"Let's look at the daily production for October 1962 of many of the California operators. These figures are taken from the Conservation Committee of California Oil Producers - Company Records of California Oil and Gas Production - October 1962.

SUMMARY FOR OCTOBER 1962

Major Companies	Actual Production B/D
Richfield Oil Corp.	69,551
Shell Oil Company	61,513
Socony Mobil Oil Company	46,680
Standard Oil Company	143,016
Texaco, Inc.	48,818
Tidewater Oil Company	53,617
Union Oil Company	68,308
Signal Oil and Gas Co.	40,310

"It will be argued that the award of Tract #1 to any one Operator, or group of operators, will not create a monopoly of the crude oil market in the State of California. We wish to point out that at the present time Richfield Oil Company produces approximately 69,000 barrels of oil a day; Union, 68,000; Signal, 40,000; Standard of California, 143,000; Texaco, 48,000; Tidewater, 53,000 barrels. If any one of these companies are awarded Tract #1 under the bidding procedure recommended by the City of Long Beach, it would more than double their present daily production in California. With the exception of Standard of California, it would be necessary to add together the daily production of several of these companies to obtain the amount of oil equal to the anticipated daily production from the Long Beach Harbor Tract #1, which is estimated to be 150,000 barrels a day.

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

COMMENT:

The amount of imports is based primarily on the historical refinery through-put of domestic crude and not on production. Therefore, Tract No. 1 could not give any oil companies control of West Coast imports.

The major companies have historically produced a large percentage of the oil in California and will continue to do so

with or without this Long Beach tract. The competition is as keen between these major companies as it is with the smaller independents involved.

The addition of Tract No. 1 production could not give "a major refiner in California" the monopoly of the crude oil market of the U. S. as a whole since Texas producers alone have currently "shut in" more crude production than all California refiners produce in California.

If a major refiner were to get this contract and not purchase crude from other California producers, such crude then would be available for the smaller refiners.

> "Last week a statement appeared in the Trade Journals that oil and gas exploration in the United States is at a nineteen year low. If one company, or group of major refiners control this oil, a great detriment is being done to the State of California and to the oil producers who operate in this State. Do you think for one minute that any one of these companies are going forward with aggressive exploration and development program onshore in Northern or Southern California and look for oil when they have, by one stroke of the pen, and by one preconceived contract, more than doubled, tripled, or quadrupled their daily production in the State of California? Why should any company continue to search for oil where risks are high when they can buy it from Long Beach and, at the same time gain control of production, prices, and imports in this State?
>
> "We must insist, Mr. Chairman, that this proposal be rejected in its entirety and that the staff of the State Lands Commission, the Attorney General of the State of California, and representatives of the City of Long Beach, be instructed to sit down and attempt to work out some reasonable basis on which this tremendous tidelands oil field can be put up on some equitable, fair, impartial basis, where all operators can have a fair and equal opportunity to bid on these lands."

COMMENT:

It is understandable that, prior to the bidding on these large offshore reserves, the interested companies are looking forward to this program and are not particularly active in exploratory programs at the present. We believe the unsuccessful bidders will redouble their efforts to keep pace after the contract is let. The Pauley Statement suggests that a reasonable

basis should be worked out to allow all operators to participate. This would be impossible because there are 1344 independent operators listed by the 1961 Conservation Committee report.

> "4. We object to the price being paid for the crude oil under the Long Beach proposal. In our opinion, it will permit the sale of the Long Beach oil at a price lower than is presently being required by the State of California for their offshore tideland oil. Under the Long Beach Agreement, the contractor will have the exclusive right to take any and all oil allocated to Tract #1 by the Unit Operator or, at the option of the Field Contractor, he may obtain a financially responsible purchaser to purchase any or all allocated oil to Tract #1 by the Unit Operator and to take delivery of such oil in accordance with the Unit Operating Agreement. Any contract for such purpose must be approved in advance by the City Manager. You will note that the State Lands Commission has no control over the ultimate prices paid for the crude oil under this proposal, nor has the commission any way to force the oil to be sold to anyone other than the Field Contractor or his designated purchaser. This is the key to the whole monopolistic plan."

<u>COMMENT</u>:

The pricing provisions of the proposed contract will result in a higher over-all return to the City and State. The pricing procedure for all the crude oil assigned to Tract #1 is fixed by the terms of the Field Contractor Agreement. The requirement of City Manager approval of oil purchase contracts is to insure the financial responsibility of the purchasers. Although the State Lands Commission does not have the right to force the oil to be sold to anyone other than the Field Contractor, neither does the Commission have the obligation to find a purchaser for the oil in times when an oversupply of oil exists.

> "The Long Beach Contract provides that the value of the oil shall be on the basis of the price equal to the average of the price to be posted and paid by continuing purchasers of substantial quantities of crude oil in the field for oil of like gravity on the day such oil is run into Field Contractor's tanks and/or pipelines. (Page 9, line 17, of the Field Contractor's Agreement):
>
> 'Except as otherwise herein provided, oil allocated to Tract No. 1 shall be valued on the basis of a price equal to the average of the prices posted and paid by continuing purchasers of substantial quantities of crude oil in the Field for oil of like gravity on the day such oil is run into Field Contractor's or purchaser's tanks and/or pipelines. "Continuing purchasers of substantial quantities

"""of crude oil" as used in this section, shall mean purchasers who have, during the preceding twelve (12) calendar months, purchased an average of at least three thousand (3,000) barrels of crude oil per day. If no such purchaser posts and pays a price in the Field on said day for oil of like gravity, or if the only purchaser or purchasers who so post and pay a price are the Field Contractor or one or more of the Persons comprising the Field Contractor, then the price hereunder shall be the arithmetic average of such prices as may be posted on said day for oil of like gravity by Standard Oil Company of California, Union Oil Company of California and Socony Mobil Oil Company, Inc., or their respective successors, in the following fields: Wilmington, Huntington Beach, Signal Hill and Inglewood. The above price shall be computed to the closest tenth of each degree of gravity and the closest tenth of a cent per barrel for the pricing of each delivery of crude oil by applying the price for each full degree of gravity to the even gravity and interpolating upward for each tenth degree of gravity. If Field Contractor, or one of the persons comprising the Field Contractor, purchases oil from others in the Field, the price of the oil taken by such person shall not be less than the price paid by such person to others for oil of like gravity in the Field.'"

COMMENT:

The precedent of using the average posted price for determining the market value of oil was established in the other Wilmington Units. All these other units approved by the State Lands Commission provide that the market value of oil will be "established by the average of the prices posted by Standard Oil Company of California, Socony Mobil Oil Company, Inc., Texaco, Inc., and Union Oil Company of California....." Furthermore, this type of Unit was specifically approved by the California Supreme Court in the case of Long Beach versus Vickers.

Both existing Long Beach tidelands oil contracts provide for oil payment on the average posted price. These contracts are generally regarded as providing the greatest financial return to the landowner of any contract in the history of the U.S. oil industry.

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

"This company has recently acquired an oil and gas lease known as Parcel 9A, and referred to as State Lease 2933.1,

"in the Santa Barbara area. The State Lands Commission, in its lease form, provides as follows: (Paragraph 3, Line 7, Page 3)

'The Lessee agrees to account for and pay to the State in money as royalty on oil a percentage, determined in accordance with the schedule attached hereto, marked Exhibit B, and by reference made a part hereof, of the current market price at the well of, and of any premium or bonus paid on, all oil production removed or sold from the leased lands. The current market price at the well shall be determined by the State and shall not be less than the highest price in the nearest field in the State of California at which oil of like gravity and quality is being sold in substantial quantities, subject to an appropriate allowance for the cost of delivery of such oil to onshore storage and transportation facilities. Said money royalty on oil shall be due and payable not later than the twenty-fifth day of the calendar month following the calendar month in which the oil is produced.'

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

COMMENT:

The State lease form differs from the proposed Field Contractor Agreement and thus one cannot compare the pricing provisions of the two without taking into consideration all aspects of each form of agreement. For example, State leases can be quitclaimed at any time thus relieving the operator of the effect of any unrealistic high oil price. In addition, only the State royalty share of the oil is subject to the pricing provision. This is normally a relatively small percentage of

the oil.

The State Leasing provision requires the crude oil price to be the current market price, defined as "not less than the highest price in the nearest field in the State of California at which oil of like gravity and quality is being sold in substantial quantities, subject to an appropriate allowance for the cost of delivery of such oil to onshore storage and transportation facilities." This does not mean the "highest posted" price at the well. The use of such qualifying terms could cause considerable misunderstanding and lead to possible law suits.

> "We are all aware of the situation which existed in California a short time ago where one company posted a price for oil of 40¢ a barrel less than one of the other big producers. If there is a 40¢ differential in the price of crude oil, then the average price received by Long Beach would be 20¢ a barrel less than the highest price paid for the crude by one of the major purchasers. What does this really mean, gentlemen? Let's take a look at it. It means that any company posting prices in any one of the fields set forth in the Long Beach contract can either lower or raise the price, like a window shade in a house, in those areas; or raise or lower the posted price for crude under Tract #1, and thereby manipulate the price and the profit the State of California and the City of Long Beach and the Field Contractor (if it happens to be an independent producer), are receiving from Tract #1."

COMMENT:

Price manipulation has never been and is not expected to be a problem in the Wilmington Oil Field. The purchaser, if he posts, will have only one of the prices used in the average, and the City feels that antitrust laws are adequate to protect the City and State.

A tabulation of every posted price for 20 degree API crude in the Wilmington Oil Field during the past 12 years by the three companies currently posting indicates that the difference between using the average posted price and using the highest posted price for the production in the L.B.O.D. parcels would have been approximately 16 hundredths of a cent per barrel. Compare this figure with the 3 cents per barrel gain referred to below.

"What does a company have to lose that happens to be the Field Contractor and also the purchaser and the refiner? The City of Long Beach and the State of California will have a lower price for their crude and will be receiving less money than they would ordinarily. The City of Long Beach and the State of California will receive less net profits from Tract #1, but, at the same time, if the Field Contractor happens to be the purchaser AND the refiner, it will pick up that additional profit in his manufacturing profits and would actually be given a windfall by manipulation of the posted price."

COMMENT:

We disagree that the City and State would be receiving less money. This proposed contract requires payment on the tenth degree gravity. This will average about three cents per barrel more than an even degree gravity payment.

An adverse effect on the over-all bid would result if the Field Contractor were to be put at the mercy of any small operator who for short periods of time paid an unrealistic price for oil to insure immediate refinery needs. The short term purchaser takes advantage of depressed prices when the market is oversupplied and pays a premium when oil is in demand. A long term contract should give a true value to the oil without these short term fluctuations caused by the immediate needs of any purchaser. The bidder need not assume the risks arising from an unrealistic high price, and therefore his bid should be more favorable as far as financial return to the City and State is concerned.

"This Agreement, as now submitted by Long Beach to this Commission, gives the exclusive control of this 1.6 billion barrels of oil to the Field Contractor or to his designated purchaser. It does not give the City of Long Beach, nor the State of California, any protection whatsoever in order to dispose of this crude outside the contract. The contract is silent on whether or not the Field Contractor must buy the oil even though he cannot sell it. The draft as submitted to the State Lands Commission staff in September 1962 had a firm obligation on the part of the contractor to buy the oil or to dispose of it. That language has now been changed insofar as oil is concerned. It is requested that the companies who wrote this contract explain whether or not it was the intention of the drafters of same to force the contractors to buy. There must be some

"provision in this contract for the disposal of crude in the event the Field Contractor cannot find a market. The Field Contractor is required to buy all natural gasoline extracted from wet gas. We think this provision is unfair because it places an impossible burden on the contractor when he doesn't have a market. This is just another device to eliminate competition by placing an onerous market provision upon operators who cannot market large quantities of natural gasoline."

COMMENT:

The proposed Field Contractor Agreement requires the successful bidder to pay the working interest account for all oil assigned to Tract No. 1; thus, the City and State have no worries about disposing of the oil outside of the contract. The contract which was drafted by the City and not by any company or companies, still contains this obligation on the contractor to pay for all of such oil. The present language is the result of a suggestion by the Attorney General's Office.

The field contract does require the successful bidder to pay for the natural gasoline. This may be viewed as an asset by some bidders while others may view it as a liability. They will bid accordingly. We feel that private enterprise can better market this gasoline than the City or State, especially in times of distress.

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

"It is submitted to this Commission this is exactly what will happen in the event you permit this complete parcel of land to be put into the hands of one group of companies having control of the pricing and the refining processes in this State. They plan to reduce their purchases from independent producers throughout the State of California, which, in turn, will result in the reduction of the posted price in all fields because the independent contractor will be forced to sell his oil at lower prices.

"Once you have created a soft market for crude oil in California, then the posted price will be lowered through

"manipulation by the refiners and thereby the State of California, the City of Long Beach, and the independent producers throughout the State will receive less money for their oil - - not only on the Long Beach parcel, but on other California tidelands and on other oil fields owned by the cities of this State. This is a monopolistic plan in the crudest form."

COMMENT:

Inasmuch as California does not produce enough crude to meet its demands, the additional Long Beach Unit crude can be absorbed either through increased demand or by a reduction in the amounts of imported foreign crude. There would be no net effect on the total market demand for California crude whether the oil is taken by a single refiner or split among a large group of refiners.

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

COMMENT:

This procedure of putting up a portion of the crude for competitive bids each six months was suggested by the small refiners themselves. The pricing procedures under long term contracts by necessity vary from prices paid by short term purchasers.

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

COMMENT:

There is a long range supply of oil now available from small producers if these refiners are willing to execute long term contracts.

"If the small refiners are required to bid for crude, then we recommend that all of the crude under Tract #1 be put out for bid on an annual basis. In this manner all

"companies - large and small - would be treated alike. Some may argue that the State and City should not take the risk and gamble on the oil market. The City and State are actually assuming all of the risks under a 'net profits' arrangement so a little more risk should not matter. The only people who can lose would be the citizens of California"

COMMENT:

The most valuable single feature of this contract, from the standpoint of attracting the highest bid for the State and the City, is the long range supply of oil available to the successful bidder. Conversely, the greatest risk possible to the State and the City in obtaining the maximum economic return would be involved in gambling on the City's ability to market the oil on a short term basis. There have been times when a large percentage of producers in Wilmington who did not have long term contracts either were forced to curtail production or to sell their oil at fifty cents below the average posted price. On the other hand, under the proposed contract, the State and City are guaranteed profits based on average posted price.

The statement that the City and State are assuming all the risks under a net profits contract is absolutely false. Under the Field Contractor Agreement, the City and State will participate in the large profits, which under other types of contracts would be taken entirely by the contractor. Instead of the City and State assuming any risk, the Field Contractor is required to advance all monies for development as well as paying the $51 million in production payments.

"5. Mr. Chairman, the State Lands Commission has, since 1955, taken the position and adopted a policy of putting up alternate, or every third, parcel in even the most risky wildcat areas. Also, this Commission has limited the size of parcels depending upon their potential productivity. This Commission has always endeavored to cut up parcels in such a manner so as to keep a complete geologic structure of any major size from being acquired by any one company or group. We think this is a prudent policy and strongly recommend that you continue to follow this policy at Long Beach. Your attention is directed to the State Public Resources Code, Section 6871.4, which limits the size of

"the Tideland parcels to 5760 acres. It reads as follows:

'SIZE OF PARCELS TO BE LEASED:

The Commission may divide the lands within the area proposed to be leased into parcels of convenient size and shape and shall prepare a form of lease or leases therefor embracing not to exceed 5,760 acres in any one lease. (added by Sts 1955 ch 1724, 18; amended by Stats 1957 ch 2166.5)'

"The Federal regulations for federally-owned tidelands are similar.

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

COMMENT:

Neither the State Lands Commission nor the Federal Government has leased tidelands in an area that has been damaged by subsidence. It is imperative that the City maintain full control of these operations as a safeguard against further subsidence damage in this area. The only realistic way to accomplish this is to develop this offshore area as a single tract. This was realized by the electorate of the City of Long Beach when they passed the drilling ordinance that required this area to be developed as a single tract.

In answer to the Pauley statement as to the State leasing policy of limiting the area to a maximum of 5,760 acres, Tract No. 1 contains approximately 4,500 acres.

"6. We would also like to call the attention of this Commission to the provisions in the Field Contract Agreement wherein the City of Long Beach and the State of California would pay the Operator 3.75% interest on any advance bonus payments. This is the first time in my experience that a landowner has been required to pay the Oil Operator interest on the money which the Oil Operator paid the landowner. Here, again, is another example of how some companies are trying to monopolize this tract by raising the bid price so high it cuts out the competition. The State of California, and certainly the City of Long Beach, can borrow

"money at much less than 3.75% interest. We think this is against the best interests of the State of California and its citizens. We think this provision should be stricken."

COMMENT:

The provision to allow interest on the production payment account is one of the features incorporated to enhance the bidder's opportunity to avoid capitalization of this payment. The rate selected was the approximate interest yield for Federal securities maturing at the approximate time the production payment account would be repaid. No matter what interest rate is used, it will be considered by all companies in submitting their bids. This would be fair to everyone. If no interest were allowed, then the bids to the State and City naturally would be lowered to the extent of this factor.

"7. It is also our feeling that the money payments set forth in the Field Contract Agreement are bonus payments and should be made payable 25% at the time the Operator bids and 25% on the anniversary date for the next three succeeding years. We do not think the City Manager of Long Beach should be given the discretion to call or not to call for these moneys. If the City of Long Beach and the State of California are entitled to the money, then they should receive it at a specified time. This will create no hardship on industry members in that it will permit them to arrange their financial payments pursuant to contract.

"A question has been raised as to what kind of payments these are. Are they advance royalty payments or are they, in fact, recoverable bonus payments which must be capitalized. If they are advance royalty payments, then they can be written off in the year payment is made. I understand that some competent tax authorities state that these are bonus payments and must be capitalized. If this is the case, it could be disastrous. This is one of the most important and vital points that must be resolved and results made known to all bidders prior to the call for bid.

"The question of whether or not these payments are expense items or capital items will materially affect the amount of the bid of any company -- regardless of whether or not it be net profit, bonus, royalty, or otherwise.

"It is strongly recommended that this Commission instruct the staff of the State Lands Commission and the Attorney General to secure a ruling from the Internal Revenue Service on final drafts of this proposed contract as to how these and other expenditures are to be treated taxwise. It may be that one or more of the companies involved in the preparation of these contracts may have already

"secured a ruling from the Internal REvenue Service. If this is the case, I suggest that they come forward and advise the Commission in open hearing as to the results of their findings and furnish the staff with a copy of the ruling. This would save considerable time. If no one has received such a ruling, then one must be received prior to the bidding date."

COMMENT:

It should be made clear that income to the City and State is not affected by whether or not the production payment must actually be capitalized, but by whether or not, in making his bid, the Field Contractor thinks that it must be capitalized. It is in the best interest of the City and State in obtaining the maximum bid to enable those companies who think this production payment does not need to be capitalized to bid accordingly. The provisions regarding the production payments have been drafted to enhance the chances of bidders to obtain a favorable Internal Revenue Service ruling if they think it advisable to seek one.

"8. It should be pointed out to the Commission that if Tract #1 is permitted to be controlled, as one parcel, by major domestic refiners, it will vest control in these domestic refiners of the import of foreign oil into the State of California and to the West Coast. WHY IS THIS THE CASE? It is easily understood since the foreign import quotas are determined by the amount of domestic oil put through domestic refineries. For example: If a company has a refinery with an input of 150,000 barrels of oil a day, it will be permitted to bring in foreign import of 10.5% of the domestic refined input. Therefore, if a company, or group of companies, should control this estimated 150,000 barrels a day production from Long Beach, regardless of whether or not they can make a nickel out of it, it will allow these companies to bring in an excess of 15,000 barrels of crude a day to the West Coast. This will bring in more cheap oil and ultimately reduce the posted price. It is recommended that the State Lands Commission invite major oil importers to come forward, in public hearing, and explain the import quota and how much they make by virtue of being able to increase their imports by gaining control of this Long Beach oil."

COMMENT:

Our understanding is that the import quota from District V is based on the historic refinery through-put of domestic crude. Additional production does not give a refining company additional

imports. The effect on the import quota of a refining company will be the same regardless of whether or not it produces this oil.

> "9. We understand it is anticipated that the operators will have to bid on this Long Beach proposal within a very short time after the Commission approves same. I have not gone into the many questions we have regarding this contract as submitted today. It would take hours to set forth the various and sundry problems that must be resolved before any company can bid on these parcels. Regardless of what this Commission does today, or some time in the future, it is strongly recommended that you allow at least 270 days between the call for bids and the date bids are filed. It is also recommended that you instruct the staff to hold public hearings on the form of the proposed contract (as was done in May 1958) in order that all members of the oil industry may make a critique and learn what the contract really says and means. The present contract is difficult to understand interpret."

COMMENT:

Pauley Petroleum Inc. has had most of these documents for nearly five months. If the company found any items difficult to understand or interpret, it did not so state prior to February 28, nor did it seek understanding or interpretation. All meetings before the City Council and the Oil Committee of the City Council concerning these documents were open to the public and many companies availed themselves of the opportunities to become informed.

> "A representative of one of the companies involved in the preparation of this contract summed up the contract proposal as follows: 'It is a hodge-podge of ideas to be submitted to the State Lands Commission for approval.' I think no one could possibly describe this contract any better.
>
> "Mr. Chairman, in conclusion, we would like to state that we do not wish to oppose a program unless we are able to offer a constructive way of doing it better. We believe we have several alternatives in mind which would permit the State Lands Commission to put Tract #1 and Tract #2 out on an equitable, fair, competitive basis which will permit all companies to participate. At the same time, it will eliminate any possibility of monopoly or cartel arrangement which would put the control of the oil business into the hands of a few operators and refiners in this State.

COMMENT:

The Field Contractor Agreement was drafted by the City as previously pointed out. However, the suggestions of any companies which desired to submit them were solicited by the City. Attached are copies of letters sent to approximately 65 companies throughout the State. Also attached is a list of these companies which we kept informed and from which we solicited suggestions. The City believes that the proposed contract does present an equitable, fair and competitive basis for companies that are qualified to join and bid on this project.

"(a) It is our recommendation that the State Lands Commission put Tract #2 up for bid immediately, using the old form of lease and either calling for a cash bonus bid with a fixed royalty formula; OR, if the Commission prefers, put up Tract #2 for bid on the basis of a fixed cash bonus payment and let the operators bid on a royalty basis.

"On February 25, 1963, this company formally requested that Tract #2 be leased pursuant to present existing laws; a copy of our request is hereby introduced as evidence as part of this presentation.

"Under the present statutes, the State Lands Commission cannot put Tract #2 under the Long Beach formula because it is not permitted by the statutes. We think ample language can be written into the lease contract which would require the successful operator to enter into a reasonable and equitable unit agreement with the Long Beach people pursuant to presently existing statutory authority.

"We have just reviewed the recently introduced Senate Bill #298 which permits the State of California, as Oil Operator, to unitize Tract #2 with the Tidelands in Long Beach. We are strongly opposed to this bill since it not only permits the unitization of Tract #2 with the Tidelands in Long Beach, but it socializes the oil business insofar as the California tidelands are concerned and puts it under State ownership and State control. This is against our free enterprise system of government in this nation, and we oppose it completely and absolutely. The bill has also been referred to by some as a 'two-page Proposition Four.'"

COMMENT:

The Alamitos Beach State Park Tract #2 is not now under consideration. However, the Unit Agreement does allow the State to bring Tract #2 in as a working interest owner or to lease Tract #2 as in any other area.

(b)

"It is recommended that the State Lands Commission and The City of Long Beach cut Tract #1 into several parcels and put them out for bid, one at a time. This could be done even though the bids are received only two to three hours apart. It would permit reasonable size oil companies to participate in these offshore bids and, at the same time, give the State of California and the City of Long Beach the best possible bids.

"It is also recommended that the City of Long Beach and the State of California seriously consider fixing the royalty and/or net profits which they want to secure and let the companies bid on a cash payment, payable over a three-year period, with 25% of the cash payment accompanying the bid. Cash bidding has been used by the State Lands Commission for the past seven years and has been eminently successful. One condition of the bid could be that one of the parcels carved out of Tract #1 would be designated as Operator-Field Contractor parcel and the other parcels could be designated as Non-Operating Field Contractor, or the Operator could be chosen by lot upon award of contract on all parcels. I am fully aware of the provision intentionally placed in the City ordinance which was passed by the voters of Long Beach last year requiring the operation to be in a single tract. We believe this problem can be taken care of very easily in a properly drawn document. If it cannot, then the State Lands Commission should, if its sovereignty is subordinate to the City of Long Beach, reject this proposal until it is resubmitted to the voters which would permit more than one company, or more than one group of companies, to participate in Tract #1."

COMMENT:

Physically splitting the offshore area into several operational parcels is completely unacceptable from the standpoint of subsidence control. The continual supervision, coordination and arbitration between operators that would be required to insure adequate protection against subsidence in this very complex geologic area would be extremely costly. The duplication of operations and personnel required by the several contractors also would add greatly to the cost of operations. It probably would require a change in the City drilling ordinance. Furthermore, it offers no advantages that cannot be obtained by other means.

It is suggested by Pauley that Tract #1 could be split into parcels but operated by one contractor under the terms of the unit agreement. Although less objectionable from the standpoint of subsidence control, and possible under the City drilling

ordinance, this plan also has disadvantages. It seriously complicates the determination of equities. Additional City personnel would be required for the coordination of the probably divergent interests of the various contractors. The bid would suffer because of the uncertainty involved in dealing with unknown partners and because of the fact that no bidder would have advance knowledge of the operational and technical ability of the Field Contractor. Again this plan offers no advantages which are not available under the alternate proposals discussed later.

Earlier in his statement, Mr. Scott stated that under the Long Beach proposal a successful bidder would be required to commit $100 million, to which he objected vigorously. Now he suggests that it would be entirely feasible to split Tract #1 in parcels and offer it for bonus bidding, for which he thinks the bonus bids might be from $350 to $450 million (Transcript, State Lands Commission meeting, February 28, 1963, Page 117, line 16). In addition to the bonus, of course, his estimated $50 million in initial investment would be required of the successful bidders. We submit that if no company can risk $100 million on our proposal, companies cannot risk $400 million to $500 million under Mr. Scott's proposal.

Without in any way attempting to evaluate the many factors that must be considered to properly equate the monetary return from different leases, there are no major State leases that have a return equivalent to 67% straight royalty. Long Beach has one. In considering Mr. Scott's request that the State exercise its sovereignty to require the area to be split into parcels, it should be realized that the people of Long Beach voted to require this area to be developed as a single tract as a reasonable safeguard in the program to prevent subsidence.

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

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

COMMENT:

Our objectives are to produce the highest economic return for the City and the State and to protect the City against subsidence. Neither of these objectives can be achieved if we endeavor to split the area into parcels small enough to allow all 1,344 California operators to participate. It is impossible to satisfy all operators and at the same time best protect the interests of the City and State.

"(c) In the event the Commission does not want to split these parcels up into separate divided tracts, then it is suggested that they be split into undivided interests and put out to bid, one interest at a time. We suggest that one interest be for 30%; one interest for 20%; three interests of 10% each; and four interests of 5% each. The contract should designate the company winning the 30% bid as operating Field Contractor. All other undivided participants in Tract #1 would be designated as Non-Operating Field Contractors. This would permit the smallest to the largest company to participate on an undivided basis, assume their proportionate share of the risk, cost and expense, and receive their proportionate share of the profits. At the same time, it would permit the City and State to secure the best possible bids. This was anticipated by the City of Long Beach at the time they drew the Field Contractor Agreement since this agreement provides that there may be more than one Field Contractor."

COMMENT:

The suggestion of splitting Tract No. 1 into biddable undivided interests is operationally similar to the proposal by the City. The main operational disadvantages would be the added City staff and State personnel required to coordinate the operations and the loss occasioned by the inevitable compromises

among the large number of divergent interests. All indications are that no single company will bid on this project alone. The charge of monopoly is not satisfied by the letting of the bid area in parcels, because a company or group could win all parcels. It should be noted that where the Pauley Statement refers to a 5% interest, there are only 18 of the aforementioned 1344 producers who produce such quantities as would amount to 5% of the estimated daily production from Tract No. 1.

The main difference between this foregoing suggestion and the proposed Field Contractor Agreement is that the City would allow the companies to follow the processes of free enterprise and select their partners and the terms of the agreement that bind them together. The undivided interest proposal would force companies together with unknown partners under a contract formed by governmental bidding procedures.

For the following reasons, the City proposal is superior and will result in a greater income to the City and State:

1. Advance knowledge and confidence in the technical ability and operational know-how of the field operator by the partners in the combine will result in a better bid.

2. The flexibility in forming a bidding group to meet the particular needs of the various partners will result in a more favorable bid. As an example, a group could be set up whereby one partner conducted the operations, took 20% of the oil, put up 10% of the capital and obtained X percent of the operational profit. Another variation could allow one partner to take 5% of the oil in the initial stages and 40% after ten years. The opportunity to change these percentages as operations proceed could also be extremely valuable.

3. An advance voluntary agreement prescribing operational procedures among partners and presenting a unified plan to the

City and State will be more assuring to bidders than being at the mercy of unknown partners and operators.

4. It will be far more economic for the City and State to deal with one identity rather than several.

5. The advantage of operating the property, including the 3% overhead allowance, would be reflected in only one segment under the undivided interest bid, while it would be favorably reflected in the whole bid as proposed by the City.

6. A bid on the whole by a group of companies formed under their own terms will be superior to that of individual companies bidding on undivided interests. Since the various groups have but one chance they will exert more effort to produce the best bid. This method will minimize the possibility of collusion involved in multiple parcel or undivided interest bidding.

> "It is suggested that the State set the net profits and/or royalties and receive bids on a cash bonus payment, payable over the three year period with 25% paid at the time of bid. The bonus payment should be free and clear of any interest charges but would be recoverable, by the successful bidder, out of their proportionate share of their oil in the same way they would recover their proportionate share of the cost in the event it were a net profits bid. Here, again, I see no reason why undivided interest owners should not bid on a net profits formula if the State so desires. The State and City could fix the amount of cash bonus they want and let each bidder bid on a net profit or royalty basis."

<u>COMMENT</u>:

These proposals by Mr. Scott are merely variations of his previous proposals which we already have answered. Bonus bidding on semi-proven reserves will inevitably sacrifice maximum ultimate return for a lesser though more immediate financial gain.

> "(d) It is strongly recommended that the Commission consider receiving bids where a landowner's free royalty is fixed, plus a per cent of the net profits, and call for bids on a cash payment basis set forth in paragraph (c) above. The State is in dire need of immediate cash and receiving cash bids can generate hundreds of millions of dollars if the parcel is cut up into reasonable sizes.
>
> "The State and City might also consider a type of contract that fixes a free landowner's royalty and percentage of

"net profits and have the companies bid on the cash bonus basis. The bonus would be recovered the same as set forth above; or if the State and City prefers, they could set the amount of bonus desired and the amount of net profits desired and let each operator bid on the free royalty, or any combination, under this formula."

COMMENT:

Even if the State of California were in dire need of immediate cash, we should not forget long range obligations to the future of California. The State of California can best be served by assuring the maximum ultimate financial return over the entire life of this field. Furthermore, because of the City control that must be sustained to guard against future subsidence in the area, a fixed royalty contract would result in a substantially inferior bid.

"In conclusion, Mr. Chairman, we recommend that the State of California reject the proposal as submitted and remand it to the staff of the State Lands Commission and to the City of Long Beach to work out a formula and contract which will permit Tract #1 to be divided into numerous parcels where each operator can have a fair and equitable opportunity to win a bid under a free, competitive situation.

"In the event the State of California and the City of Long Beach cannot reach an equitable agreement permitting free, competitive bidding by more than one company or group of companies, then it is recommended that the State Lands Commission refuse to approve any bidding arrangements which would vest title to Tract #1 in one operator, or one group of operators, and refer this matter to the State Legislature in order that legislation may be passed to accomplish this purpose.

"There are many other problems which time does not permit us to discuss completely and we hope the Commission will go into the following points at a later date:

1. Ad valorem and other taxes;"

COMMENT:

Although we appreciate the industry's concern over taxes, we submit that consideration of the tax question is not relevant to consideration of this contract. A net profits type of contract minimizes the risk to bidders on the tax issue and therefore their bids should bring greater financial return to the State and City.

"2. Question of why City of Long Beach should reimburse pre-unit expenses of onshore operators;"

COMMENT:

The only pre-unit expense that would be reimbursed to the onshore participants is for a share of the printing of the unit documents (about $20,000). On the other hand, the City and State will receive reimbursement of the cost of the core hole drilling program which already has been completed by the City at a cost of about $600,000.

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

COMMENT:

Under the terms of the unit agreements, the City as Unit Operator does have authority to settle claims up to $250,000 without the prior consent of the onshore participants. Such participants approved this provision.

"4. Does the onshore operator have a veto of bids on Tract #1 by refusing to commit onshore parcels to the Unit;"

COMMENT:

Over 60% of the onshore operating interests have already expressed in writing their desire to execute the Unit Agreement if approved by the State Lands Commission. Such execution will take place prior to the opening of the bids. We request that the State Lands Commission, as a condition of approval of the contract before it, require execution by the necessary 60% within a specified period of time.

"5. Legality and advisability of including the Long Beach Oil and Development Company lands in the Unit by consent of operators rather than through competitive sealed bids."

COMMENT:

Since the Long Beach Oil Development Company lands are not contiguous with this area, they cannot be included in this unit.

The Unit Agreement in no way would allow the City to extend the term of any existing contract or enter into another contract without competitive bids. Competitive bidding is a requirement of both the City Charter and State Law.

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We are sure that the oil operators of California,as sincere advocates of the American free enterprise system, will voluntarily organize into the combinations required to bid on this contract and not look to government -- the City of Long Beach and the State of California -- to guarantee them an interest in this development.

*****

From the Office of Leonard W. Brock
Petroleum Properties Administrator:

LIST OF COMPANIES AND INDIVIDUALS WHO HAVE RECEIVED UNIT AGREEMENTS AND LETTERS OF NOTIFICATION

1. C. C. Albright
2. Amerada Petroleum Company
3. Robert E. Anderson
4. Atlantic Oil Company
5. J. F. Austin
6. British Petroleum Expl.Co.
7. Burnside and Fischer
8. John Carr
9. A. J. Burnside
10. Byron Oil Industries
11. Citizens National Bank
12. City of Los Angeles
13. Henry Clock
14. Conservation Committee of Calif. Oil Producers
15. Continental Eastern Corp.
16. Continental-Emsco Company
17. Continental Oil Company
18. Core Laboratories
19. County Assessor's Office
20. DeGolyer and MacNaughton
21. Douglas Oil Company
22. Franwin Oil & Gas Company
23. General American Oil Corp.
24. Golden Eagle Refining Co.
25. Gulf Oil Corporation
26. E. B. Hall Company
27. Lynn O. Hosson
28. Humble Oil and Refin. Co.
29. Humble Oil Company
30. Harry Kues
31. Jade Oil & Gas Company
32. Jan Law, Consultant
33. Long Beach Oil Devel. Co.
34. Leibroch,Landreth,Campbell & Calloway
35. James A. Lewis, Engineers
36. Marathon Oil Company
37. Mobil Oil Company
38. Morgan Guar.Trust Co. of N. Y.
39. W. A. Moncrief
40. The Ohio Oil Company
41. Orion Oil Company
42. Pauley Petroleum
43. Producing Properties, Inc.
44. Richfield Oil Corporation
45. R. N. Richey
46. John R. Rumbaugh
47. Security First National Bank
48. Shell Oil Company
49. Signal Oil & Gas Company
50. Southern Calif. Edison Co.
51. Standard Oil Company
52. Stanley and Stolz
53. State Lands Commission
54. Albert Stevenson
55. Sunray Mid-Continent Oil Co.
56. Superior Oil Company
57. Texaco, Inc.
58. Tidewater Oil Company
59. Union Bank Petroleum Dept.
60. Union Oil Company
61. C.R. Dodson, United Calif.Bank
62. Westates Petroleum
63. Read Winterburn
64. Phillips Petroleum
65. Western Oil & Refining

COPY OF LETTER December 7 1962

Pauley Petroleum
10000 Santa Monica Blvd.
Beverly Hills, California

Gentlemen:

Revised structure and isopachous maps of the productive intervals in the Wilmington Offshore area, along with ditch sample descriptions for the eight core holes drilled in the same area, are available at the Long Beach Blueprint Company, 250 Locust Avenue, Long Beach, California.

Also available, at the Long Beach City Clerk's office, are the well histories of the aforementioned eight core holes.

It is felt that the structural interpretation of the Wilmington Offshore area has been fairly well established based on information obtained from the eight exploratory core holes. No further major changes are anticipated until additional data becomes available.

The only charges for the structure and isopachous maps will be the Long Beach Blueprint Company charges. The core hole well histories are available in sets and may be purchased for $3.00 per set, including tax, from the Long Beach City Clerk, 101 City Hall, 205 West Broadway, Long Beach2, California.

Very truly yours,
LEONARD W. BROCK
PETROLEUM PROPERTIES ADMINISTRATOR
by J. W. Parkin
Petroleum Engineer

LWB:JWP:dl

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COPY OF LETTER December 27, 1962

Shell Oil Company
1008 West Sixth Street
Los Angeles 54, California

Attention: Mr. Earl A. Armbruster

Gentlemen:

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

Very truly yours,

LEONARD W. BROCK
PETROLEUM PROPERTIES ADMINISTRATOR

LWB:dl

COPY OF LETTER September 4, 1962

CONTINENTAL OIL COMPANY
1137 Wilshire Boulevard
Los Angeles 17, California

ATTENTION: Mr. Schmidt

Gentlemen:

Copies of all the logs run in the first three test holes drilled in the Long Beach Offshore Area, together with all core and sidewell sample analysis data, are available at the Long Beach Blueprint Company, 250 Locust Avenue, Long Beach, California. A base map showing the locations of the core holes is also available. The only charge is the cost of reproduction.

Additional data will be made available through the Long Beach Blueprint Company at a later date on the other test holes which are currently being drilled in the area.

Very truly yours,

LEONARD W. BROCK
Petroleum Properties Administrator

LWB:ls

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COPY OF LETTER

September 20, 1962

Texaco, Inc.
1215 East San Antonio Drive
Long Beach 7, California

Attention: Mr. Norris Saunders

Gentlemen:

Transmitted herewith is a copy of the Unit Agreement, Unit Operating Agreement and Exhibits to Unit Agreement for the Long Beach Unit, Wilmington Oil Field. Also included is a copy of the first draft of the Field Contractor Agreement. These documents and any revisions thereto must be approved by the State Lands Commission. If approved, it is hoped that the City will ask for bids on the Field Contractor Agreement in early November.

The Field Contractor Agreement is still in the early drafting stage and is submitted to prospective bidders as a means of expediting the operations. Although the general provisions have been discussed and approved by the City Council, the agreement itself has not been considered. Any criticisms or suggestions to improve this agreement will be considered but must be made at the earliest possible time.

Very truly yours,

LEONARD W. BROCK
Petroleum Properties Administrator
LWB:ls

(End of comments on Statement of L. E. Scott)

COMMENTS BY THE CITY OF LONG BEACH ON THE STATEMENT BY D. E. CLARK, SHELL OIL COMPANY, AT THE STATE LANDS COMMISSION MEETING 2-28-63

Before commenting on the Shell Oil Company statement itself, it is well to note that representatives of the Shell Oil Company have been given every opportunity to make suggestions and criticize any of the proposed documents. They have been given all available data that they requested. Shell personnel received copies of the Unit Agreements and other related documents as early as 9-19-62. Many meetings between Shell and City representatives have been held, but most of the objections raised in Mr. Clark's statement to the State were never presented by Shell. It should be noted that the documents as presented were finalized only after extensive consultation with members of the State Lands Commission staff and the State Attorney General's offices and many modifications were incorporated in the final contracts.

This discussion follows the sequence of comments as presented in Mr. Clark's prepared statement, which will be quoted as each section is answered.

" COMMENTS ON PROPOSED LONG BEACH UNIT - WILMINGTON FIELD - BEFORE SPECIAL HEARING OF STATE LANDS COMMISSION, SACRAMENTO, CALIFORNIA - FEBRUARY 28,1963
BY D. E. CLARK, SHELL OIL COMPANY

"We appreciate the opportunity to comment on the proposed form of contracts for the formation and operation of the Long Beach Unit of the Wilmington Field.

"Our views on the proposed contracts, briefly stated, fall under three general headings: Operations, the State of California's Interest, and Industry at Large."

" OPERATIONS

These contracts adequately cover the operating requirement for producing a known oil reserve by well-known production techniques understood by any competent operator. The size of the undertaking should not be equated to any inherent difficulty of accomplishment. The contract language relating to operations is well known to us and the scriveners demonstrate considerable familiarity with the oil and gas operations. The observed omissions are generally most favorable to the industry."

COMMENT:

Shell's comments on the operating features of these contracts are generally favorable. We find nothing constructive in the inference that there are certain "omissions" that are "generally most favorable to the industry." We know of nothing omitted from these documents which would be detrimental to the interest of the City-State or the public interest.

"THE STATE

These comments are directed to the interest of the State of California in adopting the proposed contracts. You appreciate that under a net-profits format the items covered under this heading are of only indirect concern to an operator who merely charges them off against the value of produced oil. They can, however, be of substantial monetary significance to the State."

COMMENT:

It is difficult to comprehend this statement, for when the Contractor computes a bid, all phases of cost must be considered when analyzing any expense item and thus all expense items affect both the Contractor and the State and the City. This would be true under a gross bid, net bid, bonus or combination of same. We feel that the method as recommended by the City better protects the public welfare and will be further elaborated on under the two subsections, one of which, Federal Taxes, is not a reimbursable item, and the other, Ad Valorem Tax, which is a reimbursable expense.

"1. FEDERAL TAX

"The proposed field contract provides that the socalled production payments constitute installments which must be paid by the contractor in all events and cannot be avoided. This will require the contractor to advance approximately $51,000,000 to the City over the first three years.

"The Internal Revenue Service has informally advised us and others that as now drawn these payments constitute a bonus, however, a comparison of projected profitabilities based on Federal Income Tax consequences to the Field Contractor, i.e., advance payments treated (1) as a bonus or (2) as a bona fide production payment, clearly demonstrates that a substantial monetary difference exists in favor of a true production payment approach. This difference arises from the Federal Income Tax treatment of the income received by the Field Contractor and is in the magnitude of two digit millions of dollars over the thirty-five-year life of the contract. A higher percentage bid to the City would result if the contract was recast to reflect both intent and actual creation of a production payment."

COMMENT:

The method as arrived at in the proposed agreement was ascertained only after long deliberation with tax attorneys representing the oil industry, including Shell. Our main thought was to eliminate the treatment of this payment as a bonus under income tax interpretation. It should be pointed out that the City may exercise the option of requiring this payment. It was the thinking of some that this definitely would strengthen the contention that this item need not be capitalized.

Although Shell representatives brought up their objections to the advance royalty clause as contained in this contract at various meetings, they offered no acceptable alternates.

Shell has stated that it has an informal opinion from the Treasury Department stating that this payment would be a bonus. We requested a copy of this opinion from the company in a letter on March 8, 1963.

While any acceptable proposal certainly would be considered, it should be pointed out that this is but one factor in the bidding. If some companies feel that this is a bonus, they should bid on that basis. However, there are others who regard it as a production payment and will bid in accordance with that opinion. This element of risk is one of the features of competitive public bidding in a true democratic society.

We feel that there are many factors of a far greater magnitude that all prospective bidders must consider. Such is the cost per barrel for the extraction of oil. Some might feel that 75¢ per barrel is adequate while others might feel $1.00 is more realistic. We have had various opinions from tax consultants relative to the advanced royalty payments, and from engineers on costs and production. We feel that the contractor must take all of these items into consideration, and the one who is willing to bid the most after studying all factors will be the successful

bidder. In short, we feel that the City or State is under no more compulsion to guarantee this phase of the contract than they are to guarantee various engineering and other cost items, which would have far more effect on the ultimate bid.

"2. AD VALOREM OR PROPERTY TAXES

"In considering the influence of property taxes it had been indicated to us by the Los Angeles County Assessor's Office that an assessment might be made against 'Undeveloped Oil Reserves.' The Los Angeles County Assessor held a conference with representatives of the oil industry on February 20, presumably to discuss this possibility. Actually, the specific question was never answered, as an issue of much greater significance developed.

"The Assessor indicated that he is now giving consideration under the De Luz Homes case to assessing the entire 100% interest in the tidelands property rather than only the net profits interest of the contractor. The De Luz case (Calif. Sup. Ct. 1955) held that in determining full cash value of a lease for property tax purposes by the capitalization of income method, the rent specified in the lease could not be deducted from gross income from the property. It is the Assessor's view that there is no difference between rental and the retained interest of the City; therefore, no deduction should be made from gross income with respect to the governmental interest.

"If assessments are to be made against 'Undeveloped Oil Reserves' and would be applicable to the full cash value of future net operating income, then the impact of property taxes would substantially increase the cash expenditures of the contractor and the time of his payout. Consequently, the return to the City and State would be appreciably reduced, since under the field contract taxes are a chargeable expense. We estimate that on a recovery of only 800 million barrels of oil in a thirty-five-year period at a per barrel rate of 20 cents, which appears to be the current maximum rate of tax in the Wilmington Field, the property taxes would total $160,000,000. This is a substantial diversion of income from the State and the Tidelands Trust Fund to local governmental jurisdictions. Anyone urging a contrary view should, of course, be prepared to indemnify the City and State against this contingency in writing."

COMMENT:

In reviewing various State leases throughout California, we find that the taxing jurisdictions tax the company's interests in the operation. We have discussed this matter with Mr. Watson, the County Assessor, and as of now, no definite conclusion has been reached in regard to the proposed tax to the contractor on the entire leasehold and the undeveloped oil

reserves. However, we in no way believe that the contract as submitted by the City in any way strengthens the possibility of this tax. Certainly by the net profit method contract as proposed by the City, the ultimate bid factor would be only a fraction as compared to any other type contract. This would also eliminate the possibility of a windfall for the company in the event that the assessment was not made in the manner indicated by Shell.

In summary, (1) the type of contract has nothing to do with the assessment methods, (2) the City and State are better protected under the proposed type contract than any other.

"3. INDUSTRY AT LARGE

"Without attempting to categorize the following comments, we list a number of observations resulting from the contract format.

")1) The successful bidder must advance $51,000,000 over the first three years as an absolute obligation even in the face of litigation striking at the very validity of the field contract. This is an open invitation to specious law suits by taxpayers -- essentially blackmail in nature. One needs but a cursory glance at the considerable history of Long Beach tidelands litigation to conclude that our concern is hardly illusory. This inflexible demand for advances suggests motives for employment of such funds foreign to the subject at hand and is a cynical disregard of common business practice, where the seller is presumed to produce the thing bargained for as consideration for payment. Clearly these payments should be impounded in the event litigation arises. Failure to so provide will reduce bid offers by some measurable degree dependent upon the risk assessment of the individual bidder."

COMMENT:

The purpose of advance payments is to provide income to the City and State during the period of development when no net profits are available. It is expected that under a reasonable development program net profits for payment to the City and State will be available in three to three and a half years. Under bonus type bidding as advocated by some, and practiced elsewhere, the entire amount would be paid in advance with no thought of impoundment.

"(2) The contract contains three elements providing for its own nullification.

"First, we refer to the requirement of the commitment of 60% or more of the town lot tracts to the unit for it to become effective. We must have the advance written assurance 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. Otherwise, they hold an absolute veto power on legitimate bidders, a matter we must assume escaped the attention of the drafters of this provision."

COMMENT:

On this point, Mr. Clark is referring to companies who had previously submitted into the record letters stating their desire to sign the Unit Agreement. The City representatives have been assured to their own satisfaction that the companies involved in drafting the Unit Agreement were prepared to sign these agreements when asked.

Obviously it is the City's intention, and we believe the State would insist, that the Unit and Unit Operating Agreements be executed prior to opening the bids for the Field Contractor Agreement.

At the Unit meetings when the execution of the Unit Agreements was discussed, it was the City's contention that no point would be served in signing prior to State Lands Commission approval. Conversely, the impact of bringing a signed document to the Commission for approval might be interpreted to mean that a rubber stamp approval was indicated.

"Secondly, we have serious reservations as to the provisions in Article 16 of the Unit Agreement relating to relief from Unit obligations. As applied to the City, we question whether these provisions may not involve a violation of the prohibition against alienation contained in the Trust under which its tide and submerged lands are held.

"Lastly, what of the rule against perpetuities which in effect directs that 21 years shall be the maximum permissible period for the vesting of future property rights? The option rights contained in the Unit Agreement (whereby continuing participants may elect to acquire the working interest of a withdrawing participant) must become suspect under the perpetuities rule, since there is no express limitation on the period within which such options become exercisable."

COMMENT:

Similar provisions are found in the Fault Block II, Fault Block III and Fault Block IV unit agreements now in effect in the Long Beach Harbor area which the Attorney General and the State Lands Commission previously approved. The Fault Block II contract, which was the forerunner of these units, was approved by the California Supreme Court in the case of Vickers v City of Long Beach. Such agreements have been approved by attorneys representing each of the companies owning working interests in the units including Socony Mobil, Union Pacific, Ford Motor Company, Signal Oil and Gas, Southern California Edison, Humble Oil Company, Richfield Oil Company, Termo Oil Company, Superior Oil Company, and Universal Consolidated Oil Company.

In addition, attorneys for Standard, Union, Signal, Richfield, Jade, and Continental Eastern together with the Attorney General and the Long Beach City Attorney, have approved the Long Beach Unit.

> "(3) We are opposed to such provisions of Article 6.3 of the Unit Agreement as provide for the addition of public lands to the Unit by resolution of the City Council of the City of Long Beach. Such a procedure is in reality an amendment of the term of existing contracts covering lands that would otherwise be subject to future competitive bidding and substitutes the closed negotiation process for the independent bidding evaluation of the entire industry. This clause, if left unchanged, could deprive the City and State of substantial future income and favors certain operators over others. Again, the drafters of these papers must be presumed to have overlooked this potential windfall."

COMMENT:

The Unit Agreement states the addition of lands by resolution of the City Council can be done only "when the City Council of the City by resolution finds there is a danger of subsidence in the Unit Area without the addition of tide and submerged lands" east or west of the Unit area. This provision is designed to allow the City Council to extend the Unit to the east or

to the west without obtaining the approval of other companies in the Unit in the event it is necessary to do so to prevent subsidence.

The provision referred to was placed in the agreements at the insistence of the City over the protests of Upland working interest owners. This provision in this Unit Agreement obviously cannot affect the terms of other agreements or contracts covering property to the east or west of the Unit area. It in no way would allow the City to extend the term of any existing contract. At the expiration of these contracts, both the State Lands Commission and the City Charter require competitive bidding for new contracts.

> "(4) The crude oil pricing provisions are most interesting. Unlike competitive State of California oil and gas leases, the price of crude oil is tied to the average of posted prices rather than the highest posted price. This usually results in the State receiving less for its oil and has an unusual side effect."

COMMENT:

The State leasing provision requires the crude oil price to be the current market price defined as "not less than the highest price in the nearest field in the State of California at which oil of like gravity and quality is being sold in substantial quantities, subject to an appropriate allowance for the cost of delivering of such oil to onshore storage and transportation facilities." This does not necessarily mean the "highest posted" price at the well. The State leases obviously deal with a different pricing policy than the one before us now.

It must be remembered that the contractor on a State lease can quit claim the lease at any time and avoid all further obligations including the purchase of oil at an unrealistically high price. In addition, the oil involved in the State pricing provision is only the State royalty oil, sometimes as little as 12½% from the lease.

The precedent of using the average posted price for determining the market value of oil was established in the other Wilmington units. All these other units approved by the State Lands Commission provide that the market value of oil will be "established by the average of the prices posted by Standard Oil Company of California, Socony Mobil Oil Company Inc., Texaco Inc. and Union Oil Company of California ....."

Both existing Long Beach tidelands oil contracts provide for oil payment on the average posted price. Since 1950 the difference in payment on the LBOD contract between the average and highest posted price has been equivalent to about 16 hundredths of a cent per barrel. This proposed contract requires payment on the 1/10 degree gravity. This will average about 3¢ per barrel more than an even degree gravity payment. The Field Contractor must pay a price as high as he pays anyone else in the field. Since the equity formula is influenced by the fluctuation between high and low gravity prices, it is well to have the price tied to the average. A townlot working interest owner who also posts would have little effect on the over-all price.

A tabulation of the "posted" price of 20° crude for the past ten years is attached.

The City feels that the antitrust laws concerning "posting" and regulation of prices are adequate to protect the City and State in this instance. The purchaser if he posts will have only one of the prices used in the average. His motives would be fully understood if his price were always low. An adverse effect on the over-all bid would result if the purchaser were to be put at the mercy of any small operator who for short periods of time were paying an unrealistic price for oil to insure immediate refinery needs. The short term purchaser takes advantage of depressed prices when the market is oversupplied and

pays a premium when oil is in demand. A long term contract should give a true value to the oil without these short term fluctuations caused by the immediate needs of any purchaser. Several years ago a large percentage of producers in Wilmington that did not have long term contracts were either curtailed or selling oil at 50¢ per barrel under "posted" price.

> "Consider the case of the three companies presently posting prices in the Wilmington Field. Could all or any two safely become joint bidders without incurring the accusation of price collusion irrespective of whether the prices posted by them are identical or dissimilar? Further, does not a similar risk attach to any field contractor who attempts to post prices in the Wilmington Field?"

<u>COMMENT</u>:

If this is a problem, it would be a problem which would exist regardless of what price standards are used. The pattern of using average posted prices has been used in existing units in the Long Beach Harbor area of the Wilmington oil field and no problems have been encountered. Further, we feel that there are ample laws in existence which protect against price fixing. If ever found to be a problem, the companies involved can easily take care of it by simply stopping their practice of "posting."

> "(5) Time permits just the briefest mention of certain collateral effects growing out of the contracts. The situation at hand is far removed from the casual offering of a relatively small piece of land under competitive conditions. You are being asked to place under development the largest uncommitted oil reserve in the world. The development of this reserve will trigger a series of complex events which will have regional, national and international force. This stems from the economic power that will result from the acquisition of a 1½ billion barrel reserve in a single parcel by a single operator or even a combination thereof.
>
> "The problem that concerns us is the antitrust implications of this offering in a single contract. We agree that the proposal before us differs markedly from the usual private transactions which are so subject to attack by the Department of Justice in that here the City and State by their own actions are making an offer to the industry. The aspect of this that is so bothersome is whether or not the City and State make this decision independently.
>
> "If this cannot be demonstrated, we have no assurance that the offered contract will not be the subject of immediate

"antitrust investigation by the Department of Justice or even the State itself. We should note that demands for such an investigation could emanate from this or any of forty-nine other jurisdictions far beyond the control of forces within this State."

COMMENT:

It hardly seems possible that a 1½-billion barrels reserve will materially affect the world reserve of in excess of 300 billion barrels. What is the real effect of the estimated 150 thousand barrels per day production on the national demand of 10 million barrels per day? The Shell import quota is now 47,000 barrels per day of cheap foreign oil which would equal 600 million barrels over the term of this contract.

It is interesting to note that on the basis of the Royal Dutch Shell Group current production of 2,900,000 barrels per day (statement of President of Royal Dutch Petroleum Company) that during the lease period of the proposed contract that they would produce 35 billion barrels or in excess of 21½ times the total production of the area under discussion. Considering the Shell Group production above, one must stretch his imagination to remotely envision the "complex international" problems that this contract would create.

This contract will be awarded after competitive bids. It also must be remembered that the City with State coordination retains full control over the rate of production and the Field Contractor does not own the oil in place as in a normal lease.

We understand the antitrust section of the Attorney General's Office reviewed this aspect of the contract before the Attorney General approved the form of the agreement.

"It seems to us almost elementary that this Commission after full investigation must make a finding to the effect that the ultimate format will encourage maximum participation in a free and open bidding competition thereby minimizing any suggestion that it is designed to effect a concentration of economic power.

"To avoid any aspect of the above problem, to offer wider participation to the industry in the offered oil reserve and to afford the City and State the opportunity for greater return, we strongly recommend that the offshore tract be subdivided into several parcels. Such an approach was recommended by the Harbor Department of the City of Long Beach and appears to have been endorsed by your own staff. This in no way would interfere with the Unit plan of operation as such offerings could be made fully subject thereto."

COMMENT:

The Shell Oil Company statement offers no substantiation that letting the contract in parcels will afford a greater return.

Physically splitting the offshore area into several operational parcels is completely unacceptable from the standpoint of subsidence control. The continual supervision, coordination and arbitration between operators that would be required to insure adequate protection against subsidence in this very complex geologic area would be extremely costly. The duplication of operations and personnel required by the several contractors also would add greatly to the cost of operations. It probably would require a change in the City drilling ordinance. Furthermore it offers no advantages that cannot be obtained by other means.

It has been suggested that Tract 1 could be split into parcels but operated by one contractor under the terms of the Unit Agreement. Although less objectionable from the standpoint of subsidence control, and possible under the City drilling ordinance, this plan also has disadvantages. It seriously complicates the determinations of equities. Additional City personnel would be required for the coordination of the probably divergent interests of the various contractors. The bid would suffer because of the uncertainty involved in dealing with unknown partners and because of the fact no bidder would have advance knowledge of the operational and technical ability of

the Field Contractor. Again this plan offers no advantages not obtainable in the following proposals.

The suggestion of splitting Tract 1 into biddable undivided interests is operationally very similar to the proposal by the City. The main operational disadvantage would be the added City staff required to coordinate the operations and the loss occasioned by the inevitable compromises of a large number of divergent interests. All indications are that no single company will bid on this project alone. This means that this undivided interest proposal and the City proposal under consideration are in reality very similar. The main difference is that the plan as proposed by the City would allow the companies to follow the processes of free enterprise and select their partners and the terms of the agreement that bind them together. The undivided interest proposal would force companies together with unknown partners under a contract formed by governmental bidding procedures. For the following reasons, the City proposal is superior and will result in a greater income to the City and State.

1. Advance knowledge and confidence in the technical ability and operational know-how of the field operator by the partners in the combine will result in a better bid.

2. The flexibility in forming a combine to meet the particular needs of the various partners will result in a more favorable bid. As an example, a combine could be set up whereby one partner conducted the operations, took 20% of the oil, put up 10% of the capital and obtained X per cent of the operational profit. Another variation could allow one partner to take 5% of the oil in the initial stages and 40% after 10 years. The option to change these percentages as operations proceed could also be extremely valuable.

3. An advance voluntary agreement prescribing operational

procedures among partners and presenting a unified plan to the City and State will be more assuring to bidders than being at the mercy of unknown partners and operators.

4. It will be far more economic for the City and State to deal with one identity rather than several.

5. The advantage of operating the property, including 3% overhead allowance, would be reflected in only one segment under the undivided interests bid, while it would influence the whole bid as proposed by the City.

6. A bid on the whole by a group of companies formed under their own terms will be superior to that of individual companies bidding on undivided interests. Since the various combines have but one chance they will exert more effort to produce the best bid. This method will eliminate the possibility of collusion involved in multiple parcel or undivided interest bidding. The letting of the bid in parcels will not necessarily eliminate the possible "concentration of economic power" in "a single company or even a combination thereof." This same single company or combination thereof could win all parcels. It is highly improbable that any one company can bid alone and no one has suggested that this is a probability.

It should be pointed out that the Harbor Department report did not recommend the development of this area in parcels as such. Division into parcels was only one of several alternatives outlined in the Harbor Department Report. The reference to endorsement of this policy by the State Lands Commission staff appears to be in conflict with the statement given at the 2-28-63 meeting.

> "We further recommend that prior to any offering, the so-called pre-unit expense agreement, which Article 9.1 of the Unit Operating Agreement describes as an agreement between the City and certain unidentified working interest owners, be made public. This is one of the most unusual

"provisions we have ever encountered for it clearly implies that prior private investments offering economic advantage in this bidding situation are to be charged against the efforts of the successful bidder with consequent reimbursements out of public funds. Even if this almost ludicrous provision is allowed to remain, the State and all potential bidders should be fully informed as to the extent to which their own efforts and public funds are being committed to reimbursement of private risk. This provision suggests a pork barrel of potentially significant proportions and distorts the equality of opportunity that is inherent in a truly competitive offering."

COMMENT:

Although termed an administrative expense agreement rather than a pre-unit expense agreement, in each of the other Wilmington units a similar arrangement was used and proved to be satisfactory to the working interest owners to handle unit expenses incurred prior to unitization. Although such pre-unit expense agreement was never executed, its purpose was to cover the cost of printing the unit documents estimated at $20,000 if the Long Beach Unit did not become effective. The City would have supplied the Shell Oil Company with this information at any time.

"SUMMARY:

"In summary, we can state our opinion as to the contracts very briefly. First, we find them acceptable as to operating features. Secondly, we find them unpalatable as to the number of features related to equality of bidding opportunity and exposure to excessive legal risks. And finally, while actually not of direct concern to us, we would suggest that this Commission must necessarily consider whether the present posture of the proposed offering is such as to reasonably assure the maximum economic return to the State.

"We will make no decision as to whether we will even offer a bid until we have had a chance to evaluate further action by the State Lands Commission. We can say without any equivocation that the contract in its present form prevents our offering the maximum bid that we might otherwise make.

"We urge the Commission to hold further hearings on the contracts with a view toward offering these lands on a more advantageous basis to all concerned. Once this is accomplished, we would expect to be a highly competitive bidder for the operating contract."

COMMENT:

We believe the contract as presented will obtain the

maximum economic return to the City and State while protecting the City of Long Beach from subsidence and despoilment of the beaches and tideland area. Mr. Clark has not presented any facts or specific proposals to alter this thinking.

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A COMPARISON OF WILMINGTON POSTED PRICE BY STANDARD, MOBIL & UNION OIL COMPANIES

Company	Effective Date	A.P.I. 20°	Company	Effective Date	A.P.I. 20°
Standard	Dec.12,1950	2.13	Standard	Jan.26,1959	2.44
Mobil	"	2.13	Mobil	Oct. 2,1958	2.44
Union	"	2.13	Union	Oct. 1,1958	2.44
	Average	2.13		Average	2.44
Standard	Feb.16,1953	2.34	Standard	Jan.26,1959	2.44
Mobil	"	2.34	Mobil	Oct. 2,1958	2.44
Union	"	2.34	Union	Oct. 1,1958	2.30
	Average	2.34		Average	2.3933
Standard	Oct.17,1955	2.42	Standard	Jan.26,1959	2.44
Mobil	"	2.42	Mobil	Oct. 2,1958	2.44
Union	"	2.42	Union	Apr. 1,1959	2.44
	Average	2.42		Average	2.44
Standard	Feb. 7,1956	2.44	Standard	Sept.11,1959	2.28
Mobil	"	2.44	Mobil	Sept. 2,1959	2.15
Union	"	2.44	Union	Sept. 1,1959	2.15
	Average	2.44		Average	2.1933
Standard	Nov.19, 1956	2.73	Standard	Sept.11,1959	2.28
Mobil	"	2.73	Mobil	Sept.18,1959	2.28
Union	"	2.73	Union	Sept. 1,1959	2.15
	Average	2.73		Average	2.2366
Standard	Jan.17,1957	2.98	Standard	Sept.11,1959	2.28
Mobil	"	2.98	Mobil	Dec.17,1959	2.28
Union	"	2.98	Union	Jan. 1,1960	2.28
	Average	2.98		Average	2.28
Standard	Apr.14,1958	2.88	Standard	Sept.24,1960	2.30
Mobil	"	2.88	Mobil	Sept.28,1960	2.30
Union	Apr.16,1958	2.88	Union	Sept.24,1960	2.30
	Average	2.88		Average	2.30
Standard	June 24,1958	2.70	Standard	Jan.22,1962	2.35
Mobil	June 9 "	2.67	Mobil	"	2.35
Union	June 10, "	2.67	Union	"	2.35
	Average	2.68		Average	2.35
Standard	Sep.30,1958	2.44			
Mobil	Oct. 2,1958	2.44			
Union	Oct. 1,1958	2.44			
	Average	2.44			

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END OF LONG BEACH COMMENTS ON STATEMENT OF D.E.CLARK

MR. CRANSTON: I believe now would be the appropriate time for us to hear from representatives of industry if there are those who would like to speak at this time. The other day, at the outset there were three representatives who indicated they would like to speak and one vanished by the end of the day. Is that person here now, and would he like to speak? We did not get him identified the other day. (No response) If not, is there anyone else who wishes at this point to speak?

MR. FORAKER: My name is W. A. Foraker, President, Orion Oil Company. We have acquired approximately one per cent of the upland leases and have a statement that does not have to be read into the record. It relates to participation of the Equity Committee. I would like to have it clear in the record but won't take your time to read it.

MR. CRANSTON: Thank you very much. It will be included in the record.

(Statement follows):

"STATEMENT BY W. A. FORAKER, President, Orion Oil Company, to State Lands Commission hearing in Sacramento March 28, 1963, requesting change in the Equity Committee membership requirement for upland working interest owners, Long Beach Unit.

"In the upland tracts 3 through 91 of the Long Beach Unit, equity committee membership is now arbitrarily limited to participants owning two per cent (2%) or more of the surface acreage, or one and one-half per cent (1½%) of unit participation at any given time.

"As one of the independent owners of working interests in the upland, we request that equity committee membership be available based on one per cent (1%) or more of upland surface acreage, or three-fourths of one per cent (3/4 of 1%) of unit participation at any given time.

"This change will protect the interests of upland operators and royalty interest owners who otherwise would receive payments based on allocations determined solely by the major working interest owners.

"We have one per cent (1%) of the townlot under lease. Our participation will require capital investments and future operating costs approaching one million dollars ($1,000,000).

"To insure fair representation in future operations, it is mandatory that pertinent sections of the agreements, including Exhibit D of the Unit Agreement, be modified. We also call this request to the attention of the City of Long Beach and the other companies holding upland working interests."

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MR. MITCHELL: My name is Johnny Mitchell and I am president of Jade Oil Company. May I ask the Commission - - I don't quite follow your position as to how this thing will proceed. Will you be making a decision today?

MR. CRANSTON: No. The staff will seek to work out a mutually convenient date with the City of Long Beach and with representatives of industry to examine the contract in as much detail as anyone feels is necessary, and I think that is considerable detail.

MR. MITCHELL: What do you call "industry"?

MR. CRANSTON: Anyone from the public or from oil companies will be welcome to submit their ideas on this contract. Following this, the staff will also throw into the hopper its own thoughts and any thoughts expressed by this Commission to the staff. Following that process, there will be further hearing by this body to resolve any differences, and as soon as possible consistent with our own findings that we have before us, we will decide on the contract.

MR. MITCHELL: You mean another hearing here?

MR. CRANSTON: Yes -- after much of the detail can be hammered out in this staff meeting and brought to us in some form.

MR. MITCHELL: It seems to me - - these delays kind of surprise me because you have had it since September. I don't know where O'Sullivan is - - but he has had it, the industry has had it and the State has it. This has become a political football. I mean, these opposing companies have had ample time to

1 discuss, to read, to translate, to leave the pressure off the
2 State. I mean I don't approve of the tactics or the procedure
3 this thing has gone through. Am I at liberty to express my
4 views?
5 MR. CRANSTON: Of course you are.
6 MR. MITCHELL: I don't want to be out of order.
7 MR. CRANSTON: Anything you want to say - -
8 MR. MITCHELL: I am an independent and I fight for my
9 rights, and I believe in my rights, and I believe this industry
10 here is great enough and it is competitive enough that it has no
11 room for political influence; and I say here that this thing has
12 been postponed purposely -- because no greater contract can be
13 written. I don't think there is a qualified Senator that can
14 understand anything about a contract. Who this contract was
15 adopted by, I don't know; but I object seriously that people have
16 had it since May; I have been in meetings with my representatives
17 with Standard and major companies and I have been treated with
18 utmost courtesy, respect. There was some question in O'Sullivan's
19 paper in Butte County - - (Unintelligible to reporter).
20 I want it in the record here that from May until
21 September, Jade owned fifteen hundred leases in the Long Beach
22 area, and Jade is actually the smallest interest owner of the
23 opposition, or those that are in favor of the Long Beach plan;
24 and it wasn't until November of last year that I decided to sell
25 half of my interest to Standard and I have sold half subject to
26 certain conditions.
27 I mean, I don't speak just for the sake of speaking.
28 I am president of Texas Independent Producers and Royalty Owners
29 Association in Texas, which is composed of six thousand members.
30 I was supposed to be in Washington yesterday testifying. I am
31 a member of the National Petroleum Council, was supposed to be

there last Friday but came here because I thought surely I would be accorded a fair representation in this State. I am very proud of my ancestors and very proud to be a part of California producing.

I believe we ought not to deprive the people of California by continuing delay and I don't think the State Legislators or the Assembly here is qualified to govern the production of the unit plan. I think it is purposely done for a particular reason.

For the record, I think I will re-read both my letters, if you don't mind:

"Mr. F. J. Hortig
Executive Officer
State Land Commission
State Capitol
Sacramento, California

Dear Sir:

I am taking the liberty of answering some of the points brought forth at the hearing last week involving the City of Long Beach tideland development.

The objections were presented by Pauley Petroleum, Shell Oil Co., and Texaco. There were several objections presented by this group and with your permission, I would like to answer a few of the objections with the following statements.

My name is Johnny Mitchell. I have been the President of Jade Oil and Gas Co., a California corporation, chartered in 1908, since 1960. Our company is listed on the Pacific Stock Exchange and has been producing in California since 1908. Aside from being President of Jade Oil Co., I am a partner in the independent producing firm of Christie, Mitchell & Mitchell, operating out of Houston, Texas, operating approximately 1,100 producing wells in Texas, Louisiana, Oklahoma and Canada.

Our firm has been operating as a partnership since 1946 and we are recognized as one of the leading independents in the midcontinent area. I am presently President of the Texas Independent Producers and Royalty Owners Association, consisting of 6,000 members. This is the largest oil association of its kind in America. I am also a member of the National Petroleum Council, appointed by the Secretary of the Interior.

Jade is a relatively small producing company. The only production that this company owned prior to my becoming President, was fee-producing royalties in a few wells in

"the Taft Field, Kern County, California. We now own approximately 50,000 acres of leased land in California, and are producing approximately 600 barrels of oil a day in the Salt Lake Field, Los Angeles. In addition, we own joint interest in several gas wells in northern California. A large part of our holdings are in Texas and Louisiana.

We take exception to the statement issued at the State Land Commission hearing regarding Long Beach, in which these companies stated that the proposal submitted by the City of Long Beach was monopolistic. We should like to be on record that of all the companies present at this hearing, both for the Long Beach proposal and those against it, Jade Oil and Gas Co. is by far the smallest company in assets and income. If anyone should use the term monopoly due to assets and size, it should be Jade.

It is strange that an oil company presenting testimony would think that the advantage of alertness of his competitor is a part of a monopoly plan. I am a newcomer to the State of California, having been in California for the past three years. I was aware and have known that the Wilmington area in Long Beach, both onshore and offshore, has been a proven oil reserve. I was aware that some of the smarter major companies that believed in the new Wilmington area were investing their capital in leases onshore. From an onshore advantage, they planned ahead for the future unit and specifically for the day when such a proposal could be presented to the State Land Commission for the approval for the development of this vast reserve of oil. Without a doubt, the objectors were equally aware of this one-billion barrel of oil reserve.

Never in my career as an independent oil man have I ever heard competitive producing companies of such magnitude make such excuse of the word monopoly when the fault of not being oil-minded was entirely their own. There is no question in my mind that these companies that are objecting to the City of Long Beach's proposal had the same opportunities to lease the onshore leases and the same opportunity to form a combine to bid the offshore. If a company as small as Jade Oil and Gas Co. was able to enter the Long Beach area and successfully lease over 1500 town lots since last February, comprising of 300 acres, then I find it ridiculous for anyone to offer a protest.

In these unit agreement meetings, Jade's smallness was respected and great concern was shown to protect my company's interests by these major companies. To be a part of this unit agreement, to be able to vote yes or object for the many problems that arose, to be able to present our engineering analysis and opinions at these meetings certainly proves that there was not any intention of the companies and the City of Long Beach to write a unit agreement in favor of these larger companies.

The Long Beach onshore-offshore area, as we have all been told, comprises one of this nation's largest known oil reserves and will in time be a major supplier of crude oil in this state, especially at a time when the other producing capacities of California are decreasing each year.

"As a technical man, I find it impossible to even consider dividing the offshore into separate parcels to satisfy the individual tastes of a few objecting operators. Certainly, these objecting operators have had ample time to be a part of the unit by acquiring onshore leases. Through their negligence, and for other reasons unknown to me, these companies that are objecting today simply missed the boat. I can safely assume, knowing the policies of the objecting companies, that the search for new oil for these objectors in the past few years has carried them to foreign countries where they thought the search for oil could be more profitable. They awakened too late to discover that one of the greatest oil fields in America was in their back yard. To criticize the prudent ability of the companies who believed in California production, who invested in the Long Beach area and finally concluded a logical unit operating agreement, should be complimented, not criticized.

All companies are aware that an oil field of such magnitude as Long Beach requires unit planning, controlled drilling, pressure maintenance, water injection to prevent subsidence, and most of all, properly drilled wells on a well by well basis to insure maximum economic recovery.

Supposing that we could even consider the case of the objecting companies and were to divide Tract #1 into many parcels, it would require several more operators, joining small units, but it would require not only the drilling of many unnecessary wells, but cause uncontrollable production from each operating unit. It would greatly complicate pressure maintenance and proper injection control, but worst of all, it would create law suit after law suit between unit operators attempting to find a fair equity formula between each unit. I believe that any logical engineer or capable oil man would testify that it is impossible to determine the water levels of the different sands, foresee the fault patterns of this giant reservoir, place the locations for the 1,000 producing and injection wells to be drilled. Only on a planned drilling program under one unit agreement can such acomplex operation be carefully carried out. Every well drilled could cause a change of location for the next one. Fault patterns were placed by nature millions of years ago, water levels were also formed by nature and only by drilling can they be truthfully determined. It is impossible to even think that the objectors, all of whom are qualified, could even have the courage to ask that this potentially great reservoir be divided into different units purely for their selfish purposes, completely forgetting that the State and the taxpayers will be losing millions of dollars in revenue unless it is kept in one unit and under one operation.

There was also the objection that the cost of bidding in this offshore parcel was too costly to any one company. Reference was made that the objecting companies were partners in other offshore parcels in California and had served the State in bidding, drilling, and producing oil in other parts of the coastal waters of California. It could be asked, why not join hands here. May I add this thought also, since we are a smaller company and unable to participate in the bidding on other offshore parcels, we find it possible to join the Long Beach unit.

"It has been the practice of this industry for years that what a producer can afford, he tackles, and what he cannot afford, he watches. This is my first experience to see major companies object on the grounds of monopoly when their resources are equal to or superior to the operators who are successfully working out the Long Beach unit. I have come to the conclusion that these producers who are objecting to the Long Beach unit have no objections to the offshore parcels they control along coastal California. It seems that these objectors only cry monopoly when they, through their own negligence, failed to take care of the golden opportunity in Long Beach.

I differ with the statement that the increase of domestic production by one company will increase its import allowable. This is not a true statement. Imports are based primarily on refinery runs and there is no present indication that anyone is increasing their refinery capacity and even if they do, the import allowable is primarily based on historic imports. The objectors failed to point out that the combined bidding on Tract #1 is not one company, but is composed of a group of companies. The oil produced will be delivered to the tanks in kind for each company to take their respective portion. As small as Jade is, I will have the privilege of collecting my share of oil from this unit. This again dispels monopoly.

If I had unlimited resources, I would like to join one of these combines in bidding this offshore. Even so, I do not hold any personal grudges against those that are able to bid, and above all, wish them success.

There are serious problems in the distribution of oil from this unit and I anticipate that these major producers who are able to bid this unit in will have to be fair and just with the over-all State production. With Long Beach, this State can become self-sufficient in its own domestic production, eventually eliminating imports from Canada and certainly from abroad. I am sure that eliminating imports will be very hard for some of the objectors to accept, as they have spent most of their time in Washington at the Appeal Board trying to import more oil into California rather than find it. What surprises me the most was to hear these objectors even state that they are interested in California production with their past history of living in Washington, asking for additional imported oil.

It would certainly seem that these objectors can combine their talent and resources if they want to, to bid and operate the Long Beach unit. From the objections I have read it is evident that the objectors are not concerned with uniting as a team, but are only anxious to divide and personally gain from this division.

I am concluding my opinions with the request that this Long Beach reservoir in all its greatness be properly developed into one unit and be preserved as a model field of today and the future. To tear this great field apart for the whim of those that missed the boat would not only be tragic to the State of California, but an insult to nature itself."

MR. MITCHELL (continuing) I have one more page, if I may. This was written last night and it may be rough, but my feelings are given:

"Mr. F. J. Hortig, Mr. Champion, Mr. Cranston, Mr. Anderson, for the second time I object to the statement of Shell Oil Company, Pauley Petroleum Company and Texaco. I feel sure there are other companies of the same stature hiding behind the statement of Pauley Petroleum Company. In my opinion, these objections are being presented to confuse the State Land Commission and other responsible members of the State Legislature.

This Long Beach Plan was not born from immaturity. The present producing Wilmington field has produced over 900,000,000 barrels since 1936, ably administered by competent supervision, ably staffed by technical men as well as practical men. The personnel and experience of many of the objecting major oil companies, as well as those of the companies that are in favor of the Long Beach Unit Plan, are perfectly capable and responsible to operate the One Unit Plan. In fact, the experience gained in drilling and producing the present Wilmington Field will offer the successful bidder years of added experience that will enable this unit operation to be a model field operation.

I find it strange that within this group of opposing companies and included in the opposition are State Legislators who are for some reason favoring postponement. They do not realize that this giant field should not become a political football, matching giant against giant and the outcome of such fierce opposition will ultimately mean that the State, the City of Long Beach, and most of all, the people of California will be the only real losers.

The oil and gas in place belong to two groups of people. The first group are the fortunate onshore royalty owners and there are 10,000 of them, who are able to participate in such a fair operating plan. Their interest in the unit is small inasmuch as the onshore parcel has less oil than the offshore parcel in the Long Beach unit. The second group to benefit is the taxpayers of the State of California and they number into the millions and it is the responsibility of the State Lands Commission to see that their interests are protected by an efficient unit operation. Any other operation will automatically mean a loss of millions of dollars of revenue to the State and out of the pockets of the taxpayers.

It is significant to note that 90 percent of the oil in place belongs to the State of California and to the City of Long Beach. The opposition continues to mention that this oil belongs to Standard of California, Richfield and other companies that favor this unit agreement. This is as far removed from the truth as any statement that could be presented at any public gathering for misrepresentation. This oil belongs to the people of California. Income from this production will be divided between the State of California and the City of Long Beach. I could safely estimate

"that over 85 percent of the oil reserves offshore, being approximately one billion barrels, will be produced solely for the benefit of this great State as well as for the City of Long Beach, both being custodians for the people of this State.

The winning bidder of this offshore unit is only the field contractor who makes sure that the State and the City of Long Beach's oil interests are protected by being properly drilled, produced and marketed. All of the benefits of good unit management will be passed on to benefit the people of this State. Only a small fraction of this total amount of oil in place, and I think the percentage will be between ten and fifteen percent, will be rightfully earned by the successful bidding combine. Poor, inefficient operation automatically means losses of millions of dollars to the people of California.

I wish to make one further statement about the opposing combine's statement that they objected to the advance royalty payments being paid by the successful bidder to the State and to the City of Long Beach. I believe I can truthfully state that most of these opposing companies have spent more money, either alone or in joint operations, on foreign shores for foreign oil than the advance bid requested on Long Beach. In addition, the foreign operation of these opposing companies has done far greater damage to the price of our domestic crude here in California than the additional production to be produced in Long Beach will ever accomplish. Even though they are aware that their foreign operations are greatly responsible for the depressing of domestic crude prices, the opposition comes before this Commission to publicly state that to produce oil in the new Long Beach unit by certain combines will seriously handicap the future oil prices in this State and the nation.

Gentlemen, again I stand confused for I find it hard to believe that companies supposedly with such large assets as Texaco, Shell Oil Company, Pauley Petroleum Company and their partners can misrepresent facts so broadly, confusing an issue that is so vital to California and to the millions of taxpayers of this great State.

I trust in the wisdom of this Commission to go forward with the Long Beach Unit Agreement immediately so that the benefits of this important operation will lessen the serious tax burdens that our State is facing.

In closing, I wish to offer the group that presents the best bid my company's congratulations for I have no fear that any combination of companies could not operate efficiently, provided the One Unit Plan is adopted."

MR. MITCHELL: Thank you.

MR. CRANSTON: Thank you very much.

MR. CHAMPION: Mr. Mitchell, would you wait a minute, because I think we can straighten out a few things.

1 I understand your impatience in this situation, but I
2 think in part there is some allusion about the role of this Com-
3 mission in considering this matter. We are not concerned as be-
4 tween bidding oil companies. You are quite right when you said
5 our concern is the major return to the people of the State of
6 California.
7 It is possible that the Long Beach plan as presented
8 is the best plan. It is, however, our obligation to listen to
9 any other proposals, to consider any other proposals. There has
10 been no political approach to me, and I doubt there has been to
11 any other member of this Commission. We are not concerned with
12 a political football here; we are concerned with a maximum re-
13 turn to the people of the State of California.
14 Now, there are two relationships involved in this.
15 One is our relationship to the City of Long Beach as operator
16 and the other is our relationship in attempting to get a proper
17 working operation so that we, as major beneficiary of this
18 trust, have the proper control over what we are going to benefit
19 from; and the other major concern is one we have already stated,
20 that method of leasing which produces the maximum public return.
21 Now, I happen to agree with you on the one-unit plan.
22 Anything else I have seen, I am not sympathetic to. There might
23 be additional evidence that might persuade me. There are, how-
24 ever, many ways to operate the one-unit plan and they ought to
25 be considered -- again, to get the greatest possible return.
26 While we want to make haste -- we do want the money as soon as
27 possible -- in the end we wish the greatest return, not the
28 fastest return.
29 If you feel in some way we are not representing the
30 true interests of the people of the State, I'd appreciate
31 further comment from you.

MR. MITCHELL: You know, I read about the bidding on a contract of 20%, 30, 10, and so forth and so forth and the companies bidding on a net profit on each portion. Say Richfield wanted to bid 30% at 85%; I may bid 5% on 90%. Then I would be on Richfield's back because they are operating on 90% and I want to produce on my 85% plan. "If they caint toe the mark, they should get out." They don't belong. This business is tough; we go busted week after week. You never hear an oil man cry. This is the first time in my life I have heard major oil companies cry because they are in competition. I think it is an insult to the industry.

MR. CHAMPION: Anybody can say what they want before us, though we may not agree with them, as we have listened to you. My concern is that we be understood -- that we have the right to examine these alternatives which you say will not produce the greatest returns. We may agree. We have a competent staff to analyze this, and I think we should take whatever time we need to examine the alternatives. It may prove you are right, but we have the right to make sure you are right on independent evidence.

MR. MITCHELL: I object, Mr. Champion, that here you had it in September; it should have come up in December. Brown wanted to get it postponed until he was in office, until January. This fellow O'Sullivan had it wrapped up -- he knew it would be postponed; he went home. He knew there would be no competition. I can't fight invisible shadows. I will fight competition when I can see it face to face. I won't fight telephone calls.

MR. CHAMPION: You are not fighting telephone calls, but you are imputing motives -- and I don't think that is proper testimony before this Commission.

1 MR. MITCHELL: Last meeting they were fighting like
2 hell; this week they haven't said a word. They knew the meet-
3 ing was going to be postponed. This thing here - - I postponed
4 a Washington trip because I believed in this hearing. Mr.
5 Pauley isn't here -- he is a nice guy; Shell has a vice presi-
6 dent -- there aint a one of them here. Where the hell are they?
7 I am lost. When I saw O'Sullivan walk out at eleven o'clock,
8 I knew I was dead. I made my approach and I am sorry I offended
9 you gentlemen because what I want to say to you -- I don't be-
10 lieve that something as big as this couldn't be produced
11 immediately.
12 MR. CRANSTON: Mr. Mitchell, I think you will grant
13 that something as big as this, with as much money involved, with
14 as many pages in the contract, deserves and merits serious study
15 by the members of this Commission. We were only given the en-
16 tire documentation one month ago. The staff was unable to
17 bring anything in to us until one month ago, and I think you
18 should recognize that the three of us want to be sure of what
19 we are doing, so that we act properly.
20 At the meeting a month ago we had comments that there
21 were serious things wrong with this contract. No member of
22 this Commission and I believe no member of the Legislature has
23 taken a general position that he is opposed to this contract
24 publicly; I don't know if anyone has said it privately. We
25 have to be certain we are acting properly.
26 You spent much of your time talking about monopoly.
27 We have a letter from the Antitrust Division of the United
28 States Department of Justice in which they say how we may find
29 out whether this contract is subject to the antitrust laws and
30 offer a significant suggestion to make sure there is proper
31 distribution. These are things we cannot ignore.

MR. MITCHELL: But I say even before you had the hearing, he wanted to propose a bill for a two-year delay.

MR. CRANSTON: There is no bill for a two-year delay.

MR. MITCHELL: There was a discussion ....

MR. CHAMPION: I think your information is fragmentary.

MR. MITCHELL: I have a paper right here from Willows by this editor. It is disturbing to me because it is my industry. I have never been faced with this type of thing. They bid offshore parcels in Santa Barbara. I don't say "Give me one block of Pauley's block because I am small." No; I wish him luck -- I wish Shell luck. I wish....

MR. CRANSTON: Mr. Mitchell, the Lands Commission wishes to act as quickly as we can, but I think we should wish to be judged not by our speed, but by the soundness of our action.

MR. MITCHELL: I hope so. I am with you.

MR. CRANSTON: Is there anyone else who wishes to testify at this time? (No response) I presume there are others who will wish to meet on some of the problems with Mr. Hortig when the meeting we have discussed is set up, and you will all be hearing from him in that regard.

MR. HORTIG: Mr. Chairman, to complete the record today, and particularly with reference to the list of supporters and opponents of the proposed contract now before the Commission, we have previously received and did have at the time of the last meeting a telegram of support from Continental Eastern Corporation, which was not previously noted on your list.

MR. CRANSTON: At the next meeting of the Lands Commission this presumably will again be on the agenda and we will

reserve whatever time is necessary for its consideration, although I do not want to predict whether we will be able to act at that time.

MR. HORTIG: Mr. Chairman, finally, the Lieutenant Governor has asked that the record show explicitly that he has asked for complete evaluation and industry and Long Beach testimony at the appropriate time at the Commission's proceedings on the following factors:

The first factor concerns a provision of sell-off of 12½% of production which has been suggested. First, there should be a complete evaluation of the pricing bases for the production to be sold; and, secondly, optimum bases for contracts for this oil -- five years having been suggested.

The second factor to be considered is possible market control as it could develop from contracts under consideration.

The third factor concerns the advantages and disadvantages of unitization of Tract 2, the Alamitos Beach State Park, with Tract 1 now under consideration for development.

The fourth factor is evaluation of necessary specifications in any contract bid as to disclosure of production allocation between joint bidders, and the desirability of retention of control through approval for any future adjustments of such allocations.

MR. CRANSTON: If that completes this item on the agenda, we will now revert to the regular agenda.

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