  
5 interest may be taxable; and, number two, if it is taxable, that  
6 it will be taxed in terms of the entire oil resource over the  
7 thirty-five-year period in Tract Number 1, without deduction for  
8 the amounts payable to the City and the State.

9 I think the important question to us is what do we want  
10 to do about it and what can we do about it. I think without chang-  
11 ing the essential character of the contract, if this contract is  
12 ultimately held by the courts to be subject to such taxation, it  
13 would be almost impossible to avoid such taxation without such a  
14 drastic alternative as the City operating the field itself through  
15 its own employees, or perhaps employing an oil company as an inde-  
16 pendent contractor, to be compensated by means other than from  
17 production from the tract.

18 No one, as far as I know, has suggested such radical  
19 alternatives. Another possibility, of course, would be to shift  
20 the complete burden of such a tax to the Field Contractor. That  
21 is a question of policy and we don't wish to express any opinion  
22 on it. Of course, it might be expected to have a very detrimental  
23 effect upon any prospective bid.

24 MR. CHAMPION: Could I just ask one question at this  
25 point, while you are outlining these alternatives? Is there a  
26 legislative remedy?

27 MR. SHAVELSON: The problem, Mr. Champion, is that the  
28 property taxation provisions are incorporated in the State Consti-  
29 tution. I don't want to make a final answer to the question. I  
30 think we probably could evolve a legislative solution, but we  
31 might run into a problem conflicting with the State Constitution

1 because if this is a property interest and if it is to be valued  
2 at its full cost, as provided by the Constitution, it might be  
3 difficult to sustain a legislative modification.

4 SENATOR O'SULLIVAN: May I ask a question, Mr. Chairman?

5 MR. CRANSTON: Virgil.

6 SENATOR O'SULLIVAN: Are you involved here with the same  
7 principle as any other possessory interest tax?

8 MR. SHAVELSON: Yes -- if I understand your question,  
9 Senator. One thing I did not bring out -- that this Field Con-  
10 tractor Agreement is drafted so as to make the Field Contractor  
11 an independent contractor, to give him no interest in the lands  
12 and no interest in the oil and gas until they are recovered; and  
13 that is why I said to go any further to avoid the tax would  
14 radically change - - I don't know how much farther we could go in  
15 order to avoid the tax.

16 If I do understand the question, that is the question,  
17 there is an analogous case involving the Los Angeles Flood Control  
18 District lease in Los Angeles and in our memorandum we have, with-  
19 out reaching any definite conclusion, shown both the similarities  
20 and differences from that case. We think we are in a slightly  
21 stronger position than was the company involved in that case.  
22 Does that answer the question?

23 SENATOR O'SULLIVAN: Yes.

24 MR. SHAVELSON: Another matter which we went into by  
25 written memorandum was the question as to whether Article 16 of  
26 the Unit Agreement violated the prohibition contained in the legis-  
27 lative grant against the alienation of tidelands by the City, and  
28 whether that provision violated the rule against perpetuities.

29 These are very technical questions and I don't want to  
30 go into them in detail. However, I would like to say I think  
31 some clarification is required as to the purpose of Section 16.1

1 of the Unit Agreement. Its purpose is merely to require the  
2 owners of working interests within a tract who desire to surrend-  
3 er those interests to the persons entitled thereto, that is the  
4 landowner, to first make those interests available to the parti-  
5 cipants in the other tracts. It is not a prohibition against  
6 alienation to other persons who are willing and desirous of as-  
7 suming the obligations. So in that sense, it is what we would  
8 call a pre-emption option, a right of first refusal -- number  
9 one; and, number two, is not a restraint to alienability at all.

10           Since its purpose is to affect working interest owners  
11 who do not own fee title to the lands, and since the City, of  
12 course, owns fee title to Tract Number 1, Section 16.1 of the  
13 agreement has no practical application to the City; and even if  
14 it did by its general terms include the City and purport to al-  
15 low an alienation of that interest, Section 3.5 of the Unit  
16 Agreement makes it clear that no provision in the Unit Agreement  
17 may be construed so as to require an alienation in violation of  
18 the trust.

19           As to the rule against perpetuities, we have discussed  
20 this in our memorandum and concluded by the overwhelming weight  
21 of authority that there would be no violation.

22           Another question was whether the addition of addition-  
23 al public lands within the Unit area could be accomplished with-  
24 out the consent of the State Lands Commission. Now, it is clear,  
25 of course, that under Section 6879 of the Public Resources Code  
26 and under Chapter 29, where the areas are presently subject to  
27 contract that these areas could not be committed to Unit opera-  
28 tions without the consent of the State Lands Commission.

29           Now, for the very reason that general provisions such  
30 as this might affect the future powers of the State Lands Commis-  
31 sion to approve additional agreements, we drafted and the City has  
accepted in principle a bilateral agreement which specifically

1 states that the Commission approval does not constitute prior  
2 approval of other agreements that may be authorized by the Unit  
3 Agreement and that where approval of such agreements would other-  
4 wise be required, it will continue to be required. That is side  
5 agreement Number 3 that is set forth as an exhibit to the prior  
6 calendar item; and since the addition of public lands would re-  
7 quire joinder agreement or further State approval, we think this  
8 would not affect the Commission's jurisdiction in that regard.

9 I would like to refer briefly to some other matters that  
10 did come up in the course of the Commission meeting on February  
11 28th. The first is the statement in a letter from the Texaco  
12 Company, which is set forth in page 34 of the transcript, to the  
13 effect that the agreement would require the injection into the  
14 reservoir, concurrently with initial development, of water -- to  
15 the detriment of the reservoir.

16 Now, that is a question that the State Lands Division  
17 staff and our Office, and the City Attorney and the City Engineers  
18 have gone into in great detail. At pages 36 and 37 of our opin-  
19 ion rendered to the Commission, we stated that we did not think  
20 that that required injection prior to the time that there was  
21 adequate knowledge of the nature and characteristics of the reser-  
22 voir, so that there would be injury to the reservoir.

23 Any such injection, furthermore, would be subject to  
24 sanctions by the Oil and Gas Supervisor under Section 3106 of the  
25 Public Resources Code, and we regarded that as an additional safe-  
26 guard; and, finally, the side agreement, the seventh bilateral  
27 agreement between the City and the State that is set forth in the  
28 calendar item, expressly requires that water injection not com-  
29 mence until there is sufficient analytical information from drill-  
30 ing operations and producing wells that injection can be done  
31 consistently with good oil field practice. We think, with all

1 these considerations, that there could not be injection into the  
2 field to the detriment of the reservoir.

3 Another question that came up in the Texaco letter,  
4 which is mentioned on page 34 of the transcript, is whether the  
5 indemnity and insurance provisions of the Field Contractor Agree-  
6 ment might make the contractor liable for subsidence damage. I  
7 believe that that letter was written prior to the time that we,  
8 in conjunction with the City Attorney's office, clarified Section  
9 30 of the Field Contractor's Agreement; and I think that it is  
10 completely clear now that the Field Contractor will be liable  
11 without entitlement to reimbursement for any loss occasioned by  
12 its own negligence, otherwise damages will be shared between the  
13 Field Contractor on the one side and the City and the State on  
14 the other, in proportion to the net profit bid.

15 Now, I believe that that provision is abundantly clear  
16 at this time. If any of the company attorneys believe there re-  
17 main ambiguities, we will of course be happy to discuss them.

18 Another question that came up in the course of Mr.  
19 Scott's statement, and that is referred to on page 106 of the  
20 transcript of the last proceedings, is whether or not the Field  
21 Contractor is required to buy all of the oil produced from Tract  
22 Number 1. Now, I think that that question arises through a mis-  
23 understanding of the terms of the Field Contractor Agreement and  
24 I think that the agreement is abundantly clear; but, there again,  
25 if clarification is required we, and I am sure the City Attorney,  
26 are open to suggestions.

27 The purpose of the section of the Field Contractor  
28 Agreement to which Mr. Scott referred is simply to set the terms  
29 upon which the oil will be valued. The accountability to the  
30 City is set forth in Section 5 of the Field Contractor Agreement  
31 and both during the production payment period and the subsequent

1 payment period, it is clear that the Field Contractor must account  
2 on the basis of all oil allocated to Tract Number 1. So, whether  
3 he takes it himself, sells it off, or drinks it, he must account  
4 for it on the same basis and pay for it on that basis.

5 Now, another question that came up in the course of the  
6 meeting that I'd like to refer to briefly is the question, "Why  
7 the City should reimburse the pre-unit expenses of onshore opera-  
8 tors." I feel that had a pre-unit agreement been executed by the  
9 parties, that the terms of that agreement should be available to  
10 the Commission as part of its approval and should be available to  
11 anyone who signs the Unit Agreement, because that pre-unit agree-  
12 ment will affect the definition of Unit expenses -- which, of  
13 course, is vital to everyone concerned.

14 As a matter of fact, the purpose of that provision was  
15 simply to reimburse administrative expenses and printing costs  
16 that were considered to benefit all members of the Unit and to  
17 assure that those who undertook those expenses would be reimbursed  
18 even though the Unit Agreement might not be finally executed.

19 As a matter of fact, no pre-unit agreement has been  
20 executed and it is my understanding that none will be; and I think  
21 it should be clearly understood that if and when one should be  
22 executed, it must be submitted to the Commission for approval and  
23 must be executed before the first person signs the Unit Agreement.

24 Another question that I'd like to discuss very briefly  
25 is the provision in Sec.7.13, Unit Operating Agreement permitting  
26 the unit operator to settle claims up to \$250,000 without consult-  
27 ing with the other participants. I think it should be made clear  
28 that the purpose of this provision is not to give the City as unit  
29 operator and as trustee of the State, an additional unencumbered  
30 power. It does not give them this, since at this stage of the  
31 proceeding the State is not a participant in the Unit Agreement

1 and it is quite possible we never will be unless and until Tract  
2 Number 2 is committed.

3 Therefore, the purpose behind Section 7.13 is to simply  
4 allow the City, which is trustee for the State and would be liable  
5 for the approximately eighty-five per cent of the cost of such  
6 settlement, to make it expeditiously and safely and perhaps save  
7 hundreds of thousands of dollars without delay, by consulting with  
8 other participants; but the persons affected are the other parti-  
9 cipants, not the City or the State. Therefore, we did not feel  
10 that was a detrimental provision, but was of benefit to us.

11 SENATOR O'SULLIVAN: Do I understand this correctly --  
12 that any claim would, if allowed, be deducted from the entire  
13 fund? Wouldn't it?

14 MR. SHAVELSON: Yes, sir. It would become a Unit  
15 expense under the Unit Agreement and would be allocated among the  
16 participants in accordance to their tract participation; and since  
17 it is anticipated that Tract Number 1 would bear about eighty-five  
18 per cent of the cost ....

19 SENATOR O'SULLIVAN: And on Tract Number 1 at the  
20 present time the State has at least fifty per cent of the revenue?

21 MR. SHAVELSON: A little better than fifty per cent.

22 SENATOR O'SULLIVAN: So I fail to understand where the  
23 interest of the State is not affected.

24 MR. SHAVELSON: The interest of the State is affected,  
25 obviously, to the extent that the City administers the trust  
26 poorly or improperly. Now, that gets down, I think, to the very  
27 guts of the relationship here; and that is simply that the City,  
28 despite Chapter 29, remains the trustee. It has legal titles to  
29 these lands and certain limited powers are vested in the State  
30 under Chapter 29 to approve the terms of contracts. I do not  
31 think that Chapter 29 makes us a copartner in the operation, and

1 I think that the City still retains all of the powers that any  
2 legal trustee has. As you know, there are over a hundred grants  
3 up and down the State; and although our interest in this one is  
4 much greater, the essential relationship is much the same --  
5 except that we have to give prior approval to agreements.

6 If the City should act improperly and violate its  
7 trust obligations in making such a settlement, then as any trust-  
8 tee I think they would be subject to control and sanctions on  
9 the part of the State.

10 SENATOR O'SULLIVAN: Does this compromise provision  
11 bind both the settlor of the trust and the beneficiary?

12 MR. SHAVELSON: Yes, it does.

13 SENATOR O'SULLIVAN: If it binds the settlor in the  
14 compromise, in the case the trustee makes a mistake in a com-  
15 promise for \$250,000, a mistake is waived under your provision;  
16 is that right? How far does it go?

17 MR. SHAVELSON: If the City is acting in good faith,  
18 I think that is correct -- that we would not have that power;  
19 but the purpose of inserting this provision in the Unit Operat-  
20 ing Agreement is to allow the City to do this without consulta-  
21 tion with the other participants in the tract, and certainly as  
22 to them it is an extreme provision. Now, it would be possible  
23 for us to put in an additional bilateral agreement between the  
24 City and the State, under which, say, any compromise for a cer-  
25 tain sum would be gone over by the State Lands Commission and  
26 by the Attorney General's Office. I think that might encumber  
27 the very purpose of it -- which is to give them the ability to  
28 make a fast, expeditious settlement of damage claims which  
29 might otherwise far exceed the compromise amount.

30 SENATOR O'SULLIVAN: That is not an uncommon thing in  
31 a trust, to make compromises without going to court or getting

1 approval or disapproval?

2 MR. SHAVELSON: Of course, there are a number of dif-  
3 ferent types of trusts. I believe that the trend -- and I am no  
4 expert in this -- but I think the trend in modern trust instru-  
5 ments is to select a good trustee and then give him a broad range  
6 of discretion; and I don't think \$250,000, in light of the many  
7 hundreds of millions of dollars that are going to be expended on  
8 operations here, is necessarily a very large amount and would  
9 have drastic effect upon the over-all interests.

10 SENATOR O'SULLIVAN: Well, of course, you could involve  
11 yourself in millions of dollars with a lot of \$250,000 claims.

12 MR. SHAVELSON: That is very true.

13 SENATOR O'SULLIVAN: But is the City, as a trustee,  
14 liable to the State for a mistake -- even for \$250,000?

15 MR. SHAVELSON: It would depend upon the magnitude of  
16 that mistake. I think a trustee is required to exercise the  
17 care of an ordinarily prudent man in affairs of this character.

18 SENATOR O'SULLIVAN: That is under the provision or  
19 without the provision?

20 MR. SHAVELSON: With or without the provision, the  
21 City is subject, in my opinion, to the same standards as any  
22 other trustee. The effect of the provision is to allow the City  
23 as against the Townlot owners to make a settlement of this nature  
24 without unanimous consent of all of the participants that might  
25 otherwise be required and might otherwise make it impossible for  
26 them to enter into settlements that the City considers to be  
27 beneficial to the interests of the City and State. In other  
28 words, it gives them greater powers as against the other  
29 participants.

30 SENATOR O'SULLIVAN: Isn't it bilateral? Doesn't it  
31 bind both the City and State with the same provision?

1 MR. SHAVELSON: Yes. The State is the beneficiary of  
2 this trust and would be bound by it; and, as I say, the alterna-  
3 tive would be to require the City to come in for approval by the  
4 State Lands Commission -- and if the Commission should determine  
5 that that is a desirable provision, we can request it from the  
6 City. I think that is a matter of policy, as to whether they  
7 wish to do so.

8 SENATOR O'SULLIVAN: In any event, you should have  
9 some provision to settle and compromise claims in some amount.

10 MR. SHAVELSON: Yes, sir.

11 SENATOR O'SULLIVAN: You might argue about the amount  
12 of the claim, \$250,000 -- but you certainly can't argue about  
13 the principle that the trustee should be free to compromise  
14 claims in some sum.

15 MR. SHAVELSON: Absolutely. I think it would finally  
16 cost us money if they had to litigate and get the consent of the  
17 participants.

18 SENATOR O'SULLIVAN: This is not an uncommon thing in  
19 trust agreements?

20 MR. SHAVELSON: It is not uncommon. A similar provi-  
21 sion is included in all of the unit agreements that have been  
22 executed, but in smaller amounts.

23 SENATOR O'SULLIVAN: And it is not uncommon to find  
24 it in oil leases?

25 MR. HORTIG: That is correct.

26 SENATOR O'SULLIVAN: This is not uncommon to find in  
27 an oil lease?

28 MR. HORTIG: In many contracts.

29 SENATOR O'SULLIVAN: The company can make settlements  
30 that bind the landowners?

31 MR. HORTIG: Well, an oil lease does not ordinarily

1 involve the landowner; but certain costs that might be a deduc-  
2 tion from the royalty payment or otherwise at the discretion of  
3 the lessee are not uncommon, no.

4 MR. CHAMPION: It seems to me what we really have here  
5 is a larger question that doesn't go just to this provision, but  
6 the whole relationship between the trustee and the State as  
7 beneficiary, and what recourse the State has on acts of the  
8 trustee with which it may disagree or in which it may want some  
9 voice; and this kind of provision just recognizes this basic  
10 relationship that is established here.

11 There is a broader question as to whether the State  
12 needs some special provision, because of its very large interests  
13 here as beneficiary, that give it some further voice in the acts  
14 of the trustee -- not only this provision, but all provisions  
15 in the Operating Agreement.

16 MR. SHAVELSON: I think that is true, Mr. Champion.  
17 There is, perhaps, an anomaly here, although it is not uncommon  
18 in private trust relationships, where the trustee is obligated  
19 to pay over to the beneficiary but nevertheless has complete  
20 control of the management. This is true with the City of Long  
21 Beach except under provisions of Chapter 29 -- and they do not  
22 give the tidelands, they don't give the State the right to  
23 control the tidelands, but only to approve the terms of the  
24 contract.

25 MR. CHAMPION: And this probably occurs throughout  
26 the Operating Agreement?

27 MR. SHAVELSON: I believe that is true. In other  
28 words, we had to deal with the law as it is, and we think the  
29 City remains the trustee -- with very broad powers; in fact,  
30 after the decision of Silver vs. the City of Los Angeles was  
31 brought down, they were broader than we thought.

1 MR. CHAMPION: Have you or the staff discussed the  
2 possibility of any change in this relationship -- legislatively  
3 or otherwise, or by agreement -- to provide some further State  
4 participation in the decisions of the trustee, or approval of  
5 the decisions of the trustee?

6 MR. SHAVELSON: One step towards that, Mr. Champion,  
7 are the seven bilateral agreements that were entered into.  
8 That is something that is not contemplated by Chapter 29, but  
9 yet we were faced with the problem that there were provisions  
10 that were beneficial as far as the City and the other partici-  
11 pants are concerned and yet could be administered to the detri-  
12 ment of the State.

13 I am not answering your question, quite; but I want  
14 to say this -- that I advised the staff that I thought there  
15 was a limit under present law to the extent that we could inter-  
16 fere with the day to day operations of this; and, specifically,  
17 we have not discussed any particular modification of Chapter 29.

18 MR. CHAMPION: And it is because of the legislative  
19 situation that you had recourse to this growing series of bi-  
20 lateral agreements on these subjects....

21 MR. SHAVELSON: Yes, sir.

22 MR. CHAMPION: ... and had to handle each one in a  
23 slightly different fashion.

24 MR. SHAVELSON: That's right. In other words, where  
25 the Legislature states that we have to approve a contract and  
26 that contract is necessarily broad because of a thirty-five  
27 year term and the unknown conditions that might be met, we feel  
28 that it has to be made more specific as far as we are concerned.  
29 The lack of provision for further Commission approval of speci-  
30 fic acts under those contracts is what made that necessary.

31 Now, I didn't mean to take quite this long, and this

1 will be the last point I want to go into.

2 SENATOR O'SULLIVAN: Mr. Chairman, could I ask one  
3 question?

4 MR. CRANSTON: Yes, Virgil.

5 SENATOR O'SULLIVAN: It appears to me some thought  
6 might be given to an annual accounting from the City to the  
7 State, just as you have an accounting of a trust, in order to  
8 do two things -- to inform the beneficiary of the trust and,  
9 second, to relieve the trustee of liability by some sort of  
10 accounting to the Lands Commission -- an arrangement for an  
11 annual accounting, where they would make an accounting to the  
12 Lands Commission and get approval of whatever transactions and  
13 compromises were entered into that year, and then proceed.

14 MR. SHAVELSON: Mr. Hortig wants to respond to that.  
15 I want to say, just briefly, that Chapter 29 does require the  
16 City to account for its expenditures of its share of trust  
17 revenues and provides for inquiry by the State Lands Commission  
18 into the operation; and at our recommendation, a provision was  
19 inserted in the Field Contractor Agreement that the State would  
20 have full power to go into the books and records of the Field  
21 Contractor to check on this.

22 May I turn the microphone over to Mr. Hortig?

23 MR. CHAMPION: Before you do that - - In providing  
24 that, it does not provide any recourse? If the State does  
25 approve of any agreement here, as I understand it, all we have  
26 is a right to establish the facts and the persuasiveness of  
27 the facts on the trustee. There is no way that the State could  
28 implement any objections it might have.

29 MR. SHAVELSON: That is very close to the situation.  
30 In other words, before we could establish an actual legal breach  
31 of the City's duties as trustee, it would have to go very far;

1 So for practical purposes, if it is just a difference of opin-  
2 ion between people in good faith on two sides, we have no  
3 recourse. That is correct.

4 MR. HORTIG: I did want to amplify, particularly for  
5 Senator O'Sullivan's benefit, the fact that the provisions of  
6 Chapter 29 with respect to accounting by the City of Long Beach  
7 to the State are, however, distinguished from the type of re-  
8 porting which is necessarily made with respect to the oil and  
9 gas operations and those operations which are conducted by the  
10 City under a carte blanche authorization by the Legislature  
11 under Chapter 29.

12 For example, in the matter of the Port operation,  
13 there is generally a summarized total reported annually, as re-  
14 quired by statute, but the detail therein, if it is to be re-  
15 viewed, must be reviewed on an audit basis; whereas on the oil  
16 and gas operations, there are monthly reports and in view of  
17 the fact that the operating contracts for these oil and gas  
18 operations are subject to advance approval by the State Lands  
19 Commission, these operations are under review continuously;  
20 whereas there is a considerable body of the operation by the  
21 City under Chapter 29 on which legislative approval has been  
22 given by classification of the operation that do not provide  
23 equal scrutiny with the oil and gas operations.

24 SENATOR O'SULLIVAN: Within the trustee's accounting  
25 there is an item, but there is no detail. Is this a separate  
26 accounting or is it included in one?

27 MR. HORTIG: The accounting ultimately becomes a com-  
28 posite of a series of accountings from separate funds, which  
29 funds in general are accumulated from the oil and gas operation  
30 and then are distributed and utilized in connection with vari-  
31 ous operations and project expenditures -- both for projects

1 which require advance State Lands Commission approval and the  
2 balance for projects which do not require under the statute the  
3 advance approval of the State Lands Commission.

4 In other words, the Commission has approval responsi-  
5 bility and authority only as to a portion of the operations by  
6 the City of Long Beach on the tide and submerged lands.

7 SENATOR O'SULLIVAN: Does the Commission have a  
8 policy decision as to whether there could be a complete account-  
9 ing of funds annually?

10 MR. HORTIG: Well, there is such a complete account-  
11 ing of funds made, Senator O'Sullivan, but the detail is not  
12 explored in connection with those categories where the Legisla-  
13 ture has previously said tideland funds may be expended for  
14 harbor operations. For that, in a year "X" million dollars  
15 were expended, and that is essentially the end of the report.  
16 Audit scrutiny is given to determine that essentially all the  
17 components were for reasonable harbor operation, but if it got  
18 down to the point, as Deputy Shavelson just stated, of an honest  
19 difference of opinion between the experts on both sides as to  
20 whether or not a particular item was a reasonable harbor opera-  
21 tion, this is where the subject matter currently would stop and  
22 it would be a debating society from there on -- because, in  
23 further reference to Mr. Champion's statement, there is no place  
24 to go with this type of dispute and there is no provision for  
25 the State Lands Commission to exercise any further jurisdiction  
26 under these circumstances.

27 We have assumed if and when it ever happened the  
28 Commission would have to report to the Legislature. Patently,  
29 this would be a cumbersome administrative procedure.

30 SENATOR O'SULLIVAN: You have not yet faced the  
31 problem in the Commission?

1 MR. HORTIG: No, sir.

2 SENATOR O'SULLIVAN: It occurs to me it might be help-  
3 ful to have the Commission explore what would be apparently a  
4 reasonable system of accounting in both of these fields --  
5 reasonable in several ways; reasonable in the way of the exposi-  
6 tion, and reasonable in the way of control, and also reasonable  
7 in the way of releasing the trustee from liability for actions  
8 at the end of the annual accounting period, whatever it was.

9 It appears to me that when you have a four billion  
10 dollar operation and a City of four hundred thousand, it would  
11 not be fair to place upon them the trust obligation and give  
12 them no opportunity to render an account and to relieve that  
13 liability -- a continuing liability throughout the life of  
14 this transaction.

15 MR. SHAVELSON: Just one more point, and that is on  
16 the monopoly question. We went into that matter in our opinion  
17 to the Commission, pages 41 to 43 of that opinion, after con-  
18 sultation with our antitrust department; and our conclusion was  
19 that neither the City nor the State would be liable for any  
20 breach of the antitrust laws by putting this parcel out in good  
21 faith, in an attempt to get the most revenue out of it in open  
22 competitive bidding -- and especially since the City is reserv-  
23 ed broad powers of supervision, so that the Field Contractor  
24 would be completely powerless to control rates of production to  
25 affect detrimentally the competitive picture.

26 However, since the question was raised again at the  
27 last meeting, we were contacted, as Mr. Hortig mentioned, by  
28 the Antitrust Division in Los Angeles of the United States De-  
29 partment of Justice and we arranged a meeting in the Attorney  
30 General's Office with Mr. Disney and Mr. Somerville from that  
31 office. They suggested the desirability of a sell-off provision

1 under which the Field Contractor would be compelled to sell off  
2 about twelve and one-half per cent or one-eighth of the produc-  
3 tion to qualified independent refiners, who would have a certain  
4 limited number of employees and refinery capacity.

5 In accordance with that, we drafted an initial provi-  
6 sion for the purpose of amending the Field Contractor Agreement  
7 to so provide, and we submitted that draft to the State Lands  
8 Division staff and to the City of Long Beach for their comment.  
9 There has not as yet been time to get their response on it; but  
10 if the Commission wants us to do so, of course we shall contact  
11 the possible eligible refiners to see whether this provision  
12 might meet their needs, and also prospective bidders to make  
13 sure it would not impose any unfair burden upon the Field  
14 Contractor.

15 Now, as far as the monopoly situation itself, the  
16 productive capacity which the bidder or bidders may acquire, I  
17 think that the most we can do is to offer our complete coopera-  
18 tion to the Department of Justice or to any company or companies  
19 in obtaining what is usually known as a railroad clearance for  
20 the purpose of limiting this at least to a civil liability in  
21 case the amount of production should ultimately at its peak  
22 about 1970 achieve monopolistic proportions.

23 MR. CRANSTON: Jay, are there other matters you have  
24 under study on which you are not ready to render any formal or  
25 informal opinion?

26 MR. SHAVELSON: Well, I think the matters I mentioned  
27 cover what we understood to be the major questions arising at  
28 the last meeting. We may have missed some; I hope not.

29 One suggestion Mr. Scott made, which perhaps may be  
30 desirable in light of what I think are misunderstandings that  
31 have arisen, is that members of the industry and we sit down

1 and go over this, provision by provision, to explain the meaning  
2 so that everyone has the thought of what it is; and if we have  
3 said it ambiguously or if we said something we didn't mean to  
4 say, I think that would come out in the course of such a  
5 discussion.

6 MR. CRANSTON: Frank?

7 MR. HORTIG: Mr. Chairman, as a suggested addition to  
8 your list of participants who have indicated approval or non-  
9 approval of the proposed contracts, I believe you should add,  
10 not as objectors, but possibly in the classification of neutral  
11 objectors, Golden Eagle Refining Company -- who have not object-  
12 ed to the contract proposal per se, provided that provision were  
13 made for some quantity of oil allocation to small refiners; and  
14 Union Oil Company of California, who have also suggested the  
15 possible necessity for some modifications to render the contract  
16 practicable, particularly from the standpoint of corporate tax  
17 problems in relation to the contract as it is being proposed.

18 Also, the record should show that in connection with  
19 my prior presentation to the Commission relative to the data  
20 furnished pursuant to previous requests at the last meeting by  
21 Senator Virgil O'Sullivan and by Senator Dolwig, while the  
22 agenda item indicates these data were furnished to these gentle-  
23 men, this is correct as to the principal addressees. Copies  
24 were also made available to the other members of Senator  
25 O'Sullivan's Subcommittee and Senator Dolwig and to all members  
26 of the Assembly Committee on the Manufacturing, Oil and Mining  
27 Industry.

28 MR. CRANSTON: Since the last hearing wound up with  
29 the testimony by Mr. Clark of Shell and Mr. Scott of the Pauley  
30 Company, I think it might be appropriate to hear from Long  
31 Beach representatives, to say whatever they wish in regard to

1 the criticisms that have been voiced by those two witnesses and  
2 by others, and to comment on any other questions that have arisen  
3 up to this stage of the game.

4 Virgil, are you going to be with us? We might discuss  
5 for a second what arrangements we want to make for lunch. Both  
6 Hale and I have some other matters we hope to get done in the  
7 late afternoon and both of us have suggested having a rather  
8 brief recess -- suggesting that people have lunch in the Employ-  
9 ment cafeteria, which is very fine. Virgil, would that suit  
10 you? We might quit at twelve and continue at twelve thirty, if  
11 that would enable you to be with us. (Response inaudible to  
12 reporter)

13 MR. DESMOND: Mr. Chairman, members of the Commission,  
14 and members of the Legislature -- Jerry Desmond, City Attorney,  
15 City of Long Beach. I would first call on our former Mayor,  
16 Mr. Raymond Kealer, presently City Councilman, who has been on  
17 the Council for approximately sixteen years and chairman most  
18 of that time of the Harbor Industries and Petroleum Committee  
19 of the City of Long Beach. Mr. Ray Kealer.

20 MR. KEALER: Mr. Chairman, members of the Commission,  
21 let me say first, gentlemen, that I appreciate the opportunity  
22 of speaking to you here.

23 I merely wish to point out what the policy of the  
24 City has been generally and still is -- that is, of course, by  
25 looking out for the welfare of the community and with respect  
26 to the oil problems we want to do what will redound to the  
27 greatest resultant benefit to the City and State and the inter-  
28 ests of all of us.

29 I think it might be appropriate at this time -- this  
30 will be very brief -- to give you the summary of the events  
31 that led up to this present Unit Agreement and Operating

1 Agreement and Field Contractor Agreement.

2           The City became aware of a possible oil field in the  
3 submerged lands outside the Harbor District about 1947. They  
4 became sure of it because they had prior information on the  
5 L.B.O.D. operation at the east end and then Richfield Parcel A  
6 in 1947 started opening up a new area in the submerged lands  
7 east of the Harbor District from Pine Avenue east. I do not  
8 know exactly how many acres, but it is a relatively small parcel.

9           Then in 1948-1953, the City and State was engaged in a  
10 battle on the Federal ownership of tide and submerged lands, and  
11 because of that the oil revenues were all impounded during all  
12 those years and a good deal of money was accumulated.

13           Then, in 1953, Congress passed and President Eisenhower  
14 signed the bill which quitclaimed the tidelands back to the  
15 State of California and that was the grant to Long Beach. Then  
16 in June 1953, the Harbor Industries Oil Committee, of which I  
17 am Chairman, requested the Long Beach Harbor Department, Petro-  
18 leum Division, for a report on the oil development and the alle-  
19 viation of subsidence in the offshore area. This report was  
20 submitted and it was recommended that the City conduct a geo-  
21 physical exploration, drilling core holes in the offshore area,  
22 taking necessary steps for the unitization of the subject lands.  
23 Part of the reason for requesting that was that there had been  
24 a preliminary study and it indicated it would be favorable in  
25 very general terms.

26           In January 1954, the Western Geophysical Corporation  
27 did conduct a seismic offshore study and May, I guess it was,  
28 the City engaged the firm of Stanley and Stolz to work with our  
29 Petroleum Division and Doctor Mayuga to elicit the facts that  
30 they obtained by interpreting these studies.

31           Not satisfied with all the reports at the time, the

1 City in 1955 again engaged Stanley and Stolz, and they made cer-  
2 tain recommendations, which are consonant with the things incor-  
3 porated in our Unit Agreement.

4 In February 1956, the subsidence problem became a very  
5 serious threat and the various consulting firms who had been con-  
6 sulting on problems with the Harbor District had recommended that  
7 waterflooding would be the answer to this subsidence problem.

8 Then the City was afraid if it was to turn the thing  
9 loose, it would have oil derricks uptown in the town area and it  
10 would affect the subsidence, because by that time the subsidence  
11 had become very bad in the Harbor area, including the Naval ship-  
12 yard, so the electorate voted on an ordinance which precluded  
13 any drilling in the downtown area and which included the sub-  
14 merged lands.

15 Then the City, in 1951, concluded that it did not need  
16 all of these funds for harbor and trust purposes and it requested  
17 the State Legislature to pass, I believe it was A.B. 3400, at  
18 that time, that fifty per cent was not needed for this purpose;  
19 then in the Mallon decision in 1956 the City and the State of  
20 California entered into a compromise agreement regarding the  
21 tidelands and their future operations and this became Chapter 29  
22 of the Public Resources Code.

23 In 1957, the City of Long Beach, which had been conduct-  
24 ing a waterflooding program, a pilot flood, in the Harbor, formu-  
25 lated a plan to extend this waterflooding to other properties.  
26 In 1958, large waterflooding operations were started in the Long  
27 Beach Harbor area; at the same time, operations were undertaken  
28 to include non-City zones not under City operation. To insure  
29 cooperation of the operators of the Wilmington Oil Field, the  
30 State Legislature passed a bill establishing boundaries of a  
31 subsidence district. These boundaries were established by the

1 State Oil and Gas Supervisor after a series of public hearings.

2 In '59, the success of the injection program as a  
3 remedy for subsidence became evident in the Harbor district.  
4 Subsidence was completely stopped in the Harbor District and  
5 slowed down in others.

6 Under the leadership of the City, unitization of Fault  
7 Blocks II, III and IV followed. The City continued to expand  
8 waterflooding in the tidelands areas, and water injection was  
9 started in Fault Block VI under a cooperative agreement between  
10 the City of Long Beach and Producing Properties, Inc. They are  
11 the ones that are producing in the Ranger Zone as far east as  
12 Pine Avenue.

13 In '60, Fault Blocks II and III were formally estab-  
14 lished under unit and unit operating agreements, and in 1961  
15 Fault Block IV was formally established under a unit and unit  
16 operating agreement. In the meantime, the success of the water  
17 injection program in the subsidence area as a means of stopping  
18 subsidence became much more evident. Subsidence was stopped in  
19 all of the downtown area and a large part of the Harbor district.  
20 The rate of subsidence at the center of the bowl had very appre-  
21 ciably decreased.

22 In November 1961, at the request of the City Council,  
23 the Petroleum Division of the Harbor Department submitted a com-  
24 prehensive plan for the development of offshore and onshore  
25 areas. On February 27, 1962, the electorate of the City of Long  
26 Beach voted to permit drilling of oil wells in the offshore areas  
27 subject to certain limitations.

28 From April through September 1962, under the leadership  
29 of the City, a Unit Agreement and the Unit Operating Agreement  
30 were formulated in cooperation with oil operators holding the  
31 leases in the Townlot area. Members of the staff of the State

1 Lands Commission and the Attorney General's Office were present  
2 during the formulation of these agreements.

3 During this period, the City also prepared the Contrac-  
4 tor's Agreement for development of the property.

5 In October 1962, drafts of the Unit Agreement and Unit  
6 Operating Agreement and Contractor's Agreement were submitted to  
7 the State Lands Commission by the City of Long Beach for review  
8 and approval; and from that date on, of course, they have been  
9 up here and the City is doing all it can to expedite them.

10 At its meeting of March the 26th, the City Council  
11 adopted a motion of Councilman Crow and expressly requested me  
12 to request your Honorable Body to please expedite the matter  
13 as quickly as possible, and if there are any changes or sugges-  
14 tions that are necessary which would not be inimical to the City  
15 or State, I think you will find the City will be perfectly will-  
16 ing to work in that manner.

17 Again, I express my appreciation for being allowed  
18 up here.

19 MR. CRANSTON: Thank you very much. We will now recess  
20 and we will reconvene at twelve-thirty.

21 ADJOURNED 12:00 NOON

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1 AFTERNOON SESSION - MARCH 28, 1963 - 12:50 P.M.

2  
3 MR. CRANSTON: The meeting will please come to order.  
4 Mr. Desmond was about to proceed. Before you do so, Jerry, I'd  
5 like to make a few comments for just a moment. I wonder if we  
6 might, in order to save time today and to speed toward an ulti-  
7 mate decision, consider how we are going to proceed and what  
8 should be presented to us at this time.

9 It was, in part, I think, suggested by Mr. Shavelson  
10 this morning that it might be wise to have Mr. Hortig and the  
11 staff of the Lands Commission and the appropriate representatives  
12 of Long Beach get together at a staff level session with members  
13 of industry and go over the contract, and clause by clause thrash  
14 out whatever differences of opinion there might be; and then  
15 come back to a hearing of this sort after that process. That  
16 might save the time of double and triple presentation at this  
17 time and then before a Senate Committee and back here.

18 At the same time, there have been all sorts of hints  
19 and suggestions about what occurred in the drafting of this  
20 original contract as presented to us and the Unit Agreement.  
21 There were remarks by Mr. Scott when he testified, vague refer-  
22 ences to oil and gas companies that participated in the drafting  
23 and those that did not; and in the material presented by Long  
24 Beach, responding to remarks by Mr. Clark of Shell, the intro-  
25 ductory remarks state that Shell personnel received copies of  
26 the agreements in 1962. I don't know what form they were in,  
27 whether they were final or not, but there is some reference  
28 that the field operating contract was given to Shell, and I do  
29 not know how far along it had been or whatever part Shell had  
30 in the conferences on the drafting of the contract under con-  
31 sideration here.

1           Regardless of what may have happened or not happened  
2 or whatever anybody feels might or might not have, I think we  
3 show by our procedure that we intend to have everybody comment  
4 on all phases of the contracts and they have not been acted  
5 upon, and we will not act until everyone who wishes to be heard  
6 has been heard; and we will not act until the very best possible  
7 agreements are available to us under all circumstances, and cir-  
8 cumstances permit us to take whatever time is necessary. At this  
9 time, of course, we wish as early a conclusion as possible on  
10 the development of this matter, for very obvious reasons.

11           In addition to what has been said up to this point by  
12 representatives of industry and others, I think we of the State  
13 Lands Commission itself have our own questions about certain  
14 matters which we would like our staff to explore.

15           We want the staff of the Lands Commission to come in  
16 with whatever recommendations they may have on large or small  
17 matters. Among the major items, we want to make certain there  
18 is the fairest possible, and division of the fairest possible,  
19 returns to the City of Long Beach and the State in terms that  
20 we get maximum revenue to the State and that we get all possible  
21 participation by interested oil companies.

22           I think we want the staff and everyone interested to  
23 study whether the advance of fifty-one million dollars is the  
24 wisest way to start, and what circumstances might or might not  
25 improve the exact treatment of that fifty-one million dollars;  
26 whether developing the field in one unit or more than one unit  
27 is advisable. I think in my own view the evidence tends to  
28 point to one-unit development; but a related question is whether  
29 or not it might be possible to arrange bidding on more units so  
30 there could be greater opportunity and more competition and  
31 more money produced by that action. That is the thing we would

1 like to have the staff explore with us.

2 Also, we would like to explore whether the net profits  
3 basis is the best for all or part of the field; whether cash  
4 bonuses or royalties or some combination thereof might be pos-  
5 sible. These are all matters we want your thinking on; that we  
6 wish to clarify our thinking on.

7 At this point I think we should proceed with whatever  
8 comments that would seem appropriate in this general outline,  
9 but we should reserve the very precise geological issues and the  
10 minute parts of the contract for, first, the staff level of the  
11 Lands Commission and the staff of Long Beach and all interested  
12 oil companies, and then bring back to us whatever comes out of  
13 that process.

14 Unless anyone wishes to comment upon that general state-  
15 ment at this point, we will turn to Mr. Desmond.

16 MR. CHAMPION: I agree with what Mr. Cranston has to  
17 say but I want to add this -- that this does not mean that in  
18 many, if not approximately all, cases we don't feel this is a  
19 good document or that we disapprove of what is before us. What  
20 we want to do is to explore certain alternatives and to weigh  
21 them against these, and to see whether or not this is the best  
22 way to proceed.

23 This is in no sense a disapproval of the contract which  
24 has been presented, at least in its major features. This is an  
25 exploration on some possible alternatives to be weighed, and I  
26 wouldn't want the people from Long Beach or elsewhere to feel  
27 that we don't feel this is a good contract or good document at  
28 this stage. This is not critical; it is just that we need  
29 more information to weigh the different provisions.

30 MR. CRANSTON: I concur fully with Hale's remarks.  
31 Jerry?

1 MR. DESMOND: Mr. Chairman, Mr. Champion, members of  
2 the Legislature, we would like to touch upon thirteen points.  
3 Those will be briefly covered, however. The thirteenth and last  
4 relates to a time schedule.

5 A number of questions have been raised. We have read  
6 them in statements; we have read them in newspapers; we have read  
7 them in certain activities or reports of the Legislature.

8 The first, and several of these, have already been  
9 touched upon, and very ably and capably, by Mr. Shavelson; but  
10 without repeating, we do feel that some of these should again be  
11 touched upon. One is the matter of taxes and the question of  
12 State and local and Federal taxes.

13 The matter of Federal tax comes up first, perhaps, in  
14 relation to the fifty-one million dollar advance payment. Now,  
15 if this were a bonus, it would have certain impact; if it is  
16 treated as a production payment, then a different impact from a  
17 tax standpoint -- because the first must be capitalized. Now,  
18 what is important here is to stress and to realize that we are  
19 trying for the State and the City to obtain the best bid pos-  
20 sible and if those companies desiring to bid feel that in the  
21 way the matter is presented to you it is a production payment  
22 and they will bid higher, this is a matter for the bidders to  
23 determine. The only reason that we have prepared the advance  
24 payment in the manner we did is to improve the bid. There would  
25 be no reason not to prepare it as a bonus and have the fifty-  
26 one million dollars paid over the same period of time, strictly  
27 as a bonus -- if it is done that way, that would be much simpler  
28 than what is proposed here -- except then capitalization is cer-  
29 tain and, therefore, the bids of all people would be less than  
30 the higher bid of at least those few who, with a production  
31 payment, would have tax gains.

1 Referring to the ad valorem tax matter which Mr. Shavel-  
2 son has already touched upon, we are not here to solve the prob-  
3 lem of whether or not there might not be new taxes of this nature  
4 or others that the County or someone else might assess. We are  
5 not trying to solve this and, by doing so, saying this is ex-  
6 cluded -- that this will not be considered a chargeable expense.  
7 If we shift the risk to the bidders, then we believe that there  
8 would be a poorer bid from the standpoint of the State and the  
9 City.

10 Furthermore, the taxpayer, the successful bidder, might  
11 get a windfall and we think it particularly important that if  
12 this is not a chargeable expense, if the successful bidder does  
13 not have sufficient possessory interest, there might well be a  
14 loss of his depletion allowance; and one might comment upon that,  
15 that there was a notice in the Wall Street Journal yesterday  
16 about what that actually means -- and it would be considerably  
17 higher.

18 The second is the matter of the antitrust matter and  
19 I think Mr. Shavelson has fully covered that and we ask the  
20 State Lands Commission to approve the contract as it is, subject  
21 to certain conditions. You tell us as a condition of your ap-  
22 proval that there first must be a split-off of a reasonable  
23 amount -- of course, after the contractor has had a return on  
24 his investment -- but in a form which is satisfactory to the  
25 Lands Division and to the Attorney General - - make that one of  
26 your conditions and, of course, the City will comply. The City  
27 must, in other such conditions, take another look -- because  
28 that would be a change from the form that has been approved.

29 If I may pass this back and forth a little in the  
30 interest of saving time, I wanted Mr Lingle to comment upon  
31 the question, also in part touched upon by Mr. Shavelson, of

1 the liabilities as between the Contractor, the City, and the  
2 State -- the matter of the \$250,000 allowance for settlement.

3 MR. LINGLE: Again I wish to emphasize the question of  
4 State control. The amount does not enter into it. If it is  
5 five dollars or fifty thousand or five hundred thousand, we are  
6 living under the law under Chapter 29, as far as the City's  
7 right to execute the Unit and Unit Operating Agreements.

8 MR. DESMOND: The fourth part is the capacity and geo-  
9 logical aspects of the pool. This will be covered by Doctor  
10 Manuel Mayuga, the Petroleum Engineer for the Harbor, briefly  
11 at the close of our remarks.

12 Number five is the matter of title aspects and I be-  
13 lieve that Mr. Shavelson's comments covered this entirely --  
14 the matter of 16.1 of the Unit Agreement. All that, he has  
15 made very clear to all of us, and I would only like to add that  
16 the Long Beach Unit Agreement which is before you is modeled  
17 after the three that are already in existence, all three of  
18 which were previously approved by the Lands Commission and one  
19 of which was before the California Supreme Court and approved.

20 The next, the sixth, is relative merits of a net  
21 profit or leasing arrangement; and perhaps what is really  
22 thought of here would be more the difference between a percent-  
23 age of net profit or a bonus plus a fixed royalty. I think Mr.  
24 Hortig's comments at the start of the last meeting covered that  
25 very satisfactorily, but Mr. Brock, the Petroleum Administrator  
26 of the City of Long Beach, will in some charts, I think, make  
27 very clear to you just what the cash flow is that will come  
28 from the development of this area.

29 Then, number seven, also to be covered by Doctor  
30 Mayuga -- the question of subsidence abatement and methods.  
31 Incidentally, of course, the methods used have stopped

1 subsidence and the methods used have produced such a fine  
2 secondary recovery that those figures have already been submit-  
3 ted to you; and I believe Mr. Hortig reported last month in  
4 detail upon the economic analysis which he had requested and  
5 which he was furnished, which covers that.

6           Number eight -- the effect of the rate of production  
7 on imports. I think this would perhaps be repeating in part  
8 what we said a month ago, but the State needs a total of one mil-  
9 lion barrels of crude; the State production is eight hundred  
10 thousand barrels; therefore the need for imports of two hundred  
11 thousand. If this new area is developed and if it produces, say,  
12 one hundred to one hundred fifty thousand barrels, there is  
13 still need for additional imports of at least fifty thousand  
14 barrels. This is the daily production. We suggest keeping this  
15 business in the State of California.

16           Number nine out of the thirteen, Mr. Lingle will com-  
17 ment upon -- the matter of average posted versus the highest  
18 posted price.

19           MR. LINGLE: In our present agreements in Long Beach  
20 we are paid on the basis of average posted price. We think that  
21 the bidder will be able to give us a better bid if he knows that  
22 he is bidding against an average posted price, rather than if he  
23 must account to his working interest accounts based on the va-  
24 garies of an artificially high price. An average posted price  
25 would tend to be more realistic as to what oil is actually  
26 worth. If he has to account for the highest posted price, some  
27 unsuccessful bidder might artificially bid a higher price and  
28 thus have the Field Contractor at his mercy. Thus, we feel the  
29 average posted price will produce an over-all better bid.

30           We made a comparison since 1950 and found the variance  
31 on the average posted price and the highest posted price on the

1 oils the City sells on existing contracts amounts to 16/100ths  
2 of one cent; and traditionally, all posted prices may vary a day  
3 or two and then they are all the same anyway.

4 Furthermore, we wish to emphasize we will again be paid  
5 for on the tenth degrees of gravity, which we think will amount  
6 to three cents a barrel, a substantially important figure to us.

7 For these reasons, we believe the average posted price  
8 will enable the bidder to return to us a greater amount than  
9 another method.

10 MR. DESMOND: Number ten -- the matter of the interest  
11 rate. Our City Manager, Mr. John Mansell, is here today, and  
12 will explain to you the manner in which this rate was established  
13 and I would like to stress that whatever the interest rate, it  
14 is in the bid. It is part of the bid itself; so long as it is  
15 less than the company would expect to earn on its own money.  
16 This has been used again as part of the creation of the produc-  
17 tion payment concept. So whoever is successful will have at  
18 least a chance for a better tax position and he would, therefore,  
19 bid higher and a greater return would come to the State and the  
20 City. But, again, we hope that the Lands Commission will ap-  
21 prove this group of documents before you and let the Commission  
22 set whatever that rate may be, and do so on the basis that the  
23 contracts, when this particular contract is approved, provide  
24 that the interest rate is changed to "X" rate satisfactory to  
25 the Commission.

26 Number eleven -- the matter of specific tract inclu-  
27 sions in a Unit Operating Agreement. May I say, before I ask  
28 Mr. Lingle to touch upon this, that I agree with what the  
29 Chairman said earlier. Evidently, there was considerable mis-  
30 understanding about, perhaps, the use of the word "participating."  
31 Now Mr. Lingle will explain the procedure followed in the forma-  
tion of the Long Beach Unit and he will explain that the people

1 with working interests were called upon to participate -- because  
2 after all, if I have an agreement with my neighbor for a commun-  
3 ity fence, I don't speak to the man up the street and tell him I  
4 am talking about this; I don't call in the outsider. In no unit  
5 is that done.

6 Now, on the other hand, when we speak of the Field Con-  
7 tractor Agreement, which has actually no relation to the working  
8 interest owners as such in the Unit Agreement and the Unit Oper-  
9 ating Agreement, that was, as we have said several times, pre-  
10 pared by the City; but, as we have stressed at all times and I  
11 think have set out very clearly in the statements we will file  
12 at the conclusion here, we have solicited information from all  
13 of the companies -- all that we thought might possibly have some  
14 interest in the proceeding. So that one of the three agreements,  
15 that was prepared by the City; but, as you know I am sure, we  
16 did solicit information and suggestions and then we considered  
17 those, but the decisions were made by the City of Long Beach.

18 There was also, of course, discussion with Mr. Hortig  
19 and the staff and Mr. Shavelson and others from the Attorney  
20 General's Office; but I would like Mr. Lingle to speak on the  
21 matters of the Unit because I believe there has been a great  
22 deal of misunderstanding -- I am sure not by members of the Com-  
23 mission, but perhaps by some others.

24 MR. LINGLE: I have been asked to oversimplify the  
25 statement of what unitization is. Unitization will enable us  
26 to develop the Long Beach Unit, the largest known undeveloped  
27 oil reserve in the United States, without the risk of subsidence.  
28 I don't want to further elaborate on that -- you well know about  
29 that; but it also enables us to do this without the danger of  
30 damaging the beauty of our residential or shoreline area.

31 These are some pictures of Huntington Beach and similar

1 beach communities. The exact date of this picture I am not sure  
2 of, but I think it gives you an excellent illustration of what  
3 we don't want to have happen in Long Beach. The second group of  
4 pictures were taken in 1955 in the development of downtown Signal  
5 Hill. We all remember Signal Hill and Huntington Beach, with  
6 their forests of derricks -- at least, those of us from Long  
7 Beach do.

8 This was because oil operators secured leases and devel-  
9 oped them to the maximum. There was no concern over the most  
10 efficient way to develop the oil reserves or the ultimate maxi-  
11 mum return. The concern was how much immediate profit could be  
12 gotten from each lease.

13 The industry came to realize that much of the develop-  
14 ment was duplication and waste, and one well could do the work  
15 of several.

16 Progress in secondary recovery methods showed that as  
17 much oil again could be produced by secondary methods such as  
18 water flood or gas injection as had been produced by primary  
19 methods. Engineers realized that the key to developing entire  
20 oil reserves so as to avoid duplication and waste and to permit  
21 pressure maintenance and repressurization was a method that  
22 would enable them to ignore property lines. The old concept of  
23 developing each separate property had to be obliterated in the  
24 future. The solution was unitization.

25 Customarily, to achieve unitization, two contracts are  
26 drawn. In the Unit Agreement, the property owners -- in other  
27 words, the lessors -- who usually receive a gross royalty on all  
28 products produced, under this gross royalty do not participate  
29 in the expenses. Under the old type leases, the operator had to  
30 account for the oil produced from this lot and from this well.  
31 So, if you are going to avoid duplication and not have a well on

1 each lot, you had to find some way to have fewer wells and to  
2 give the property owners an undivided interest in the entire  
3 field, and this is the point: When you have property owners  
4 either actually assigning or by powers of attorney in their  
5 leases permitting their working interest owner to join other  
6 working interest owners, you obliterate the necessity of account-  
7 ing for how much oil is produced from this particular piece of  
8 property and get away from having oil wells on the uplands.

9           The Unit Operating Agreement is executed by all the  
10 working interest owners and provides for day to day operation of  
11 the oil field and provides for agreements for sharing expenses.  
12 That's why our ability for the City to settle damage claims up  
13 to \$250,000 is in the Unit Operating Agreement. That is why the  
14 royalty interest owners, the property owners, customarily do not  
15 care what is in the Unit Operating Agreement, because they are  
16 paid on gross and not on net.

17           However, one important concept -- it still remains the  
18 responsibility of the working interest owner to market his own  
19 oil; the unit will produce, develop it, and deliver it to you  
20 but you have to find a buyer for the oil.

21           Long Beach entered into unit agreements in the Harbor  
22 area when the Fault Block II and III agreements were executed in  
23 1959. In 1961, a unit agreement was executed in Fault Block IV.  
24 As you know, the major point was to repressurize the area, curb  
25 subsidence, and produce greater income to the City. Fault  
26 Blocks II, III and IV are among the largest oil producers in the  
27 United States and the largest water flood projects in the world.

28           The Fault Block II agreement was approved by the Cali-  
29 fornia Supreme Court, and each of the unit agreements was ap-  
30 proved by the State Lands Commission and the Attorney General's  
31 Office. Each of these has served as models in the agreement

1 before us.

2           The Long Beach Unit Agreement, about which we are talk-  
3 ing, covers an upland area which consists of more than ten  
4 thousand separate tracts. Richfield, Superior, Jade, Signal,  
5 Union, Standard, and Continental Eastern were the companies who  
6 had secured leases on these uplands, so naturally these were  
7 the companies who participated with the City in formulating the  
8 Unit and Unit Operating Agreements. Companies without leases  
9 in the Townlot area would only have academic interest in such  
10 Unit agreements. Richfield and Superior have been paying delay  
11 rentals on their leases for years. Other companies entered the  
12 leasing picture about in 1962, about the time of the City ordi-  
13 nance, while others did not proceed with leases until the summer  
14 of 1962 and they are still leasing.

15           In all unit agreements, it is essential that all work-  
16 ing interest owners approve the terms of the agreements; other-  
17 wise, we would be wasting our time. This requires cooperation  
18 from all companies. The City had one advantage in negotiating  
19 this agreement -- the only way that oil could be produced was  
20 from an offshore drilling island, and thus the City was demand-  
21 ing the safeguards it felt necessary. The City was designated  
22 Unit Operator in the agreements. In other words, the City has  
23 the responsibility to see to the actual development; and as  
24 Unit Operator, the City has responsibility to build the off-  
25 shore drilling islands, drill the wells, build all the needed  
26 facilities, and develop the fields.

27           It has been said we don't really need a Field Contrac-  
28 tor Agreement. There is no other alternative, a permissible  
29 route that we could go. However, it was decided the most satis-  
30 factory method would be to hire a Field Contractor to do the  
31 work under the supervision of the City. So the City drafted

1 the Field Contractor Agreement to set forth the terms under  
2 which the Field Contractor will operate on behalf of the City as  
3 Unit Operator; and, in addition, the Field Contractor also has  
4 the responsibility to take and pay the City for oil and wet gas  
5 products from this tract in the next thirty-five years.

6 The City gave any interested party all the information  
7 at our disposal. We have records of contacts with more than  
8 sixty-five such companies, who secured various types of informa-  
9 tion from the City at various times -- but the City contacted  
10 the interested companies and informed them that the City had  
11 such information available.

12 In late December 1962, we mailed a letter to over forty  
13 companies, informing them that we felt we were nearing a final  
14 draft of the Field Contractor Agreement and requesting them to  
15 give us any comments they might have.

16 MR. DESMOND: Number twelve -- the question of the com-  
17 mitment by the necessary sixty per cent. This has been touched  
18 upon, but again we would suggest that the Lands Commission ap-  
19 prove the documents before you, subject to the condition that  
20 there be approval, there be commitment, by the necessary sixty  
21 per cent within a specified period of time, and a period of  
22 time prior to the opening of the bids on the contract.

23 May I note that, in addition to the letters that have  
24 been received, I have been advised that the companies are pres-  
25 ent and they are here to advise, if you care to hear from them,  
26 that they are ready -- more than the necessary sixty per cent --  
27 they are ready to sign after approval; not after the opening,  
28 not after the decision on the award -- but immediately.

29 Now, thirteen, the last one ....

30 MR. CRANSTON: On that point, Jerry, are you unable to  
31 act presently, as was discussed in our last meeting, until the

1 Commission has approved the agreement by the City in writing?

2 MR. DESMOND: Not entirely. This has been discussed  
3 with Mr. Shavelson and I know that the companies have indicated  
4 that they are willing to sign now. I believe Mr. Shavelson's  
5 advice would be against this, but if you will let us have your  
6 suggestion that it be done in one month's time - - we don't know  
7 when we will open ....

8 MR. SHAVELSON: The only thought I had in mind was that  
9 I don't like us to be under pressure to preserve existing provi-  
10 sions any more than we have to. The \$15,000 or whatever it is  
11 printing cost has already done that. In the course of drafting  
12 the provisions, there is certain language that we might consider  
13 ambiguous -- not basic matters, but little things that we would  
14 like to feel free to change; and I think the actual execution of  
15 this would freeze it more than it is frozen now. That was the  
16 only thought I had in mind.

17 MR. CHAMPION: In other words, you want to know what  
18 the form of the Field Contractor Agreement is before you know  
19 precisely what kind of commitment you would have signed by the  
20 companies.

21 MR. SHAVELSON: That is a good point. In addition,  
22 the general complexity and the novelty of this thing is such,  
23 I think the more we go over it the more ideas we will have.  
24 That's all.

25 MR. CHAMPION: We can simply make it conditional --  
26 the approval of the Operating Contract is conditional upon  
27 signing of the commitments.

28 MR. SHAVELSON: I would feel that would fully take  
29 care of that.

30 MR. DESMOND: The last of the points before presenting  
31 others to cover those which we skipped over, is the matter of

1 the time schedule. The Long Beach Oil Development has an operat-  
2 ing contract with the City of Long Beach which expires in March  
3 of next year. You members of the Commission, I am sure, will re-  
4 call that there were previously several contracts, all of which  
5 were consolidated for the purpose of allowing the City properties  
6 to enter the units that we have been speaking of earlier; but at  
7 the same time, there was not and there could not be under the  
8 law any extension. The fact is that for some of those contracts  
9 there was some shortening of the existing contracts in this com-  
10 bination.

11 The Long Beach Oil Development contract since 1939 has  
12 produced well over two hundred eighty-two million dollars to  
13 June 1962, in addition to the many millions of dollars which  
14 have paid for equipment in the area; and it is expected that a  
15 very sizable portion, approaching that amount of money, is prob-  
16 ably still beneath that area covered by the present operating  
17 contract, and it is to the interest of the State and the City  
18 that the best bid possible be obtained for the development of  
19 that developed field. I heard some comments before about it  
20 being drained and I can assure you that from all information  
21 that is available to the State and City, there is oil there.

22 Now, let us talk for a moment on the time schedule,  
23 actually two time schedules -- if we go backwards from March  
24 in relation to the Harbor parcels and if we go forward to the  
25 contract today, the letting of the contract and the development  
26 of the new area.

27 If we can take some arbitrary figures as we go along,  
28 talking about the Harbor parcels we know that in March 1964, less  
29 than a year from now, there must be an operator ready to operate.  
30 We want the best bid possible. We do not want to set this up  
31 for any company such as the one in existence. We want this to

1 be full and competitive bidding, and we want the best bid for  
2 the State and the City. There is no provision for extending the  
3 contract -- that would be violative of law.

4 I think I have explained, without necessity of repeat-  
5 ing, those are not wells that can be turned over -- neither the  
6 producing wells nor the injection wells; and we are not inter-  
7 ested and the State is not interested in loss of revenue.

8 Let us say, for a state of transition for a successful  
9 bidder to move into the area and take over the operation of the  
10 area, to keep those wells pumping and those water injection wells  
11 injecting water - - let's say he would have a period of three  
12 months in advance of that closing date in March that he would  
13 know he was going to take over.

14 I won't go into the quite obvious matters of personnel,  
15 procedures, equipment, other things he would have to take care  
16 of in that period of time. We are back in December of this  
17 year.

18 There is a thirty-day waiting period in which all con-  
19 tracts must lay on the City Council table; also there is the  
20 necessity for approval by this body of the new contract, the  
21 award of the new contract, the award itself. So let's say a  
22 month before. There is no leeway. We are not allowing any ex-  
23 tra days here. Thirty days before, we are in November now, the  
24 decision should be made that this is the successful bidder, and  
25 the compulsory thirty-day waiting period.

26 Then, how long should this bid be out? How long should  
27 this notice inviting bids give the people to work on a very  
28 large and substantial area for development? Should we say a  
29 three-month period, ninety days? Then we are back in August,  
30 and that means that in August we must advertise for bids on  
31 this contract. Prior to that time, prior to the advertising,

1 there must be approval by the State Lands Commission, as well as  
2 the City Council of the contract itself; and we are now talking  
3 about August. This means advertising for bids.

4 There must be, then, the period of time for considera-  
5 tion and approval, the work that would be necessary with the  
6 State Lands Division, the Attorney General's Office, again look-  
7 ing toward the approval of this Commission; and we are just  
8 about at that point right now where this should be at least pre-  
9 sented to you. So we are back in March, the end of March, or  
10 the first part of April.

11 So, going from April on the other contract. the one  
12 that is before you -- This is April, and how long should it be  
13 up for bids? If we say ninety days, then July; open the bids in  
14 July, and then there is the necessary thirty-day layover for  
15 approval by the City Council.

16 There is the necessity during that same period of time  
17 to have approval of the Lands Commission for the award of the  
18 contract; and I repeat, because I think this is vitally import-  
19 ant, that if the bids are not satisfactory to this Commission,  
20 then certainly this Commission is going to throw them out and  
21 the City Council would not be interested in approving an award  
22 if we do not have good bidding.

23 But, let's say this is determined -- that's July. That  
24 is a matter of having the actual award of the contract itself  
25 made in the month of August.

26 We think it to the disadvantage of the State and the  
27 City to have the two in competition one with the other.

28 Now, we could all make variations. Where I said three  
29 months, we could say four or two or something entirely different.

30 I'd like at this time to call Doctor Mayuga to cover  
31 the two items I spoke of earlier; I remind you -- of the matter

1 of the geological aspects, capacity of the pool, and then the  
2 question of subsidence methods, subsidence abatement. Doctor  
3 Mayuga will be assisted - - it probably would be easier, Mr.  
4 Chairman -- whatever you believe is best -- if he were there and  
5 perhaps Mr. Brock would assist him if we have the explanation of  
6 the charts which he has.

7 Mr. Brock, who is our Petroleum Administrator, has  
8 worked actively as a petroleum engineer in the Wilmington Oil  
9 Field for the past thirteen years, for the last ten years of  
10 that period of time with the City of Long Beach.

11 Doctor Mayuga is also a petroleum engineer with a  
12 Bachelor of Science in Mining Engineering in '38 - - I am intro-  
13 ducing Doctor Mayuga because I know he has not previously spoken  
14 to you and I know you heard from Mr. Brock last month. Doctor  
15 Mayuga -- Bachelor of Science in '38, Master of Science in Geolo-  
16 gy in 1940, Ph.D. in 1942. He has been with the City since  
17 1948. Prior to that he worked for two years in the same Wil-  
18 mington Oil Field. He is a registered petroleum engineer since  
19 1948 and in his spare time that we don't take from him, he is  
20 very active as a retired Air Force Colonel.

21 MR. CRANSTON: Jerry, I do suggest that the areas  
22 Doctor Mayuga should cover be those that are relevant at this  
23 moment, reserving for discussion with staff and industry the  
24 details. That would, perhaps, be more appropriate at this time.

25 MR. DESMOND: We talked to Doctor Mayuga, and I know  
26 because of the knowledge he has he could take a great deal of  
27 time, but I believe the charts would be of great value to you  
28 and I believe we ran through them in ten minutes last night.

29 I believe it is important to know the complexity of  
30 the field which is to be developed and to hear some reference  
31 to the problems that do already come up.

1 DOCTOR MAYUGA: Mr. Chairman, Mr. Champion, I am glad  
2 for the opportunity to explain to you the complex nature of our  
3 oil field. I think a little understanding of the actual geology  
4 aspects would explain the reasons behind why you have such a  
5 proposal before you.

6 Our oil field is located in the southern part of Los  
7 Angeles County, as most of you are familiar with. This chart  
8 indicates the location of the area that has been developed and  
9 the undeveloped area, and it isn't a mysterious oil field as far  
10 as we are concerned -- we have worked around it, on its edges  
11 for many years.

12 Getting a closer look at the oil field, we have the  
13 developed area which is now under contract to L.B.O.D. and the  
14 Richfield parcel, and the Townlot operations. This itself might  
15 constitute the largest oil field in California and the second  
16 largest in the United States; and the subject land in question  
17 is covered by these outlines which I am showing with my pointer.  
18 This happens to be the State lease which is the Belmont offshore  
19 oil field.

20 Here again, gentlemen, is a picture of a closer look  
21 at the structure configuration of the developed area. I in-  
22 cluded this chart to show you we do know a lot about this oil  
23 field because there have been almost three thousand oil wells  
24 drilled in this area.

25 Again, here is the L.B.O.D. area and Parcel A - - and  
26 this, now, is our offshore area now in question.

27 In 1958, because of the problem of subsidence -- Mr.  
28 Kealer earlier referred to it in his testimony and again it was  
29 referred to by Mr. Lingle -- in 1958, by an act of the Legisla-  
30 ture, later on by the determination of the Division of Oil and  
31 Gas, a subsidence district of this configuration was declared

1 or embodied as a determination of the Division of Oil and Gas.  
2 The entire area we are discussing now is in this subsidence  
3 division. I would like to point out the subsidence contour,  
4 which shows currently about twenty-seven feet at the center of  
5 the subsidence; but definitely from 1959 to the present time we  
6 have practically stopped subsidence with our repressuring opera-  
7 tions; and, as Mr. Desmond pointed out, we have roughly increased  
8 production in tidelands areas alone about two and one-half times  
9 what we would ordinarily have obtained by ordinary methods.  
10 Therefore, we have accomplished two things -- we have stopped  
11 subsidence in the area and have increased our production in a  
12 large proportion.

13           Just by relative areas, or in acres, we are talking  
14 about in what is referred to as Parcel 1 approximately 4400 to  
15 4500 acres, the Alamitos State Park is roughly 400 acres, and  
16 the Townlot area may exceed 1700 acres at the present time.

17           Now, in 1954, the City of Long Beach, after the Federal  
18 Government settled the question as to the tidelands ownership,  
19 proceeded by instruction of the City Council to conduct a geo-  
20 physical seismic operation in its offshore area and this is the  
21 result. It is a seismic map. It probably doesn't mean very  
22 much to an untechnical man, but to just give you briefly how we  
23 arrived at this, this is essentially a method well known in the  
24 industry -- where ninety-pound black powder charges were made  
25 every twenty feet along this area and the shock waves at great  
26 depths were registered on seismic geophones; and the seismolo-  
27 gists came out with the structure's configuration.

28           Briefly, this represents the top of the contour of  
29 one of the horizons some two thousand feet above sea level.

30           Based on this map, the seismologists refined it and  
31 came up with a structural configuration which I think a simple

1 way to explain is that we removed two thousand feet of over-  
2 burden in this area. We actually have a buried hill some fif-  
3 teen hundred feet high -- this is the top of that hill, and  
4 here would be about the bottom of the valley.

5 Another one, on the northern part of our City, was this  
6 hill, actually known as an anticline in geological terminology,  
7 and here is the trap that laid there and trapped the oil for  
8 millions of years.

9 Let me point out the complexity of the developed area.  
10 We have a number of faults. These are movements that happened  
11 many years ago and based on our seismic survey we located simi-  
12 lar faults that complicate our area in the developed portions.  
13 So we anticipate perhaps more complex or just as complex oil  
14 fields in the undeveloped area.

15 Based on that map, we draw a cross-section through  
16 that hill in a southeasterly direction, take a slice off it and  
17 remove one-half of that particular oil field, and step aside  
18 and look to the north. A geologist sees a configuration like  
19 this. It is a cross-section which shows in red the developed  
20 portion of the field and our estimate of the oil horizons in  
21 this area.

22 I'd like to emphasize that these are seventy-five pic-  
23 tures, simplified into geological interpretations, because actu-  
24 ally this consists of some four thousand feet of sediments, of  
25 alternating shales and sands, varying in thickness from two  
26 inches to one hundred feet, all with different limits, all  
27 with different characteristics, all with different aspects.  
28 I am pointing this out because what we found in this developed  
29 field -- it took many hundred wells to actually pin down our  
30 construction of the area.

31 Now, drawing a cross-section in a north-south direction

1 we have a configuration that looks like this. This is the anti-  
2 cline of the hill I am referring to, part of the hill. This  
3 red line indicates the approximate boundary of the Townlot area,  
4 the onshore area. With respect to the offshore area, I think  
5 this diagram will show very clearly the connection of the reser-  
6 voir and also many of the sands and water limits.

7 This happens to be the Ranger Zone, which extends some  
8 distance into the Townlot area. It is approximately  
9 threemiles from what we regard to be the approximate limit to  
10 the north and to the south. I think this cross-section shows  
11 vividly the complex currents of oil.

12 Incidentally, there are six different zones that we  
13 know of within this area.

14 Here is another cross-section, more to the east. It  
15 just shows more of the complexity of the oil in the offshore  
16 area.

17 A plan was proposed by the Long Beach Harbor Department  
18 in its 1961 report of repressuring or maintaining, producing by  
19 pressure maintenance in this area, by injecting water along the  
20 aquifer and also in a pattern flood along the main part of the  
21 structure in an alternate five-spot pattern, five-spot placing --  
22 where we would produce at the same time oil with the repressur-  
23 ing operation. This is one of the zones.

24 On the next map -- as I mentioned, we have six differ-  
25 ent zones -- here is a little narrower zone. We have proposed  
26 a number of wells in the structure and water injection in the  
27 aquifer.

28 Here is another zone, the Ford zone, just a little bit  
29 narrower; the Lower Terminal zone; the Union Pacific zone. In  
30 other words, what I am developing here is different zones of  
31 water limits in the area. Here is our known deepest zone in the

1 offshore area.

2 We propose to drill some wells for this offshore devel-  
3 opment from our Pier J, which is now under construction, and we  
4 have made plans for a drill site. At the same time, this Pier J  
5 will be the site of wells that we are trying to drill on the  
6 presently developed area, on the L.B.O.D. parcel in particular,  
7 so that Pier J will play a major part in our oil development.

8 In order to develop this field, our petroleum staff has  
9 determined, and it was proposed to our City Council and approved  
10 by the voters, that the field will be developed from four drill-  
11 site islands, approximately ten acres in size, located approxi-  
12 mately in this area shown on the map; and this different colored  
13 arch here indicates the angle of the whole to the vertical in  
14 order to reach these various portions of the oil field.

15 You can readily see that we can reach all of the forma-  
16 tions here within our estimates. We can develop every portion  
17 of this formation from these four islands.

18 Here is a little detailed picture of the island we have  
19 proposed. This is just a proposal. It will probably be subject  
20 to some changes as we get closer to the actual operation, but  
21 essentially this island, which can accommodate three hundred  
22 wells, has provision for water knock-out facilities, production  
23 yards, buildings, and so on, and oil will be piped out from  
24 these islands into the Harbor district, none of which will go  
25 through our downtown section; and it will be essentially a  
26 water-borne operation.

27 Gentlemen, when we made a proposal in 1961 to develop  
28 this offshore field and wrote this report to the City Council,  
29 we were guided by certain obligations which we felt the City  
30 has in the administration of its trust that we have in Long  
31 Beach. First, we feel that if we have to propose a program of

1 development, it should be a program that should fulfill the  
2 terms of the trust; it should be a program where we can conduct  
3 the producing operations according to law with maximum safe-  
4 guards against subsidence damage, noise, contamination, waste,  
5 and the detriment to the beauty of our shoreline; and, third,  
6 which we think is important to us and the State, we must secure  
7 contracts and agreements with maximum returns to the City and  
8 State.

9 I think, gentlemen, the proposals before you have been  
10 designed in this manner. We feel that a single unit operation  
11 in the area, that will enable us to apply our engineering tech-  
12 niques and geological techniques without regard to parcel boun-  
13 daries, would be in the best interests and allow us to fulfill  
14 our obligations.

15 Another important feature before you is the City con-  
16 trol of these operations, in order to protect the City from  
17 these items under (b) in my chart. We feel that any deviation  
18 from that will prevent the City from fulfilling all its obliga-  
19 tions.

20 Thank you very much.

21 MR. DESMOND: Now, Mr. Brock has a chart from which he  
22 will speak, and this relates to the flow of cash that is pro-  
23 posed and I think it is important to stress that while there has  
24 been talk also about the spending of the money, I think it is  
25 going to be clear that one can't spend oil, and that oil is out  
26 there; and under the operation, no matter what division there  
27 might be, there is only so much money available to start devel-  
28 opment and so much money available in the next few years.

29 Mr. Brock.

30 MR. BROCK: Actually, I was going to compare the con-  
31 tracts themselves but I believe Mr. Cranston has done that with

1 the members of the staff. However, this operating profit is  
2 very pertinent to any method that you use to develop it. Actu-  
3 ally this shows the money that is there and I think that is  
4 what we want a contract for. This actually shows the cash flow  
5 under the proposal that we now have before the Lands Commission.

6 You will note the dark red is the operating capital  
7 that the operator himself must put up for Tract Number 1 only.  
8 The pink is the advance production payment that he will be mak-  
9 ing to the City until such time there is net profit available,  
10 under the terms of the net profit contract. The lighter green  
11 is the advance payment or production payment itself that would  
12 be split with the City and the State.

13 This net operating profit does not take into account  
14 the contractor's bid. These amounts actually, at the end of the  
15 seventh year, would peak out at one hundred five million dollars  
16 profit for that year. From that must be taken the bid of the  
17 contractor, the Field Contractor.

18 It should be noted that if there were no advance or  
19 production payment, that under this type contract there would  
20 be no moneys to the City and the State until the end of the  
21 fourth year. Without the production payment, the operator's  
22 capital investment will pay out in about three and a half years.

23 MR. CHAMPION: Three and a half from what date -- the  
24 date of the contract?

25 MR. BROCK: From the date that the contract is awarded.

26 Now, there are some other points to this. Certainly,  
27 there are many assumptions that go into this. Part of them are  
28 that we have eight exploratory holes drilled in sixty-five  
29 hundred acres. That isn't very conducive to accurate estimates  
30 on the oil. We have, however, with the knowledge we have from  
31 the Wilmington Field, compared the activity of the Wilmington

1 Field with the logs we have obtained from these holes, and I do  
2 believe this estimate is fairly realistic.

3 The Field Contractor will build all islands in the  
4 first year. He will have sixteen drilling rigs going from the  
5 first to about the seventh year. At that time he will cut down  
6 to four and will maintain a fairly constant rate of production  
7 of about 160,000 barrels a day total for the whole unit.

8 At this point, I think there has been a considerable  
9 amount of misinformation from our figures. I say this because  
10 at the last Commission meeting Mr. Clark, for instance, said  
11 that we had eight hundred million barrels; Mr. Scott, we had a  
12 billion six hundred million barrels. They would take our fig-  
13 ures and multiply them with their figures .. Just for the  
14 record, if you want to use our figures, use them all, take them  
15 all, and don't take part and put yours in.

16 I'll quote what we think this amounts to: For Tract 1,  
17 which is the tract that the Field Contractor will participate  
18 in and will bid on, there will be a net operating profit after  
19 thirty-five years of one billion, nine hundred million dollars;  
20 the State Park will have one hundred thirty-eight million dol-  
21 lars; the Townlot operators will have one hundred ninety-one  
22 million dollars to split. I think that everybody realizes that  
23 these figures are predicated on rate of development, the cost of  
24 operations, and such things as that. However, we have taken  
25 onshore known costs, projected them into the area, and added  
26 what we feel would be realistic to operate from an island.

27 MR. CHAMPION: Excuse me. These are net returns to  
28 the parties you mentioned?

29 MR. BROCK: The net operating profit. Now, in the  
30 case of Tract 1, you will have to deduct from that the amount  
31 of bid that the Field Contractor will have; in the case of the

1 State Park, we don't know what is going to be done, but there  
2 will be one hundred thirty-eight million dollars that will be  
3 divided in some manner between the State and whatever arrangement  
4 they have with the operator.

5 MR. CHAMPION: Have you estimated - - I mean, you can't  
6 estimate, but have you looked at a probable bid range?

7 MR. BROCK: Yes. I think this is personal and I am sure  
8 that anybody who told me this is going to deny it. I believe  
9 something in excess of eighty-five per cent, certainly.

10 Without going into any detail, I would like to add  
11 several points on the bid itself. When we looked into the bonus  
12 and royalty type bids, such as the State has, we felt that be-  
13 cause of three major reasons you would get a very inferior bid  
14 under these contracts. I believe everybody is aware of subsid-  
15 ence and I believe they agree the City must control and maintain  
16 control of subsidence.

17 Under a royalty type bid, the operator is required to  
18 put up all the money. He must operate and attempt to make the  
19 most money. That's what his bid is predicated on. If he has a  
20 factor that the City can make him do things that may be unecon-  
21 omic, just to stop subsidence or for beautification, it certainly  
22 is going to influence his bid.

23 We feel that the contractor in a royalty bid has both  
24 control of the rates of production and control of development.  
25 Part of the advantage of the royalty bid is that he has full con-  
26 trol of operations. If he has a shortage of oil, he can speed  
27 his operations up; if he has too much oil in his refinery, he  
28 can slow things down. On the basis of this contract, this  
29 means the contractor bidding on this will have to take this  
30 into consideration.

31 The people arguing against us last week made the best

1 argument they could against bonus bidding. Mr. Clark said --  
2 and whether you need to capitalize this money or not, this is  
3 only fifty-one million dollars - - that this will amount to two  
4 digit million dollars. That means something between ten and  
5 one hundred million dollars. If this is on only fifty-one mil-  
6 lion, and you were to submit this to straight bonus bidding you  
7 might get two or three hundred million dollars -- under his  
8 terms that means that out of the net operating profit this  
9 contractor would have to pick up a like two or three hundred  
10 million dollars just to cover the tax advantage that he would  
11 lose because of the bonus.

12 We feel that, also, under the net profits type bid in  
13 order to maintain control over the operator, he still has some  
14 protection. He knows when the City and State requires him to  
15 do something that it is a big chunk of the City's money going  
16 into that and of the State's money, and it will be something  
17 to benefit everybody, and it would be very reassuring.

18 I think that those are the main points. There are  
19 many others but I believe in the interest of time that these  
20 can be taken up before the staff. Thank you.

21 MR. DESMOND: We would like to close at this time with  
22 delivery of these to the Commission; and, as I said to the  
23 Chairman earlier, we would be glad to read these into the  
24 record, but I think they would be rather boring. These are  
25 the comments of the City of Long Beach on the comments of Mr.  
26 Clark at the last Commission meeting and the comments on the  
27 statement of Mr. L. E. Scott of Pauley Petroleum Inc. at the  
28 last Commission meeting.

29 We do ask that these be read -- there are copies  
30 available. We are very anxious that they be made a part of  
31 the record. Both of the statements have been taken, paragraph

1 by paragraph, and answered and commented upon by the City. We  
2 would like to deliver the copies at this time. Others are  
3 available if they are needed.

4 MR. CRANSTON: These will be incorporated into the  
5 record and I assure you they will be carefully studied. Does  
6 that complete Long Beach's presentation at this point?

7 MR. DESMOND: Yes, sir.  
8 \*\*\*\*\*

9 The documents referred to above are reproduced at this  
10 point:

11 Subject: Comments by City of Long Beach relative to statement  
12 of Mr. L. E. Scott, Pauley Petroleum Inc. to the  
13 State Lands Commission Meeting 2-28-63

14 Pauley Petroleum Inc. was offered every opportunity to  
15 present any suggestion or criticism of the proposed documents  
16 directly to the City. City representatives would have been  
17 happy to discuss and attempt to clarify any points in these con-  
18 tracts. Pauley Petroleum Inc. was sent all documents and re-  
19 lated data.

20 " STATEMENT OF L. E. SCOTT, Assistant to the President  
21 of Pauley Petroleum Inc. objecting to the adoption  
22 by this Commission of the City of Long Beach Tidelands  
23 Development Program as submitted this date.

24 Pauley Petroleum Inc., Los Angeles, California, is  
25 presently engaged in offshore tideland operations in the  
26 State of California, Louisiana, and Mexico. This company,  
27 along with its partners, has in the past few years paid to  
28 the State of California an excess of 24.7 million dollars  
29 for tidelands leases. We are presently engaged in the  
30 development and production of these leases; therefore, we  
31 appear here today as an experienced operator and one fully  
cognizant of the problems involved.

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

1. The State Lands Commission has not been submitted  
adequate and sufficient information to permit it to make  
a final decision involving an oil and gas reservoir con-  
taining in excess of 1½ billion barrels of oil, and  
worth somewhere between 4½ and 5 billion dollars. This  
is one of the world's largest known oil reserves and will,  
in a very short time, represent in excess of fifty per  
cent of all of the California's known oil producing  
reservoirs.

1 "At the present time there are approximately 3.6 billion  
2 barrels of oil known to be producible in the State of Cali-  
3 fornia. The daily production in California is approxi-  
4 mately 815,000 barrels a day, which is about 300,000,000  
5 barrels a year. At this rate, in a little more than three  
6 years, California will have depleted its oil reserves by  
7 more than a billion barrels. All of the oil producers in  
8 California, particularly the majors, are frantically drill-  
9 ing their fee lands, inside locations which ordinarily  
10 would not be drilled, in order to keep California's produc-  
11 tion up. This is being done for many reasons which we will  
12 go into later in this statement."

13 COMMENT:

14 The State has much more information on this reservoir than  
15 they do on most of their own tideland leases at the time they  
16 are put out for bid. On many State tideland leases there is no  
17 reservoir information whatsoever when leased. In the Long Beach  
18 tidelands area information from eight exploratory core holes, a  
19 seismic survey, and production and geologic data on each end of  
20 the area is available. The Conservation Committee estimated  
21 California proven reserves of 3.3 billion barrels in 1941 and  
22 3.6 billion barrels in 1962, even though 7 billion barrels were  
23 produced in the interval between 1941-1963. Mr. Scott's esti-  
24 mate of California reserves apparently is based on the falla-  
25 cious assumption that no additional oil discoveries ever will be  
26 made in California and that California oil producers will not  
27 take advantage of secondary oil production techniques constantly  
28 being developed and improved. In addition it has been reported  
29 that ownership of a potential of many billion barrels of oil is  
30 involved in the current legal dispute between California and the  
31 Federal Government as to the extent of the State submerged lands.

"2. We object to this proposal on the grounds that, as  
written, it is monopolistic in its inception, and mono-  
polistic and discriminatory as planned in the final results.  
This Commission should seek out, at a full public hearing,  
all of the factors surrounding the preparation of these  
documents, and what they really mean. We feel that the  
proposal, as written, is not in the public interest of the  
State of California and must, therefore, be rejected."

30 COMMENT:

31 These proposals are not monopolistic, and we object

1 strenuously to the implication that they were planned to be.  
2 The expressed purposes, and we believe these documents achieve  
3 this end, were to obtain the maximum economic return to the City  
4 and State while protecting Long Beach from subsidence and de-  
5 spoilment of the beaches and tideland area.

6 The City is always willing to present desired information  
7 at a public hearing, but we are sure that the same information  
8 can be obtained from the Lands Division and from the Attorney  
9 General's office because they assisted in the preparation of  
10 these documents. In addition, all phases of this proposed  
11 development program were reviewed at open public meetings of  
12 the Long Beach City Council before submission for final approval  
13 by the State Lands Commission.

14 The Unit Agreement and Unit Operating Agreement were  
15 drafted by representatives of all the working interest owners,  
16 including the City, the State, the Long Beach Unified School  
17 District, a property owners' association and the various oil  
18 companies representing the landowners of some 10,000 parcels  
19 of privately-owned property. This is the customary, logical  
20 and proper way to form such unit agreements. It is the precise  
21 procedure followed in the preparation of the existing unit agree-  
22 ments in the Wilmington Oil Field, all of which have been  
23 approved by the State Lands Commission. The form followed in  
24 the other units, which is similar to this unit, has been  
25 approved by the California Supreme Court.

26 On the other hand, the Field Contractor Agreement was  
27 prepared by the City of Long Beach.

28 "A review of the documents submitted by the City of Long  
29 Beach indicates that it is the desire of the City of Long  
30 Beach, as well as some favored operators, to call for bids  
31 on Tract #1 as a single parcel. Why is this monopolistic?  
This will require the successful bidder, or consortium or  
combine that acquires the bid on Tract #1 to obligate  
itself to spend approximately 51 million dollars in

1 "recoverable bonus money, plus build up to four ten-acre  
2 islands, plus drill at least forty wells in the first year  
3 after completion of the first island. Reliable engineers  
4 have stated it will cost a company between 90 and 100 mil-  
lion dollars in initial investment to carry out the devel-  
opment of Tract #1 as proposed by the City of Long Beach.

5 "It is our feeling that this tremendous investment require-  
6 ment is fully intended to eliminate competition and to  
7 chill the bidding for the average offshore operator. I  
8 ask this Commission how many companies in the United States  
9 can commit themselves to spend 100 million dollars on any  
10 one project? Your attention is directed to Paragraph 23,  
11 page 21, of the Field Contractor Agreement, wherein the  
12 Field Contractor is not permitted to pledge or hypothecate  
13 this contract without first receiving the consent of the  
14 City Manager of Long Beach. Here, again, is an obvious  
15 effort to eliminate reasonable size offshore operators from  
16 bidding. In other words, the bidder cannot go to its bank  
17 or financial institution and secure adequate capital to  
18 carry on this development program without first receiving  
19 the consent of the City Manager."

20 COMMENT:

21 Mr. Scott states that Pauley Petroleum with its partners  
22 has given the State \$24,000,000 for offshore leases. It would  
23 seem reasonable that Pauley Petroleum could organize a bidding  
24 group and bid on this project and we hope the company does. Mr.  
25 Scott states that the provision to require prior approval from  
26 the City before allowing any assignment or hypothecation of this  
27 agreement is designed to eliminate competition. This is not true.  
28 This provision is a standard part of City contracts and is par-  
29 ticularly necessary in a net profits contract. In the past the  
30 City has approved all legitimate assignments of oil contracts,  
31 production payments, etc. Never before has any company ques-  
tioned such procedure. It is important to know the financial  
background and operational competency of contractor. Informa-  
tion concerning these factors is required of a bidder and would  
be of little value if the successful bidder could then assign  
the agreement to a substandard organization. The State Lands  
Commission staff also deemed this provision essential and right-  
fully wishes similarly to reserve approval of assignments as  
provided in Paragraph 3 of Exhibit A attached to the State  
Lands Commission calendar item of February 28.

1 "Reference is also made to Paragraph 32, Page 32, entitled  
2 FORCE MAJEURE. Pursuant to said paragraph, an operator  
3 must continue to pay the 51 million dollars over the three  
4 year period, even though he is shut down by court order or  
5 by injunction. Requiring an operator to make such sub-  
6 stantial payments when ordered to cease production or op-  
7 erations is unfair. This is another effort to make it  
8 difficult for a reasonable size company to bid. How many  
9 companies can continue to pay out 51 million dollars while  
10 they are not permitted to drill, operate, or produce be-  
11 cause of the provisions of the FORCE MAJEURE clause? To  
12 make this requirement and not excuse payment while in liti-  
13 gation is unthinkable. This is just another method used to  
14 eliminate competition and to allow certain companies to  
15 gain control of a fabulous oil reserve at a non-competitive  
16 price."

9  
10 COMMENT:

11 The purpose of the production payments was to provide  
12 income to the City and State during the period when no net  
13 profits are available. It is expected that under a reasonable  
14 development program, net profits for payment to the City and  
15 State will be available in 3 to 3½ years. If a fixed payment of  
16 \$51,000,000 were required at the time of bidding, these funds  
17 would be available to the City and State, without any possibil-  
18 ity of avoiding capitalization of these funds for income tax  
19 purposes. Pauley Petroleum Inc. is in no better position in  
20 respect to any of the leases they acquired from the State if  
21 litigated to a standstill, or if no oil were discovered. The  
22 State still would have its \$24,000,000 bonus, and Pauley Petrol-  
23 eum would be unable to operate or recover their investment. The  
24 only difference with the City proposal is that the payments would  
25 be spread over three years, and there is no possibility of not  
26 finding oil. It certainly is not intended to eliminate competi-  
27 tion but only to insure the City and State income during the  
28 period when no net profits are available.

29 "3. Mr. Chairman, there is another major factor involved  
30 in putting out the Long Beach property in one parcel. It  
31 is obvious that certain oil companies desire to control all  
of Tract #1 in order to monopolize and control the oil pro-  
duction, oil prices and oil imports on the West Coast for  
years to come.