TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA
May 23, 1963

****

PARTICIPANTS:

THE COMMISSION

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

Mr. F. J. Hortig, Executive Officer
Mr. Alan Sieroty, Executive Secretary to Lieutenant Governor Anderson

OFFICE OF THE ATTORNEY GENERAL

Mr. Jay L. Shavelson, Deputy Attorney General

APPEARANCES:

(In the order of their appearance)

Mr. Gerald Desmond, City Attorney
City of Long Beach

Mr. R. G. Smith, President, Natomas Company
on behalf of their subsidiary,
Western Geothermal Corporation

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1 MR. CRANSTON: The meeting will please come to
2 order. First item is confirmation of minutes of meeting of
3 February 28, 1963.
4 GOV. ANDERSON: So move.
5 MR. CHAMPION: Second.
6 MR. CRANSTON: The minutes are approved unanimously.
7 In view of the fairly large number of people here interested
8 in Item 15, if there is no objection we will take that up
9 first.
10 Item 15 is Informative Status Report on Long Beach
11 Unit, Wilmington Oil Field. Frank?
12 MR. HORTIG: Mr. Chairman, the Commission has
13 received requests that these letters be read into the record --
14 four letters, specifically: Two from Richfield Oil Corporation
15 dated May 2 and 7, respectively; one from Pauley Petroleum
16 dated May 9; and one from Jade Oil and Gas, dated May 10.
17 What is the pleasure of the Commission? Shall
18 these be read verbatim at this time? Or, as established as
19 a precedent, possibly, at the last meeting, they might be
20 considered for introduction into the record without the
21 necessity of reading them verbatim.
22 MR. CHAMPION: I move we enter them without reading
23 them verbatim.
24 GOV. ANDERSON: Second.
25 MR. CRANSTON: The motion is made, seconded and so
26 ordered. The letters have been received by members of the

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Commission and have or will be read by them.

(Letters referred to are reproduced below):

All letters are in reference to LONG BEACH UNIT, WILMINGTON OIL FIELD.

Addressed to Honorable Alan Cranston, dated May 2, 1963, from Richfield Oil Corporation:

" Richfield Oil Corporation holds oil and gas leases covering approximately 1024 acres of land in the Townlot Area lying within the 'Participating Area' of the proposed Long Beach Unit of the Wilmington Oil Field. This constitutes a little over 53% of the participating Townlot Area. We write this letter in our capacity as the holder of the working interests in such oil and gas leases in the Townlot Area.

We have just received a copy of the transcript of the 'Public Review of Proposed Field Contractor Agreement' conducted by Mr. Frank Hortig, Executive Officer of the Commission, on April 15, 1963 in connection with the Commission's consideration of the subject Unit, and have noted an argument made by Mr. D. E. Clark, representing Shell Oil Company, which is reported from pages 52 to 64 inclusive of the transcript.

As we understand Mr. Clark's argument, it may be summarized as follows:

(a) Ordinances of the City of Long Beach forbid the drilling of oil and gas wells from surface locations in the Townlot area of the proposed Unit;

(b) the development of the Townlot Area will result in a net profit, after royalties to the landowners, of $120,000,000;

(c) such profit cannot be realized unless drillsites are made available to the Townlot Area from the offshore drilling islands provided for in the enabling ordinance;

(d) therefore the City should charge the working interests in the Townlot Area the amount of the profit to be realized by them as a 'drillsite royalty' for use of the drilling islands;

(e) otherwise, holders of the Townlot Area working interests will have an advantage in bidding for the Offshore Area Field Contractor Agreement measured by the profits to be realized by them from the Townlot Area.

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" The foregoing argument is specious, but it is invalid for many reasons, and falls of its own weight when only two basic considerations are taken into account.

The first such consideration is that the Offshore Area cannot be developed for oil and gas unless the Townlot Area is also developed concurrently therewith without incurring danger of subsidence in the downtown business section of Long Beach; and this fact constitutes abundant consideration moving from the Townlot Area to the Offshore Area for drillsites.

The second such consideration follows from the first. It is that the Townlot Area will be developed regardless of who is the successful bidder for the Field Contractor Agreement, and if there is a profit to be made from such development the holders of the working interests will make such profit, whether or not they are parties to the Offshore Agreement. It is illogical to assume that the holders of the working interests in the Townlot Area will bid more for the Offshore Field Contractor Agreement because of profits they anticipate from development of the Townlot Area, because they would thereby forego or dilute such Townlot Area profit. In any case, they would still have no advantage over competitors in bidding for the Field Contractor Agreement because such competitors could likewise bid more because of profits they anticipate from oil development in some other oil field. What is the difference between A being willing to forego some portion of its profits from the development of the Townlot Area in order to bid more than it otherwise would for the Offshore Area, and B being willing to forego some portion of its profits from development in the Mideast in order to bid more than it otherwise would for the Offshore Area? It is entirely unlikely that either A or B would be foolish enough to treat anticipated profits from oil development as 'money in the bank,' but if such an assumption is to be made at all it should be applied equally to A and to B.

The two basic considerations referred to above stem from the Initiative Ordinance adopted by the people of Long Beach at an election held on February 27, 1962. Section 1 of that Ordinance reads as follows:

Section 1. It is hereby found and determined:

(a) That it would be in the best interests of the City of Long Beach and the State of California to authorize and approve the institution of a plan for the controlled exploration and exploitation of the oil and gas reserves underlying the presently undeveloped portion

"of the tide and submerged land areas heretofore granted to the City by the State of California, and located easterly of and outside the Harbor District of the City, as said district boundaries are defined as of the effective date of this ordinance. Said presently undeveloped portion of tide and submerged lands (which shall not be deemed to include any of the tide and submerged lands committed to the Richfield Oil Corporation Parcel 'A' Drilling and Operating Contract and presently under development from the Harbor District) shall, for convenience, be sometimes hereinafter referred to as the 'Offshore Area'.

(b) That the results of detailed engineering reports and the interpretations of geologic and seismic data indicate that undeveloped oil and gas reserves in economically recoverable quantities underlie certain portions of the publicly and privately owned upland properties located easterly of Pine Avenue in this City, and adjacent to and northerly of the Offshore Area. Said upland properties shall, for convenience, be sometimes hereinafter collectively referred to as the 'Townlot Area'.

(c) That the said Offshore Area and Townlot Area are included within the geographic boundaries of a Subsidence Area, as heretofore fixed and established by the State Oil and Gas Supervisor pursuant to the provisions of Section 3336 of the Public Resources Code of the State of California. (emphasis supplied)

(d) That the results of studies by qualified engineers which have been conducted in certain segments of said Subsidence Area, and the demonstrated beneficial effects derived as a consequence of putting the recommendations so made into operation, indicate that the only feasible method that can be expected to prevent or arrest subsidence in such an area is by repressuring the subsurface oil and gas formations thereunder; and that such repressuring operations, in addition thereto, should increase the amount of oil ultimately recoverable from the formations underlying such area and protect the oil or gas in such lands from unreasonable waste.

(e) That unit or cooperative development and operation of the pool or pools (as hereinafter defined) underlying the said Offshore Area and Townlot Area is necessary in order to prevent and insure against the occurrence of subsidence. (emphasis supplied) 'Pool' shall mean an underground reservoir containing or appearing at the time of determination to contain, a common accumulation of crude petroleum oil or natural

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"gas or both. Each zone of a general structure which is separated from any other zone in the structure is a separate pool.

By the foregoing section of the Ordinance the people of Long Beach have determined that the Offshore Area and the Townlot Area shall be developed concurrently, because both are included within the geographic boundaries of a 'subsidence area,' as established by the State Oil and Gas Supervisor pursuant to the provisions of Section 3336 of the Public Resources Code; that 'the only feasible method that can be expected to prevent or arrest subsidence in such an area' (i.e. the Subsidence Area above referred to) 'is by repressuring the subsurface oil and gas formations thereunder; and that such repressuring operations, in addition thereto, should increase the amount of oil ultimately recoverable from the formations underlying such area and protect the oil or gas in such lands from unreasonable waste'; and 'that unit or cooperative development and operation of the pool or pools (as hereinafter defined) underlying the said Offshore Area and Townlot Area is necessary in order to prevent and insure against the occurrence of subsidence.'

Such determinations made by the people of Long Beach in the Ordinance were based upon sound grounds. If the Townlot Area is not developed in a unit with the Offshore Area many technical problems will be created for the Offshore Field Contractor and for the City of Long Beach and the State of California. Subsidence control would be uncertain; the recovery of oil would be reduced; and operating costs would be increased.

The Ranger Zone and all productive zones underlying the entire undeveloped area are continuous inter-connected reservoirs and are pressure-connected throughout except for possible faulting. Any pressure barrier faults that exist trend north-south and would not separate the Offshore Area from the Townlot Area. This geologic fact is demonstrated throughout the Wilmington Field and nearby in the Fault Block VI Area, including Richfield's Offshore Parcel 'A' and the area developed by Producing Properties, Inc. onshore adjacent on the west to the Townlot Area.

It is beyond question that the reservoir pressure underlying the Townlot Area should be maintained because of the danger of subsidence. The only possible alternative to the development and repressuring of the Townlot Area would consist of drilling a series of water injection wells designed to create a 'water curtain' between

"the two areas. If such an alternative is physically feasible at all (and there is some doubt about this), the injection wells would have to be drilled principally from the offshore drilling islands and would approach the line separating the Offshore and Townlot Areas at right angles or high angles and create a wide and hence inefficient 'water curtain.' To avoid ultimately moving water to the Townlot Area, it would be necessary to drill the injection wells some distance south of the separating line and the City and State would sacrifice recovery of an enormous amount of oil from the portion of the reservoir lying between the injection wells and the separating line.

The problem of creating and maintaining a 'water curtain' that would permanently separate the Offshore and Townlot Areas and enable reservoir pressures in both areas to be maintained would be extremely complex. For example, reservoir pressure in the aquifer lying north of the Ranger Zone productive limits of the Townlot Area is below original pressure because of withdrawals of oil, gas and water from the Signal Hill Oil Field, the Monterey State Lease, and from other parts of the Wilmington Oil Field. Thus, if a 'water curtain' were to be maintained at original pressure between the Offshore and Townlot Areas, inevitably oil would be pushed from the productive Townlot Area north across the water table into the lower pressure aquifer and it would be necessary to inject still more water into the water curtain, further expanding it. To prevent this, it might be necessary for the City to drill an additional set of water injection wells into the aquifer north of the productive Townlot Area and to attempt to maintain reservoir pressure in the Townlot Area and the Townlot oil in position by balanced injection on either side of the Townlot Area. To say the least, this would be difficult.

It is certain that by arbitrarily placing an otherwise unnecessary 'water curtain' across the Ranger reservoir the over-all effectiveness of the water injection program in the Offshore Area would be reduced and less oil would be recovered. The maintenance of the 'water curtain' would be an over-riding and continuing factor to consider in all planning, both for production and injection.

Costs would be increased because the same number of drilling islands and the same facilities (with possible minor exceptions) would be required for the Offshore operation as would be required for the combined Off-shore Townlot unit operation. If the Townlot Area

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"does not participate then all capital expenditures and costs would be borne by the Offshore Area, and the amount of such excess costs and expenditures would be equivalent to the portion thereof which would be borne by the Townlot Area if it participated, but without any additional benefit to the Offshore Area.

It is clear from the foregoing that the use of the offshore drilling islands is not a gift to the Townlot Area. Furthermore the suggestion by Shell that a charge be made to the Townlot Area for drillsites is entirely inconsistent with sound unit operation theory and practice. It is paradoxical to contend that under a plan of unit operation, some participants in the unit plan should pay drillsite rentals or should pay for any sort of 'pass-through rights.' It is of course implicit in a unit plan that all participants share in proportion to their interests in every barrel of oil produced from every well located in the unit area and in all expenses. Drillsites and wells in a unit plan belong to all participants and are operated for their mutual benefit in the development of the unit area as a whole. This was expressly recognized in the Initiative Ordinance of February 27, 1962. Section 3 thereof provides as follows:

Sec. 3. Subject to the conditions, limitations and restrictions hereinafter in Section 4 provided, the necessary number of offshore islands, in no event to exceed four, are hereby authorized to be located and constructed within the geographic boundaries of the said Offshore Area, as above described in Section 2 hereof, and to be utilized as surface drillsite areas for the exploration and exploitation of the oil and gas reserves <u>underlying said undeveloped Offshore Area and the adjacent Townlot Area</u>. (emphasis supplied)

While the Ordinance makes the drilling islands available for wells to be bottomed under the Townlot Area, it also provides in Section 4 that the northerly boundary of said islands shall not be closer than 2,000 feet measured from the center line of Ocean Boulevard.

The result of this provision is that wells to be bottomed under the Townlot Area must be directionally drilled at much higher angles and for much longer distances, on the average, than wells to be bottomed under the Offshore Area. The proposed Long Beach Unit contains a formula (which in unit agreements is called the 'equity formula') for allocating oil and allocating costs to three major areas, namely; (a) the Offshore

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"Area, except Tract No. 2; (b) Tract No. 2, which is the Alamitos State Park owned by the State of California; and (c) the Townlot Area; and for similar allocations between tracts in the Townlot Area.

In most cases, an oil field is not unitized until after it has been developed, and costs of drilling are not included as a factor in an equity formula. But, since the proposed Long Beach Unit is to be formed prior to development, drilling costs are included as a factor in the equity formula. The operation of this factor in the equity formula, as applied to wells bottomed under the Townlot Area, has the same effect as though the owners of such wells were required to pay drillsite rentals because of the penalties incurred due to the greater costs of drilling w[illegible] involving higher angles and greater footage. The net effect of including drilling costs in the equity formula at the proposed Long Beach Unit is to reduce the value of the total acre feet of oil sand in the Townlot Area by 17% when compared with the acre feet of oil sand in the Offshore Area. This constitutes a substantial penalty to the Townlot Area in favor of the Offshore Area and is more than equivalent to what drillsite rentals would amount to, if this were a proper case (which it is not) for charging drillsite rentals. If any greater penalty were imposed, the northern one-third of the Townlot Area would be rendered uneconomic and the value of the remaining two-thirds would be materially reduced.

The Townlot Area owners (except the City with respect to its Townlot Area property) unanimously protested against inclusion of drilling costs in the Equity Formula, but finally acquiesced when they became convinced that there was no possibility of reaching early agreement with the City on a form of unit without making this concession. We have never withdrawn, and do not now withdraw, opposition to this 17% penalty, but, nevertheless, we have stated that we are willing to sign the Unit documents in their present form.

The working interests owners in the Townlot Area will share a still further penalty for the use of the offshore drilling islands in that they will pay their pro rata share of the cost of the islands but will acquire no ownership therein. 'Unit Expense' as defined in Section 1.41 of the Unit Agreement includes all costs and expenses in connection with the 'planning, constructing, reconstructing, erecting, equipping, operating, maintaining, repairing or enlarging Offshore Islands for Unit Operations whether incurred before or

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1 ""after the effective date of this agreement,' whereas
'Unit Facilities' as defined in Section 1.42 specifically
2 excepts the Offshore Islands.

3 Your attention is also directed to the fact that
under the proposed Unit documents the Townlot Area work-
4 ing interests have yielded complete control over the
rate of development and the rate of production and over
5 the repressuring program to the City in order that fears
of subsidence may be allayed. This constitutes addi-
6 tional consideration moving to the City and State from
the Townlot Area owners for the drilling of wells from
7 the offshore islands to be bottomed under the Townlot
Area.

8

In summary, and without reference to the serious
9 question as to whether the City has the legal power to
develop the Offshore Area without including the Townlot
10 Area in a unit, we respectfully submit that there is no
competitive advantage in the position of the Townlot
11 Area working interests in bidding for the Field Contrac-
tor Agreement, and in view of the substantial contribu-
12 tions required of them under the terms of the Ordinance
and of the Unit documents, there is no justification
13 whatsoever for a drillsite or 'pass-through' charge.

14 We will appreciate it if this letter is incorporated
in the record at the next meeting of the Commission.

15

Yours very truly,
16 RICHFIELD OIL CORPORATION
By /s/ R. W. Ragland, Vice President"

17

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18 Letter addressed to Honorable Alan Cranston, dated
19 May 7, 1963, from Richfield Oil Corporation:

20 " Just prior to the conclusion of the 'Public Review'
21 of the documents which would constitute the subject Unit,
conducted by Mr. Frank Hortig, Executive Officer of the
22 Commission, on April 22, 1963, Mr. Alan Sieroty, repre-
senting Lt. Gov. Anderson made the following statement:

23

'I think it should be on the record here that the
24 State Lands Commission is concerned greatly, if not
primarily, with the correction and prevention of
25 subsidence. And I think we are very much interested
in what effect this contract might have on subsid-
26 ence. And particularly it has been alleged that

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" 'dividing up Tract 1 into undivided interests would create a subsidence problem. This is perhaps one of the foremost policy questions before the Commission at this time. I think we ought to have a little more definite information on this.'

One of the many difficulties with the concept of offering for bid undivided interests in the Field Contractor Agreement is that it deprives, but at the same time relieves, the Field Contractor of the full measure of responsibility which it should have in connection with the prevention of subsidence. This is illustrated by the following example:

Suppose the Field Contractor has only an undivided 65% interest in the Field Contractor Agreement and there are several smaller interests making up the remaining 35%. Each of the smaller interests would, of course, have the obligation to put up his pro rata share of the expenses of the repressuring operations. Then suppose that one of the smaller interests defaults in such obligation. Who is going to put up the money for the defaulting party's share of the repressuring expenses? The Field Contractor cannot reasonably be expected to do so, particularly because the defaulting party's participation in the Field Contractor Agreement was due to the method of bidding and not to the Field Contractor's selection or agreement. Neither the City nor the State would have funds which it is authorized to use for assuming the obligations of the defaulting party. The City could not use tideland funds, and surely would not desire to use general funds obtained from taxation. Nor has the State authority under present law for such an expenditure.

Yet the repressuring operations must not be interrupted. Once a pattern water flood of the kind that will be necessary for repressuring this oil field has been started irreparable harm will be done to the reservoir and to the pressure system if it is discontinued for even a short period of time. In ordinary situations, a defaulting party is given some reasonable period of time to cure a default, but in the case under discussion there is no such thing as a reasonable length of time to permit a default to continue.

Nor would a performance bond constitute an adequate solution to the problem, because someone has to put up the defaulting party's share of the money pending settlement of a claim under the bond.

" The waterflood program for the Long Beach Unit will consist of two carefully planned and integrated phases, the development plan and the water injection plan. They will be designed to accomplish two basic objectives: (1) to maintain pressure in all productive reservoirs to prevent subsidence, and (2) to produce the daily quantity of oil deemed to be desirable by the City in the most efficient manner. Spacing of water injection and producing wells and rates of water injection and oil production will be determined in the plans.

Operators conducting waterflood operations are almost always reluctant to reduce injection rates because they have learned from experience in so doing that production rates and ultimate recovery can be substantially reduced. This is so since most reservoirs consist of layers (or subzones) varying in permeability, oil and water saturation, and other characteristics. The Long Beach Unit waterflood, as in the case of all engineered floods, will be designed to flood each of the many subzones at Wilmington with maximum efficiency by controlled movement of the waterfront to properly flood all parts of the reservoir. The Ranger Zone is by far the largest producing zone in the Unit area and will therefore present most of the flooding problems. It will be on a pattern basis while the other zones will be flooded peripherally. A reduction in water injection rates, particularly in a pattern flood, would damage the designed uniformity of water movement, and thereby reduce pressure control and increase the danger of subsidence. Ultimate recovery would also be lessened. Failure to drill required water injection wells and install required water injection facilities at the proper time would be an additional factor that could make it difficult to maintain pressure throughout each separate reservoir.

The plan originally agreed upon and placed in operation will be varied during the life of the flood but only after careful studies based on detailed reservoir analyses which demonstrate that the plan should be varied to improve subsidence control or ultimate recovery. Experience has demonstrated that most changes in injection plans are to increase the water injection rate, resulting in increased costs. Certainly, unplanned changes made on short notice because of the default of a participant could only increase the danger of subsidence.

The proposed Field Contractor Agreement points the way to a sound solution of the problem, and one which protects the State and City against default. Section

"34 of the Agreement provides:

> 'If Field Contractor shall at any time consist of more than one Person all reference to Field Contractor in this agreement shall be deemed to refer to each and every of such Persons and each of such Persons shall be jointly and severally obligated to perform all the obligations of Field Contractor under this agreement except as hereinafter in this section otherwise provided. Each Person comprising the Field Contractor may perform hereunder, any or all of the obligations of the Field Contractor in behalf of all Persons comprising such Field Contractor.'

It has been a common practice in California and in other parts of the United States to form bidding groups. The companies constituting the bidding group make a written agreement in advance of the bidding, establishing the interests of each party in the bid and fixing the rights and obligations of each party in case the bid is successful. In the case of the proposed Field Contractor Agreement, such an agreement would contain provisions adequately protecting non-defaulting parties against the consequences of a default by any of the parties not fulfilling its share of the obligations under the Field Contractor Agreement. Provision would be made for the parties not in default to take over a defaulting party's share of all the latter's rights and obligations under the Field Contractor Agreement in case of failure to meet its financial obligations or to take delivery of its share of the oil. Thus, not only non-defaulting parties to the Field Contractor Agreement, but also the State and the City would be protected against the consequences of any default.

It goes without saying that any such agreement between the parties constituting a bidding group must be made prior to the bidding. That would be impossible, of course, in the instant case, if the Field Contractor Agreement should be offered for bid in undivided interests. No bidder would even know who its associates would be in carrying out the obligations of the Field Contractor Agreement.

Oil companies of the calibre qualified to do the best job under the proposed Field Contractor Agreement will want to know <u>in advance</u> who their associates in the undertaking will be. In their group agreement they will designate one of the companies to perform all of the obligations of the Field Contractor on behalf of the entire group. The company so selected must have <u>in being</u>

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"a large, experienced organization capable of developing and producing from 150,000 to 200,000 barrels of oil per day, and having the 'know how' to perform all of the repressuring techniques and operations involved. No one can go out and acquire such an organization. It would have to now exist.

This is recognized in the proposed Field Contractor Agreement. While the City Ordinance of February 27,1962 and the proposed Field Contractor Agreement and the proposed Unit Operating Agreement all give the City the right of control over development and production and repressuring programs, and while the City is designated as Unit Operator under the proposed Unit Operating Agreement, nevertheless the proposed Field Contractor Agreement also provides in Section 9 thereof that: 'Field Contractor shall perform all Unit operations which are the responsibility of the City as Unit Operator which the City Manager requests Field Contractor to so perform.'

The most efficient method of operation would be for the company designated (in the agreement between the parties constituting the bidding group) to carry out the duties of the Field Contractor to develop a repressuring program, after consultation with its associates in the group, and to present his program to the State and the City for analysis and approval. However, if there are a number of undivided interests, each of them, undoubtedly, would desire to participate in the development of the program. If differences of opinion arose between the different undivided interests (and such differences undoubtedly would arise because net profit is involved) it would be necessary for the State and the City to settle such differences and for that purpose to create and maintain large technical staffs. The over-all result would be endless debates, delays which might be critical, greatly increased costs, and general loss in efficiency. It would be far better for the State and the City to deal with one responsible organization if they are going to exercise the highest degree of care in avoiding the dangers of subsidence. A company which would otherwise desire to bid or join a group in bidding for the Field Contractor Agreement may well hesitate to undertake the vast responsibility of avoiding the danger of subsidence without knowing in advance who its associates would be in carrying out the agreement.

It will be appreciated if you will have this letter read into the record at the next meeting of the Commission.

Respectfully submitted,
RICHFIELD OIL CORPORATION
By /s/ R. W. Ragland, Vice President"

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Letter addressed to State Lands Commission, attention of Mr. F. J. Hortig, Executive Officer, from Pauley Petroleum Inc., dated May 9, 1963:

"On March 28, 1963 the City of Long Beach filed a rebuttal to certain of my remarks made at the February meeting of the State Lands Commission. Said document commences at Line 10, Page 63, of the transcript of the State Lands Commission Hearing of March 28, 1963: 'Subject: Comments by City of Long Beach relative to the statement of Mr. L. E. Scott, Pauley Petroleum Inc. to the State Lands Commission Meeting 2-28-63.'

"At the April 22 hearing by the Staff of the State Lands Commission, there was a letter from Mr. Johnny Mitchell, President of Jade Oil Company, made a part of the record which appears at Pages 63 and 64 of said transcript and reads in part, as follows:

'The proponents, THROUGH THE CITY OF LONG BEACH,* made a splendid documented report, answering each of Pauley's opposing remarks. .....'

*Capitalization added

"If Mr. Mitchell's statement is correct, it is requested that the statement by Long Beach be modified to set forth the names, addresses, and identity of the other proponents whom the City of Long Beach was representing in order that everyone knows who they are in the event there are future proceedings. No one should object to the correction of such an obvious oversight.

"It is requested that this letter be read into the records of the May meeting of the State Lands Commission.

Yours very truly,
/s/ L. E. Scott "

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Letter addressed to Alan Cranston, Chairman, State Lands Commission, from Jade Oil & Gas Co., dated Houston, Texas, May 10, 1963:

" It would be appreciated if you would have this letter read into the record of your next meeting on the proposed Long Beach Oil Development program, or forward

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"it at once to the Senate Committee or any committee now actively meeting with regard to the Field Contractor's Agreement or the Unit Operating Agreement of this program. It is my desire that this letter become a matter of record along with my letters of March 6, 1963, March 27, 1963, and April 2, 1963, all directed to the State Lands Commission, and my letter of March 29, 1963, to Governor Edmund G. Brown.

Since my letter to Governor Brown of March 29, 1963, two additional hearings have been held by the Commission. At both of these meetings the utter disregard for practical, intelligent industry practices was shown in the arguments presented by Pauley Petroleum, Shell and Texaco. In the interest of the State of California, the City of Long Beach, and the taxpayers who will benefit from the revenues of this large oil reserve, I must write this letter and object to the present actions of the Senate Watchdog Committee headed by Senator Virgil O'Sullivan of Glenn County, California.

To reiterate to you and Senator O'Sullivan, the Unit Operating Agreement was drafted and agreed upon only after months of careful and deliberate study. In the course of completing the Unit Operating Agreement, each meeting was conducted with the onshore lease operators, the City of Long Beach's legal and engineering staff and a State representative present. The Field Contractors agreement was as carefully drafted by the City of Long Beach and the State of California as the Unit Agreement and the Unit Operating Agreement. It must be emphasized that both of these agreements were written with great consideration, primarily to protect the City of Long Beach and then to benefit the State of California. These agreements permitted arms-length relations for the bidding oil companies. Remember, these contracts are for a 35-year operation of oil and gas and should first protect the City of Long Beach, then benefit the State of California as well as the successful bidding combine of the Field Contractors Agreement.

Senator O'Sullivan's committee has assumed the responsibility to review the existing Field Contractors Agreement and the Unit Operating Agreement. I find it quite strange and quite unusual that instead of engaging a legal firm which has substantial experience in oil and gas contract agreements, Senator O'Sullivan's committee has instead engaged the services of Mr. Oscar Chapman and Mr. Milton Friedman. I seriously question the ability of any practicing law firm, regardless of reputation or integrity, to interpret the terms of the Unit Agreement or the Field Contractors Agreement unless they are highly

"experienced oil and gas attorneys, experienced in agreements of such magnitude.

The Unit Operators Agreement and the Field Contractors Agreement are of such great importance to the State of California that only the best qualified oil and gas law firm should be invited to review and approve the terms of these contracts.

I do not have to tell you, the Commissioners or the Governor, that Mr. Chapman is the former Secretary of the Interior under President Truman. Also, at that particular time Mr. Ed Pauley was a dominant figure in the Democratic Party. According to my understanding, Mr. Oscar Chapman and Mr. Milton Friedman are members of the same law firm, specializing in matters other than oil and gas. It seems odd that Mr. Chapman and Mr. Friedman would be called in to review the dispute between Pauley Petroleum, Shell and Texaco vs. the City of Long Beach. Under these circumstances and conditions, it would appear to me that Mr. Chapman and his firm should disqualify themselves from this matter due to Mr. Chapman's prior position in the Democratic Party and apparent friendship and connection with Mr. Pauley, one of the participants in these hearings.

In all of the meetings before the State Lands Commission, the most important item has been completely ignored by Shell, Pauley Petroleum and Texaco. The City of Long Beach and its metropolitan population are the only potential losers in the drilling for oil and gas in the East Wilmington Extension. The Senate and the State Lands Commission know that this fine city suffered a great catastrophe when subsidence occurred due to unregulated production of oil and gas and a lack of preplanned administrative control to prevent such subsidence. It is estimated that aside from the ugly, irrepairable physical damage to this beautiful city, additional material damage amounting to over $90 million was suffered. During all of the Commission meetings that I attended, Pauley Petroleum, Shell and Texaco had the audacity to criticize the City of Long Beach's contract as if this city had no authority to chart its own protection from subsidence and decide the terms it demanded from the bidding companies in order for the successful bidder to be able to produce oil and gas in the East Wilmington Unit and still protect the surface features of the city.

The city voters once before experienced the actual damages of subsidence and, even after such a crucial experience, decided by a city election to permit this East Wilmington Field to be developed. In this election, they voted and approved certain requirements that they felt

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"necessary for the protection of the future of their great metropolitan city.

We onshore lease owners (Jade, Standard, Richfield, Signal, Union, Superior, Continental, Eastern and Reverend Brower and his Land Owners Association) reviewed the stringent terms of the Long Beach contract and as prudent operators we accepted these requirements, acknowledging a sense of responsibility to the City of Long Beach. I regret that I am unable to say the same about Shell, Pauley Petroleum and Texaco, who, in their testimony, have continued to tear down the protective provisions that were included in the contract to protect this city from inefficient operations. If certain provisions of the contracts are altered, subsidence is possible.

I want to impress in this letter and underscore the requirements on the part of the people of Long Beach. The City, in passing this ordinance, voted in favor of a one unit operator and voted that the City of Long Beach supervise this operation. There were other vital issues voted by the citizens of Long Beach. Anything less than compliance with the voters approval of these issues could prove a future responsibility of the present State Lands Commission and equally so of O'Sullivan's Senate Watchdog Committee. Playing politics on such vital issues makes it possible for the future protection and growth of one of California's great metropolitan cities to be seriously impaired by the State Lands Commissioners' decisions today. The same responsibility could be placed on Senator O'Sullivan's Committee and the Governor's decision. This matter concerns more than just who gets the oil.

You and your Commissioners are dedicated to uphold the mandates of the City of Long Beach.

Senator O'Sullivan is a representative of Glenn County and a defender of the rights of the people in his district. I am sure he is enough of a statesman to recognize and respect the rights of the people of Long Beach.

I personally believe that the revenue to be derived from this oil field by the State, the willingness on the part of the people of Long Beach to accept possible damages and physical losses, should relieve the claims of Pauley Petroleum, Shell and Texaco that the City of Long Beach is not entitled to write their protective contract. To be truthful, Long Beach's share of the oil will be a minor compensation because this city will be under constant hazards of drilling, production, blowouts, cave-ins

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"and possible subsidence during the next 35 years. This validates the necessary provision of the Field Contractors Agreements (and the side agreement between the City of Long Beach and the State of California covering review and approval by the State), that the City and State must have full control over the operation in order to minimize such hazards.

By now you are aware that I and my company are grass root oil men who have fought for their rights and survival in rugged, two-fisted tradition. However, this is my first experience with mixing politics and the oil business. Especially against a competitor such as Mr. Pauley, with his record of long, devoted service and contribution to the Democratic Party. Coming from the ranks of true independent oil men who always fight for their rights, we intend to fight for the future of our small company and for its future security against any political odds.

It is hoped that your Commission, Senator O'Sullivan and the Senate Committee are aware that the future protection of the City of Long Beach, the welfare of the State of California and the taxpayers' future compensation in the Long Beach unit is much more valuable to your state than any political consideration that may be involved.

It is not apparent that Senator O'Sullivan recognizes the magnitude of the Long Beach oil field and his responsibility to the State, as well as to the City of Long Beach. This issue is the City of Long Beach's risk and the State of California's gain and should not be allowed to become a political football.

The State Lands Commission and Senator O'Sullivan's Committee have been advised by Mr. Pauley that he wishes a delay on the decision of the State Lands Commission on the Field Contractors Agreement. For this reason I will predict the decision of the legal firm engaged by Senator O'Sullivan's Watchdog Committee. I predict that Mr. Chapman and Mr. Friedman will recommend a delay and further study. Naturally, Senator O'Sullivan's Committee will accept this recommendation and ask for a delay. I further predict that the Governor will urge you to delay your decision and, finally, that your Commission will agree to such a delay and further study. There is no reason for a delay, except that Mr. Pauley wishes it.

If such a decision is rendered, as I have predicted, it will definitely prove my point that politics play a

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