

1 " Concurrently, participating private interests supplied
2 the Subcommittee with their comments, with the result stated
3 in the 'Progress Report,' ...that the material being accu-
4 mulated, which represents the combined efforts of all of
5 those (parenthetical correction of a typographical error --
6 the next word should be "vitally" instead of "mutually"
7 concerned), will serve as a valuable reference to those who
8 are charged with redrafting the documents, if such is found
9 to be necessary, and to the State Lands Commission in arriv-
10 ing at its ultimate decision.'

11 After complete review of all elements appropriate for
12 consideration, including the foregoing, it is suggested
13 that the Commission consider directing the Division, in con-
14 junction with the City of Long Beach and representatives of
15 the petroleum industry, to redraft the contractual documents
16 as necessary, for elimination of any ambiguities and con-
17 flicts, and to include the following principal factors:

18 1. Tract No. 1 to be offered in undivided interests in
19 the proportions of 45%, 25%, 15%, 10%, and 5%. The success-
20 ful bidder for the 45% interest to be designated as the
21 Field Contractor to assume all obligations of developing
22 and producing the field, and to be the sole beneficiary of
23 the 'Administrative Overhead Allowance' (currently proposed
24 at 3%). The 45% interest to be offered for the considera-
25 tion of a fixed cash bonus in the amount of \$20,000,000,
26 with the biddable element to be the percentage of the net
27 operating profits offered. The remaining undivided inter-
28 ests (25%, 15%, 10%, and 5%) to be offered for the considera-
29 tion of a fixed percentage of the net profit equal to the
30 net profit bid on the 45% interest, plus payment of a cash
31 bonus as the biddable element. (Each undivided interest
holder to assume his pro rata share of the development and
production costs, determined by the undivided interest
percentage held.)

2. A reservation of the right to elect to take 12½% of
production in kind, in favor of the City and State, as to
all of Tract No. 1. This reservation could constitute the
supply for 'sell-off' to small refineries as crude supplies
might be required in fact.

3. An option to the City and State to elect to take up
to an additional 12½% of the production in kind from all
of Tract No. 1 at the approximate time when the development
has reached peak production. Election of this option would
be dependent upon the basic public interest requirements as
determined by the City and State, particularly in consider-
ation of the distribution of the undivided interests, which
were offered separately for bid.

4. Establishment of a minimum guaranteed operating
profit to the City and State by specification of a percent-
age return of the gross value of production.

A schedule for bid offering is suggested as follows:

1. Offer the 45% undivided interest.
2. Close bids for the 25% interest fifteen days after receipt of bids for the 45% interest.

1 " 3. Offer the remaining interests in the order of dimin-
2 ishing percentage at ten-day intervals.

3 4. Withhold award of contracts until bids for all un-
4 divided interests have been received and evaluated."

5 MR. HORTIG:(continuing) With reference to the sub-
6 ject matter before the Commission, we have received under date
7 of May 30, 1963, a letter from Jade Oil & Gas Co. which, inas-
8 much as it was prepared prior to the agenda item before you, as
9 well as the subsequent considerations and special reports by the
10 Senate Committee, is offered for inclusion in the record, if the
11 Commission so desires.

12 MR. CRANSTON: Certainly.

13 FOLLOWING IS THE LETTER FROM JADE OIL & GAS CO. above
14 referred to: (Addressed to Alan Cranston, Chairman, State Lands
15 Commission, dated May 30, 1963)

16 "Dear Mr. Chairman:

17 It would be appreciated if you would have this letter
18 read into the records of your next meeting on the proposed
19 Long Beach Oil Development Program with regard to the
20 Field Contractors Agreement and/or the Unit Operating Agree-
21 ment of this program. It is my desire that this letter be-
22 come a matter of record along with my letters of March 6,
23 1963, March 27, 1963, April 2, 1963 and May 10, 1963, all
24 directed to the State Lands Commission, and my letter to
25 Governor Edmund G. Brown of March 29, 1963.

26 The recommendations filed by Oscar Chapman May 22, 1963
27 before the Senate subcommittee investigating the Long Beach
28 Oil Development Program were almost identical to the state-
29 ments filed by Pauley Petroleum Company and Shell Oil Com-
30 pany in previous State Lands Commission hearings. In these
31 previous hearings, Jade Oil & Gas Co. answered all the con-
32 tentions of Chapman and Pauley in my letters of March 6 and
33 March 27, refuting their allegations.

34 In engaging the services of Oscar Chapman, I seriously
35 doubt that Senator O'Sullivan had ever previously considered
36 the gentleman from Washington as a logical consultant in
37 this matter. So, it is reasonable to assume that Ed Pauley
38 was responsible for the hiring of Mr. Chapman. Certainly
39 Senator O'Sullivan, a relatively new Senator, having held
40 office only a few years, could not be expected to assume
41 the responsibility of spending \$35,000.00 of the State's
42 money to hire outside counsel to review the Field Contrac-
43 tors Agreement and other agreements without the consent of
44 Governor Brown. It is inconceivable that Governor Brown
45 would permit this serious undertaking. The people of

1 "California must place the responsibility for the engage-
2 ment of Chapman's services on Governor Brown and Ed Pauley.
3 Again we ask, is Chapman qualified to review these con-
4 tracts and render a fair and impartial recommendation? In
5 my letter of May 10, 1963, I said no. In this letter I
6 say, emphatically, no! I gave several reasons in my letter
7 of May 10th why Mr. Chapman should disqualify himself in
8 this matter and I feel there are additional reasons why his
9 report should be completely stricken from the records of
10 the State Lands Commission.

11 Oscar Chapman, aside from being a personal friend of
12 Pauley since the Truman days, is a political lobbyist, not
13 specializing in oil and gas contracts. His best qualifica-
14 tion is representing interstate pipeline companies and
15 other public utilities. Aside from being a lobbyist, he
16 has been very influential in foreign countries by virtue of
17 his previous position as Secretary of the Interior. He has
18 used this past influence to assist foreign investments by
19 American capital, particularly in areas where American busi-
20 ness men, without government influence, would find it very
21 difficult to negotiate foreign contracts and agreements.
22 I suspect that Chapman's friendship with Pauley goes deeper
23 than the Truman days, or the era of Governor Brown. I
24 understand that Mr. Chapman assisted Mr. Pauley in his
25 Mexican ventures.

26 One must wonder if Senator O'Sullivan is aware of Mr.
27 Chapman's performance as Secretary of the Interior. Mem-
28 bers of the State Lands Commission, Governor Brown and Ed
29 Pauley are very familiar with the fact that in 1945 the
30 Supreme Court rendered a decision giving title of all the
31 states' tidelands back to the United States Government.
Your State of California and all other coastal states were
victims of this militant grab by our U. S. Supreme Court.
The states affected by this grab fought long and hard in
Congress all during the Truman administration in an effort
to regain ownership of the tidelands. Mr. Chapman was a
persistent witness against all state's rights to the tide-
lands. Mr. Chapman was not satisfied to testify just once
against the states in their efforts, but appeared time
after time in the Congress, fighting vigorously and beyond
the call of his office in an effort to prevent states from
regaining their tidelands. His determined fight helped
keep the tidelands in U. S. hands all through the Truman
administration.

Only when Mr. Chapman went out of office with the
election of President Eisenhower were the states able to
regain their tidelands. It is a strange coincidence that
the man who played a key role in keeping the tideland own-
ership from California should be called in by Governor
Brown, Pauley and O'Sullivan to review a contract affecting
the same tideland properties, supposedly for the purpose of
protecting the State's interest. And isn't it strange what
a fee will do to change a man's allegiance from national
interest to state interest. Now Mr. Chapman has been
placed in the position of deciding who will benefit the
most, the State (and Pauley) or the City of Long Beach and
the people of California.

1 " I am sure that it was not difficult for any of the
2 State Lands Commissioners, Governor Brown, O'Sullivan or
3 Pauley to predict what Chapman's report would read. Paid
4 lobbyists move in only one direction. In all of my experi-
5 ence, never has such an insult been heaped upon the average
6 intelligence of a state's citizenry as in this O'Sullivan-
7 Chapman incident. If Chapman's recommendations are followed
8 there will never be a Long Beach Unit and the State and
9 City will lose over one billion dollars. The Governor,
10 O'Sullivan and the State Lands Commissioners are able to
11 resist this pressure and reject this report. The Chapman
12 report proposes a devastating abuse to the State and one of
13 our most progressive cities, the City of Long Beach.

14 What benefit will be gained by Governor Brown, the
15 State Lands Commissioners and O'Sullivan by the State's
16 acceptance of the Chapman report? Political influence so
17 obvious in the Chapman case is sure to hurt the Governor,
18 O'Sullivan and the State Lands Commission. No political
19 reward is worth this sacrifice.

20 In conclusion, the greatest insult of the Chapman-
21 O'Sullivan case must be pointed out. The people of Cali-
22 fornia elected in Stanley Mosk, California's Attorney
23 General, one of the most conscientious and capable public
24 servants in California's state government. Aside from the
25 Attorney General himself, his office is ably staffed with
26 most capable assistants. I have had the pleasure of watch-
27 ing them in action at the State Lands Commission hearings
28 on the Long Beach Unit. Unquestionably the review and
29 analysis of the Field Contractors Agreement and Unit Oper-
30 ating Agreement, and other agreements, should have been
31 placed in the hands of the Attorney General. His decision
would have been fair because Attorney General Mosk and his
staff are qualified. The authorization of the hiring of a
known lobbyist, a political friend of Pauley's and Governor
Brown's, to decide the fate of the City of Long Beach is an
unwarranted act.

Where Governor Brown, Pauley and O'Sullivan, and the
State Lands Commission, have welcomed Mr. Chapman with open
arms and are paying him a fee of \$35,000.00, you can be
assured that I feel that any man who fought against states
rights as Chapman has in the past should be about as wel-
come as the boll weevil and the fruit fly.

Respectfully yours,
JADE OIL & GAS. CO.
/s/ Johnny Mitchell, President "

MR. HORTIG: With respect to the recommendations in
the agenda item before the Commission, we have received the fol-
lowing telegram from Occidental Petroleum Corporation, reading:

"A review of the forthcoming agenda of the Land Commission
hearing scheduled for Thursday, June 27, 1963, lends hope
to the position of the independent producer of California.
Our sole reservation from an operator's point of view is
the five undivided interests recommended by the staff.
We would strongly suggest that at least seven undivided

1 "interests be placed up for bid. We fail to understand
2 why the City and staff feel it desirable to request bids
3 on a net operating basis rather than on royalty basis.
4 We would hope that the City of Long Beach, the recommend-
5 ing party, could supply convincing arguments in favor of
6 its premise."

7 MR. CRANSTON: At this point we would be very happy
8 to hear comments on the staff recommendation from anyone who
9 is interested in commenting.

10 MR. WANVIG: I am James L. Wanvig, a lawyer from San
11 Francisco, representing Standard Oil Company of California at
12 this meeting. I am also authorized to speak for Standard's
13 associates in a joint venture, who intended to bid on this
14 proposal, mainly Richfield Oil Corporation and Signal Oil and
15 Gas Company. I have been asked to present my clients' - -
16 if you will forgive me for that loose term, I will refer to them
17 for convenience as my clients today - - I have been asked to
18 present my clients' comments on the suggestions contained in
19 this supplemental agenda item.

20 Our first comment is that in our judgment every one
21 of the suggestions contained in the supplemental agenda item
22 will reduce the total revenues to the City and the State. More-
23 over, we feel this is unnecessary and that there is no real
24 justification for reducing revenues which will inure to the
25 benefit of all the taxpayers of the State.

26 If I may start with the simplest example of what I
27 mean, in our opinion the substitution of cash bonuses for the
28 advance payment concept that was embodied in the City's proposal
29 will reduce revenues to the City and State by many millions of
30 dollars. This is because the Federal income taxes which must
31 be paid by the working interest owners will be increased by
that amount. One very elemental fact that I am sure I don't
even need mention, but I will, nevertheless, for the record,

1 that I think should be kept in mind, is this: Any bidder, in
2 approaching the decision as to what he is willing and able to
3 bid on any proposal, must first of all decide how much net in-
4 come he must derive from the venture in order to justify the
5 investment and the risks that he assumes. It follows, there-
6 fore, that what he is able to bid, what he is able to pay the
7 public, is the difference between the gross income from the
8 property less what he must retain and less all the costs that he
9 must incur, including taxes. Therefore, it is as simple as
10 this: If Federal income taxes are increased, the revenues for
11 the City and State will be decreased.

12 Now, quantitatively estimates vary as to how much
13 money we are talking about, but it is a very large amount. One
14 of my clients insists that the City and State will lose in the
15 neighborhood of twenty million dollars by substituting cash
16 bonuses for advance payments, as the City had proposed; and all
17 of my clients agree that the loss will be many millions of dol-
18 lars. I might point out that this isn't a matter of very great
19 concern to us. It doesn't matter a great deal whether we pay
20 the money to the Federal Government or the City and State gov-
21 ernments; but we don't see what motivation there is for the
22 State to give up this income to the Federal Government.

23 Turning to what I think is a more important point, we
24 are convinced that splitting up Tract Number 1 by whatever means
25 is adopted will result in lower revenues to the City and State.
26 The fundamental reason for this -- and I am not going to try to
27 explain it in detail here -- the fundamental reason is that we
28 can see no way to devise a plan for splitting up Tract Number 1
29 which will give the City and State the same protection against
30 potential defaults that is embodied in the City's proposal,
31 and will at the same time be as attractive to bidders. We are,

1 therefore, convinced that you will get lower bids and less total
2 revenue by splitting Tract 1. If I have heard the testimony at
3 your earlier meetings correctly, this is also the opinion of your
4 staff and it is unquestionably the opinion of the City.

5 Now, obviously we could argue and speculate at great
6 length about that question; but I don't believe that is necessary
7 for the reason which I will bring up in just a second. Before
8 turning to that, however, I'd like to say a word about the sug-
9 gession that's been made that even though public revenues should
10 be reduced by splitting up Tract Number 1, there is an over-
11 riding reason of public policy which dictates it should be split
12 up, namely, that offering Tract 1 as a whole threatens to create
13 a monopoly.

14 Now, if you will forgive a sort of ipse dixit, gentle-
15 men, in my opinion all this talk about monopoly is merely loose
16 talk, which is based on a misunderstanding of the anti-trust
17 laws or a misunderstanding of the oil industry, or in some cases
18 of both; and I'd like to make two points very briefly.

19 First of all, there is no threat of monopoly. I have
20 covered this point in some detail in a letter dated June 3rd
21 which I filed with the Senate Subcommittee investigating the
22 East Wilmington Oil Field, and I won't undertake to repeat all
23 that discusses here; but to recap it very briefly, it is wholly
24 irrelevant to try to lump together any combination, any joint
25 venture of companies that are bidding on a producing venture,
26 in analyzing the facts under the anti-monopoly law. The reason
27 for that is very simple: Joint ventures as producers are very
28 common, end in production and there are very serious reasons
29 which require them to end with production. By that I mean, once
30 the oil is in the tanks, each of the joint venturers must then
31 separately and individually take his share of the oil in kind

1 and from then on he deals as a competitor with his producing
2 joint venturers. That is compelled not only by the anti-trust
3 laws, but also by the Federal tax laws. If it were otherwise,
4 that is, if a producing joint venture continued on from produc-
5 tion into the marketing phases of the business, an attachable
6 association would be created and double Federal income taxes
7 would be assessed. So the result is these joint producing
8 ventures end at the tank and it is wholly beside the point to
9 talk about a producing joint venture in terms of monopolizing
10 any refined products.

11 Therefore, you must consider each of the three com-
12 panies in our group individually. I submit it is ludicrous to
13 think that Signal Oil and Gas Company or Richfield Oil Corpora-
14 tion is a monopoly or threatens to become a monopoly. The
15 question is, does Standard Oil Company of California threaten
16 to become a monopoly. I think if you will look at the facts
17 you will see this is a frivolous question.

18 Again referring to my letter of June 3rd to the
19 O'Sullivan Committee, I pointed out that Standard's share of
20 the crude oil in California at the present is on the order of
21 eighteen per cent. If Tract 1 is offered as a whole and if
22 our bid should be successful, Standard's share of the produc-
23 tion would increase to only about twenty-one per cent -- not
24 a significant change in the control of California production.
25 Moreover, Standard's own production would still represent prob-
26 ably less, or certainly not more than half, of the crude oil it
27 needs for its refineries. Consequently, Standard would still
28 have to obtain elsewhere, other than its own production in
29 California, about half of all the oil it needs. Therefore, to
30 even talk about Standard becoming a monopoly because of the
31 City's proposal is, I submit, ludicrous.

1 The second point I'd like to make about this monopoly
2 question is that, as I read the State Lands Act and the other
3 associated statutes, it is not the function of this Commission
4 to enforce the anti-trust laws. That power resides in other
5 State agencies and if, notwithstanding what I have said, any
6 monopoly or threat of monopoly should arise, there are ample
7 powers in the Office of the Attorney General to break up any
8 possible monopoly. It seems to me, and I submit to you, that
9 the proper function of your Commission is to realize for the
10 taxpayers the greatest possible revenues from the State lands
11 that are under your jurisdiction -- consistent, of course, with
12 the protection of those lands for other uses.

13 Therefore, I think the real question before you is
14 whether you can obtain more revenues from Tract Number 1 by
15 offering it as a whole or by splitting it up. We realize that
16 other people have assured you, and I am sure sincerely, that
17 you can realize more revenue by splitting up Tract 1. My
18 clients, on the other hand, are convinced that you cannot.

19 There is a way that that question, that dispute, can
20 be settled beyond all doubt. All speculation on this question
21 can be ended by simply letting the bidders prove which method
22 will yield the greatest revenues for the State. To put this
23 suggestion in its simplest form, we suggest that you offer
24 Tract 1 alternatively, both as a whole and in undivided por-
25 tions, and let the bidders bid both for the whole tract and for
26 whatever undivided portions they want, and let the bidders prove
27 which will yield you the greater revenues. We see no legal
28 reason nor, indeed, any policy reason why this cannot or should
29 not be done.

30 If you will forgive a little free legal advice, it
31 seems to me that the main requirement legally is that the

1 alternative bases be designed so that the bids are truly compar-
2 able; in other words, so that you can determine with certainty
3 which really is the more favorable bid. Now, that rule has
4 couple of obvious corollaries. One is that the bid variant must
5 be the same under both alternatives -- that is, all the bidding
6 must be by cash bonus or it must all be by net profit, so you
7 can compare the bids and decide which is better.

8 Secondly, we think it is necessary that the City and
9 State receive the same protection against defaults under both
10 plans, and I'd like to emphasize a moment the importance of this
11 point. This will be a unitized operation from the start and
12 that creates a number of difficulties in terms of any failure by
13 one working interest owner in the unit to perform his obliga-
14 tions. If I may focus for just a moment on the obligations to
15 be taken in the disposal of the participants' share of crude
16 oil and accounting for it at the contract price -- in an ordi-
17 nary oil and gas lease the lessee's failure to take and account
18 for the oil does not create too serious a problem. The normal
19 remedy is to forfeit his interest if he continues to default
20 and then you are free to re-let to a man who will perform.

21 That remedy is really not adequate in a unitized opera-
22 tion because if one of the undivided interest owners defaults
23 the whole operation cannot be brought to a stop. The other
24 participants have the right that the operation continue, so the
25 oil will be produced and it will come out of the ground and it
26 will be owned in part by you and the successful bidder. More-
27 over, the needs for cash continue, since the operation must
28 continue, so money has to be forthcoming with respect to the
29 parcel that is in default and the oil that is attributed to
30 that parcel must be disposed of.

31 Now, the City and State are not well equipped to

1 perform those jobs. You gentlemen in the City don't have the
2 money available to enter into an oil venture and you are not
3 well equipped to dispose of oil quickly. These risks, there-
4 fore, are very serious; and I might observe that it is precisely
5 when the City and State need the money most that you are most
6 likely to suffer a default. In other words, when the market is
7 generally depressed and times are tough and crude oil is in long
8 supply is exactly when one of your contracting parties may simply
9 walk away and fail to perform his obligations.

10 Therefore, I again emphasize that under the alterna-
11 tive proposals that we are suggesting you offer, it is most im-
12 portant that each of them give you the same protection against
13 such defaults so that, again, the two alternatives will be truly
14 comparable. Now, in our opinion these criteria, legal criteria,
15 can be met; and if you will instruct your staff to design a
16 proposal for offering Tract Number 1 alternatively -- as a
17 whole or in parts -- we are confident that they can design a
18 valid plan which will provide the public adequate protection
19 against defaults.

20 If you do this, you can settle beyond any doubt which
21 method will bring the public the greatest revenue -- and if I
22 may be perhaps a little too blunt, this is the only way we can
23 see that the City and your Commission can avoid the accusation
24 on one hand that by offering Tract 1 as a whole you will have
25 favored certain large oil companies, and the accusation on the
26 other hand that if Tract 1 is split up you have squandered tax-
27 payers' money to subsidize or favor certain small oil companies.

28 I'd like to deal briefly with certain other, perhaps
29 less important, points. With respect to the size of the operat-
30 ing interest under the undivided plan -- and this comment I
31 think is applicable whether or not our suggestion for alternative

1 offerings is adopted -- in our judgment forty-five per cent
2 interest for the operator is too small to attract good bids.
3 The larger the operating interest is, we think, the better the
4 revenues you will derive from it and from the entire operation;
5 and, very briefly, the reason for that is simply that the bene-
6 fits accruing to the operator will be more in proportion to the
7 responsibilities and potential liabilities which he assumes.

8 Turning to the next point -- that is, the suggestion
9 for a minimum guaranteed income -- we believe that this sugges-
10 tion, too, will have an adverse effect on bidding and on State
11 and City revenues. We point out that, unlike most State leases,
12 this proposed contract gives the contractor no right to surrender
13 until final equities have been determined, which will probably
14 be twenty-five years down the road. This is very unlike the
15 State lease, under which the lessee can surrender at any time
16 and thereby protect himself against continuing losses. Under
17 this proposal -- and we think properly, in view of the needs to
18 protect the land against subsidence and so on -- the contractor
19 will have no right to surrender for perhaps twenty-five years.

20 On the other hand, the City and State will have com-
21 plete control over operations, including water injection. It
22 follows from this that late in the life of the contract it is
23 quite possible for the City and State to order the Field Contrac-
24 tor to undertake extensive additional operations, say, for water
25 injection -- it could be something else -- which would have the
26 effect of virtually eliminating or very greatly reducing the net
27 profits that are available to be divided between the Contractor
28 and the public.

29 Now, if the public has a guarantee, at such a stage
30 this could very well wipe out the net profits altogether and
31 means that the operator would be obligated contractually to

1 continue operations, although he would be earning no income for
2 himself. Now, this would be a serious risk, which bidders would
3 have to take into account in calculating what they could bid;
4 and to protect themselves against that risk, they would have to
5 increase the share of net profits accruing to the bidder and
6 thereby decrease the share accruing to the public.

7 Our suggestion, therefore, would be to use only the net
8 profits approach. This has, we think, very great advantages in
9 that it makes the economic interest of the City and the State and
10 the Field Contractor identical; they all share in profits and
11 receive them only if there are profits, and because of that the
12 contractor can rely upon the economic self-interest of the City
13 and State to be quite sure that they will not order him to do
14 things that are unprofitable. He can, therefore, afford to take
15 a smaller share of the profits as his own and therefore bid more
16 to the City and State.

17 If, notwithstanding these considerations, you feel it
18 is essential to have a minimum guarantee of some income to the
19 public, we would suggest that you give serious consideration to
20 putting the guarantee on a cumulative basis; that is, a guaran-
21 tee, for example, that at all times the City and State would
22 receive at least one-eighth of the cumulative value of all pro-
23 duction to date. Now, this will accomplish part of the purposes
24 of a minimum guarantee but will also greatly ameliorate the
25 adverse effects on bidders.

26 One further point, briefly -- this refers to taking
27 production in kind for sale to others. In our judgment, the
28 twenty-five per cent reservation that has been suggested is far
29 too large and will have an undue depressing effect on the bid-
30 ding. Refiners must schedule crude supply very closely in order
31 to operate economically. Accordingly, barrels of oil that a

1 refiner can count on and depend upon are economically worth more
2 to him than barrels of oil that he cannot count on. Therefore,
3 if there is as big a swing as twenty-five per cent in the supply
4 that is available from this source, all the barrels will be
5 worth less to the bidders and they will have to bid less for
6 them. Moreover, we cannot feel that anything like twenty-five
7 per cent is necessary for the purposes for which this reserva-
8 tion is intended, and we would seriously urge that not more than
9 one-eighth of the oil be reserved for this purpose.

10 Moreover, we would urge that the mechanics for exer-
11 cising the right to take in kind be modeled, approximately at
12 least, on the mechanics contained in the current State lease
13 form -- which requires that the lessee be given six months'
14 advance notice before the State exercises its right to take in
15 kind, and, moreover, that he must be given six months' advance
16 notice before the State changes its election. Notice periods of
17 this kind are essential so that refiners -- and independent pro-
18 ducers, too, who are reselling the crude -- can plan their re-
19 finery requirements and plan to meet their contractual require-
20 ments.

21 So, in summary, gentlemen, we would urge you to
22 reconsider the question of shifting from an advance production
23 payment to a cash bonus; we would urge that you severely limit
24 your reservation of the right to take in kind, and that you
25 eliminate or greatly modify the minimum guarantee provision;
26 that you increase the size of the operating interest under the
27 undivided interest approach; and, most especially, that you
28 offer Tract 1 alternatively, both as a whole and in undivided
29 portions.

30 Thank you for the opportunity of speaking to you.

31 MR. CRANSTON: Thank you. Any comments by members

1 of the Commission?

2 GOV. ANDERSON: Yes. Mr. Wanvig, I was interested in
3 the original part of your discussion, where it applied to mono-
4 poly -- which you tended to play down or in a sense referred to
5 it as something that really would not exist; and that this Com-
6 mission, with this hat we have on today, should not be concerned
7 with what might be considered a monopolistic tendency -- or I
8 believe I have heard it called control of the market or domin-
9 ant position, or whatever this thing is we are talking about.

10 I am concerned a little bit with this, even though I
11 am not an expert on what this dominant position or control of
12 market or monopolistic tendency would really be. I think one of
13 the statements that was made -- maybe it was one that your com-
14 pany put in -- I believe it was stated that the three companies
15 that you represent today control about a third of all California
16 production. Is that generally correct?

17 MR. WANVIG: I'll accept it, Governor Anderson. I
18 can't qualify it.

19 GOV. ANDERSON: I was just wondering if in your figur-
20 ing you had determined -- say in ten years from now, when this
21 field would be at its peak, a billion and a half barrel field,
22 at a time when other production in California might be receding
23 a bit -- could you tell me approximately what your three com-
24 panies would control of the California market and the Los
25 Angeles market at that time?

26 MR. WANVIG: I can tell you what Standard alone would
27 control, Governor Anderson, but I have never bothered to collect
28 the figures on the three companies -- because in my opinion
29 those figures are irrelevant.

30 MR. CHAMPION: Except to the point of production; as
31 far as control of production is concerned, it would be a joint

1 venture.

2 MR. WANVIG: That's correct, certainly; but it doesn't
3 mean anything.

4 MR. CHAMPION: Control of production means something.

5 MR. WANVIG: Not really very much, Mr. Champion, if
6 you will forgive my saying so, except for the profit that is
7 derived from the production itself.

8 Governor Anderson, as to Standard, the figures are on
9 this order: At present Standard's share of California production
10 is about eighteen per cent. Now, making the most realistic pos-
11 sible estimates of what the situation would be when production
12 from Tract Number 1 reaches its peak, which would be in seven to
13 ten years, Standard's share of California production would be on
14 the order of twenty-one per cent -- an increase of about three
15 per cent.

16 GOV. ANDERSON: What about in the Southern California
17 market? Would there be any appreciable difference there, or
18 haven't you broken it down?

19 MR. WANVIG: No, I haven't broken it down by areas
20 within California. I suggest that one fact important to keep in
21 mind is that Standard would still fall far short of controlling
22 sufficient production to supply its own needs. At present,
23 Standard's California production supplies considerably less than
24 half its needs, and that would continue to be true seven to ten
25 years hence under any reasonable forecast.

26 GOV. ANDERSON: Then your estimate is that if the
27 three of you, these concerns, had the entire unit, you would
28 only change at the peak about three per cent for Standard?

29 MR. WANVIG: For Standard, yes.

30 GOV. ANDERSON: And you couldn't estimate what that
31 would be for Signal Oil and

1 MR. WANVIG: No. As I say, I have never asked for
2 these figures to be developed, because they seem to me to be
3 irrelevant, in that producing joint ventures stop with produc-
4 tion -- do not continue into marketing and refining phases of
5 the business, and because in California, with the kind of market
6 situation we have here, control of production really has no
7 effect on the refining and marketing phases of the operation of
8 the oil industry.

9 As we pointed out, Standard can only produce about
10 half the crude it needs. The crude it needs is determined by
11 how much it is able to sell -- that is, how many products it is
12 able to sell -- and that, in turn, depends upon the ability of
13 its salesman and advertisers, and so on, to persuade customers
14 to buy its products. So it is there that Standard's market posi-
15 tion is determined, and Standard obtains whatever crude it needs
16 to supply its market.

17 Now, naturally, we would like to produce as much of
18 that crude as possible within reason, since there is a profit to
19 be earned in producing crude; but it has never been able -- at
20 least in modern history that I am familiar with -- it has never
21 been able to produce more than half of the crude it needs. It
22 buys the remainder from other producers and imports some, and
23 from offshore, and brings some from Alaska and the four corners
24 of the world, southwest of the United States, and so on. What-
25 ever its refining needs are will be met either by its own prod-
26 ucts or its purchases. So Standard will have the same amount of
27 crude oil under its control, whether it is the successful bidder
28 on this thing or not. It will get that crude oil somehow.

29 MR. CHAMPION: Let me ask you this -- out of curiosity
30 rather than any background of knowledge. Isn't there, however,
31 the relationship to the import and accessibility of import sup-
plies of Standard compared to some of the small refiners in

1 California? In other words, it isn't a question of whether you
2 use all you produce but as to whether you would have control
3 over the import situation or what the market would be for other
4 refiners. Isn't that the situation imposed by the Chapman
5 report?

6 MR. WANVIG: Yes, sir; I am forced to say that in my
7 opinion Mr. Chapman and his associates in that report did not
8 understand the way the import program works on the west coast.
9 The plan, the program out here, is different from that in effect
10 east of the Rockies. Out here, the plan, roughly, is this: The
11 appropriate agencies of the Federal Government estimate the total
12 crude oil for District V, which includes California and the
13 other west coast states. It then estimates domestic production
14 and imports from Canada, and deducts those from the expected
15 demand. The difference becomes the import, the offshore foreign
16 import quota, for District V as a whole. Then that quota is
17 broken down into individual quotas for importing companies by a
18 formula which has nothing to do with local production. The
19 formula is based on refinery runs, not on local production; and
20 while I don't think we need go into all the details of that
21 formula, the fact is that it is loaded in favor of the smaller
22 refiners. Percentagewise, they are given a larger portion of
23 what their refineries require than are the larger refiners.
24 So control of local production has nothing to do with an im-
25 porter's quota for imports.

26 Now, to carry this out one step further, what will
27 happen when Tract 1 oil becomes available -- and I am assuming
28 now, of course, that the Federal Government continues its past
29 program for District V, and I see no reason to think that isn't
30 a reasonable assumption -- if they do, what will happen when
31 Tract 1 comes on the market, irrespective if Tract 1 is broken

1 up or goes as a whole, irrespective of who the respective bidders
2 are, the over-all district quota of District V will be reduced by
3 the amount approximately equivalent to Tract 1 production. That
4 is the way they approach the matter here. So all importers will
5 lose import quotas by an amount equal to Tract 1 production; then
6 that loss will be apportioned among the importing companies,
7 again under a formula based on refinery runs -- not on local pro-
8 duction -- and the greater part of that loss will fall - -
9 this is a formula that is loaded in favor of the smaller refiner -
10 the greater part of that loss will fall on the major refiners.

11 MR. CHAMPION: But in this case some of those major
12 refiners will have this new production to replace it, whereas the
13 smaller will not.

14 MR. WANVIG: Mr. Champion, the way this program works
15 all the refiners will have California production to replace the
16 imports that are lost, because the import control program is
17 designed to balance supply and demand.

18 MR. CHAMPION: I recognize that, but the places where
19 that oil goes can change very substantially.

20 MR. WANVIG: Certainly there will unquestionably be a
21 reshuffle.

22 MR. CHAMPION: And those who do not participate in
23 Tract 1 would have some decrease in their ability to get oil for
24 their refinery, import oil.

25 MR. WANVIG: No, sir

26 MR. CHAMPION: It is a loss across the board, even
27 though it is a loaded formula. I am not arguing. I am just try-
28 ing to get this point straight in my mind.

29 MR. WANVIG: Everybody will lose import quotas, irre-
30 spective of whether or not they participate in Tract 1.

31 MR. CHAMPION: That is right. So those that do

1 participate in Tract 1 now have a source of domestic production,
2 but everybody will lose import quotas.

3 MR. WANVIG: But there will be alternative sources of
4 domestic production....

5 MR. CHAMPION: That is to be hoped.

6 MR. WANVIG: ... if the program works the way it is
7 designed to work.

8 MR. CRANSTON: Frank, do you have any comments on the
9 recommendation that if we retain the minimum guaranteed operating
10 profit concept it be put on a cumulative basis?

11 MR. HORTIG: We have not given any extended staff
12 evaluation to this particular feature. However, as outlined by
13 Mr. Wanvig, the hazard of potential economic pressure is there
14 unless some recognition is given to the manner in which such a
15 guaranteed minimum would be applied; and, patently, a cumulative
16 guarantee, a minimum cumulative value of past production, would
17 be one method to accomplish this, to minimize the economic impact.
18 There are definitely others which can be explored.

19 The Commission will note that in the suggestion for
20 exploration of programs to be explored, the program even as sug-
21 gested by Mr. Wanvig isn't precluded from consideration under
22 Item 4 as a method for establishment of a minimum guaranteed
23 operation.

24 MR. CRANSTON: I would think that is a matter we should
25 explore.

26 MR. HORTIG: Very definitely.

27 GOV. ANDERSON: On this same thing, I have the impres-
28 sion that toward the end of our program we would be faced with
29 the necessity of increased water injection to halt subsidence,
30 giving the impression, I thought, that we wouldn't be doing what
31 we should in this field as drilling went along. It was my

1 understanding, my feeling, that as we go along in production we
2 are going to make sure that the water is injected at that same
3 time, so we won't wake up at the end with additional increased
4 water problems. I got a little different opinion from his
5 remarks than I thought we were going to have.

6 MR. HORTIG: I might summarize my reaction to Mr.
7 Wanvig's report. You are completely correct that any operating
8 program contemplated for approval by the Lands Commission for
9 placement into effect by the City of Long Beach through its
10 field operating contractor would necessitate the continuous ap-
11 plication of all engineering and production techniques to assure
12 to the ultimate, in accordance with the then current state, that
13 all protections that could and should be taken and are economi-
14 cally justified at the time would be taken.

15 I think one reaction is -- not that this condition of
16 possible augmentation of water injection late in the life of the
17 field is an inevitable necessity -- indeed it should not occur
18 at all -- but we do have the difficulty of forecasting twenty-
19 five years hence that something we are unable to understand to-
20 day may not arise; and protection against that something which
21 we cannot forecast might require additional expenditures on the
22 part of the field operating contractor -- which, under the pres-
23 ent format of the contract proposed, could be ordered by the
24 City and State, indeed, right down to the point of an economic
25 loss on the part of the operating contractor and simply his sug-
26 gestion is on the necessity for insurance to preclude this oper-
27 ating impact on a field operating contractor for unforeseen cir-
28 cumstances which could arise despite the very best efforts dur-
29 ing the course of the operation.

30 Prior to 1937, you could have gotten probably conserva-
31 tively, in the neighboring state that permits placing of gambling

1 bets, anything from a thousand-to-one to a million-to-one odds
2 that there ever would be any land surface subsidence in Long
3 Beach, and look what we have had in our contemporary experience.

4 So in the eventuality, and certainly not hoped for and
5 with no reasonable expectation that there will ever be a repeti-
6 tion thereof, particularly in view of the fact that we are not
7 at all certain just what the mechanism has been that triggered
8 subsidence in the first place or alleviated it in the second
9 place, but fortunately it has been alleviated, and we are in an
10 area of such uncertainty as to what is happening five to seven
11 thousand feet under the ground where we can't see -- a prospec-
12 tive operator who might find himself faced with a new type of
13 situation naturally would have to take insurance, if he is at
14 all going to be liable for trying to correct a situation that
15 we can't forecast at this time.

16 MR. CRANSTON: Can you all hear Mr. Hortig?

17 (A number of negative answers and adjustment of
18 microphones)

19 GOV. ANDERSON: Summing it up, however, there is no
20 reasonable expectation of this situation. It would only be
21 something that would be unforeseen?

22 MR. HORTIG: That is correct, sir.

23 MR. CRANSTON: I'd like to ask your comments on
24 another point, Frank -- the suggestion that if the State takes
25 in kind or changes its take, there be six months' advance
26 notice.

27 MR. HORTIG: As a matter of mechanics and in view of
28 the development of this as a policy and a specific lease condi-
29 tion in our leases which have been issued by the State Lands
30 Commission, patently it would be a staff recommendation that
31 the equivalent be included in any contract form which might be
applied.

1 MR. CRANSTON: I might say that I was astounded at
2 the pacificity of this audience. If you can't hear what is
3 going on, sqawk.

4 MR. CHAMPION: I'd like to ask Frank a broader ques-
5 tion that really goes to two parts of this whole relationship
6 between the recommendations and the possible economic return
7 to the City and State, the two central questions raised -- and
8 I suppose they ought to be treated somewhat separately.

9 First, in compiling this new set of recommendations,
10 was there recognition generally that in order to meet what was
11 felt to be a market problem, control of market, or what have
12 you, that there was calculatedly, or at least an assumption,
13 of some loss of revenue to the City and State in order to meet
14 this problem?

15 Secondly, was there calculation of the impact on the
16 tax situation as between the two proposals and for what reason,
17 if there was calculation and if it was felt that this would
18 mean a substantial impact, what reason was there for shifting
19 to the cash bonus basis?

20 These are separate questions, but I think they all go
21 to the same point.

22 MR. HORTIG: I became so engrossed with your second
23 question, I have already lost the first.

24 MR. CHAMPION: I am just as interested in that as in
25 the first. Let's take the second.

26 MR. HORTIG: Definitely, the difference in tax impact
27 between an advance payment as proposed in the initial submittals
28 by the City of Long Beach as against a cash bonus payment --
29 which for tax purposes would have to be capitalized and would
30 result in a higher Federal income tax -- was taken into consid-
31 eration. Specific calculations could not be made as to any

1 reasonable number of dollars of difference, other than it can be
2 said categorically, as Mr. Wanvig did, that the cash bonus pay-
3 ment route would necessarily result in a lesser net return, cumu-
4 lative net return, to the City and State.

5 The difficulty in determining any reasonable estimate
6 of dollar difference is because the individual corporate tax
7 positions, corporate tax payment bases, schedules and options
8 which have been elected vary so widely that you can literally
9 come up with an infinite number of combinations that you have to
10 evaluate, and the effect would be more or less dependent upon
11 who might be the successful bidder; but there would be "a" dif-
12 ferential between the two procedures.

13 However, offsetting factors that must be considered
14 are, first, and this is certainly not suggested as a complete
15 offset but also in the over-all view for the benefit of the
16 State of California as an aggregate of all governmental functions,
17 there would accrue, under the cash bonus, additional California
18 corporation franchise taxes which would not accrue under the
19 advance payment base, as a partial offset -- again incapable of
20 being estimated accurately against the probable loss of percent-
21 age of net profit bid if the lease were offered on an advance
22 payment basis.

23 Additionally, of course, an advance payment basis can
24 be interpreted as representing Government borrowing the money,
25 its own money, in view of the fact that it is to be repaid from
26 revenues which would otherwise accrue in the future -- borrowing
27 its own money from the successful bidder and then returning it
28 to the successful bidder after a period of time with a payment
29 of interest in addition; and, therefore, the problem of the net
30 worth of such a loan as against the net worth to Government of
31 the cash bonus in hand, which is not repaid, was another one of

1 the elements that was included in the estimation of why the
2 advantages of the cash bonus procedure might outweigh, or could
3 outweigh in the aggregate, or come reasonably close to equaliz-
4 ing the monetary advantages alleged for the advance payment base,
5 without the concurrent disadvantages of this problem to the
6 Government of borrowing its own funds and repayment to industry
7 subsequently with interest. That was one of the primary factors.

8 GOV. ANDERSON: Is there suggested interest?

9 MR. CRANSTON: Three million, five hundred thirty-
10 three thousand dollars possible interest charge under the
11 original suggestion.

12 MR. HORTIG: At the rate suggested -- which rate was
13 still subject to discussion.

14 MR. CHAMPION: That was four per cent?

15 MR. HORTIG: Three and three-quarters, I believe.

16 MR. CRANSTON: That's one specific cost that would be
17 avoided by this method and I think that's one calculable in
18 precise dollars. Certainly it is not calculable, and can never
19 be, precisely as to what income might be developed.

20 MR. HORTIG: I now recall Mr. Champion's first ques-
21 tion, which was with respect to whether recognition was given,
22 and it was included in the calculations when translated into
23 estimates, to the impact with respect to diminishing possible
24 returns. This was done particularly in view of the fact that
25 irrespective of the position of the United States Department of
26 Justice through their Anti-Trust Division representations that
27 difficulties would probably be minimized and operations might
28 proceed much more serenely under a contract which in the first
29 instance made reasonable provision for insurance against anti-
30 trust allegations, some of which have already been countered
31 by Mr. Wanv'g on a different basis -- nevertheless, the sum

1 total of suggesting the division of the parcel, for offering
2 parcels into undivided interests, plus a reservation of the
3 right to take a percentage of the production in kind, we felt
4 was designed to go to a solution of the problems which were indi-
5 cated by the Anti-Trust Division of the Department of Justice.

6
7 MR. CHAMPION: I recognize that. What I meant to say:
8 Was there a feeling that in order to solve these problems it
9 probably was necessary to devise a system which would produce
10 less income than to go to a straight undivided interest? Was
11 there a feeling that there probably would be some less income
12 but that it was sufficiently important as a matter of public
13 policy that we receive a somewhat less income?

14 MR. HORTIG: This was definitely one of the elements
15 that is before the Commission for consideration. On the other
16 hand, it cannot be forecast with certainty that the aggregate of
17 the bids under the undivided interest procedure offer might have
18 been less or would, in fact, be less.....

19 (Audience unable to hear -- Mr. Hortig changed
20 position)

21 MR. HORTIG: (continuing) The last statement was to
22 the effect that there is no mathematical possibility of assert-
23 ing with precision in advance that there could, in fact, be an
24 economic detriment by reason of offering Tract 1 in properly
25 selected undivided interests, if this were the only bid basis on
26 which the parcel were to be offered.

27 Patently, I think it would be an open secret in
28 industry that the first bidder, who would be the successful
29 bidder under the proposed program for the position of field
30 operating contractor, would probably be extremely interested in
31 the disposition of the remaining parcels; and in view of the fact
that both the present State law and the last Research Committee

1 report pointed out that there was no intent to change the law
2 with respect to permi ting a successful bidder to bid on addi-
3 tional parcels, this can at least be theorized to be an addi-
4 tional source of providing for tremendous competition in bidding
5 for the remaining parcels as the remaining parcels become fewer
6 and fewer.

7 On the other hand, as Mr. Wanvig has proposed, we
8 definitely will have to evaluate the advisability of putting the
9 situation to the complete test of whether or not it is practical
10 and feasible, in fact, to offer -- if it is possible to design
11 an offering of Tract 1, so that it can be offered on alternative
12 bid bases simultaneously; and, as has been suggested, the ob-
13 vious proof will be immediately available as to superiority of
14 systems from the size of bids received in the respective methods.

15 MR. CHAMPION: Let me ask one more question in this
16 area. Would it be possible to construct an alternative bidding
17 system, using some of the other protections -- the oil in kind
18 and the others -- which would still satisfy the problems that
19 might be raised in the anti-trust area, and have these two
20 alternative bidding systems each equally strong so far as the
21 anti-monopoly provisions of the bids are concerned?

22 MR. HORTIG: Mr. Champion, I'll be brave enough to
23 say, hopefully yes -- that it should be possible. Patently,
24 none of the features that are intended to be accomplished by
25 some of the elements of the undivided interest and reservation
26 of right to take in kind applicable to all the undivided inter-
27 ests have been considered heretofore for direct application to
28 offering Tract 1 as a unit; but I must assume that equivalent
29 protections could be designed.

30 On the other hand, again I bring to the attention of
31 the Commission Mr. Wanvig's very own recitation of this

1 alternative bidding procedure: There has to be assurance that
2 the alternatives are on a truly equal footing and that there
3 cannot be alleged to be advantages in one as against the other
4 and disadvantages in one as against the other; that they have
5 to be a truly equal offering under two alternative procedures;
6 and this, patently, can become a very complex situation and I
7 would think our major problem there is to get a consensus among
8 our legal advisers that the packages we were bringing to the
9 Commission for consideration were indeed bases for equal offer-
10 ing under alternative procedures.

11 MR. CHAMPION: I'd like to have that before we let
12 the bids, rather than after.

13 MR. HORTIG: Right.

14 MR. WANVIG: Might I interject one more note? When
15 Mr. Hortig speaks of equality between the two proposals, it
16 seems to me that he must be talking about equality from the
17 public's point of view, not necessarily from the point of view
18 of bidders. These are two different questions; and while it is
19 not my function to advise you gentlemen, obviously I think it
20 is worth keeping that distinction in mind.

21 MR. SHAVELSON: May I make one remark here? Mr.
22 Champion, as I understood your question, were you suggesting
23 that there might be the same anti-monopoly protection under the
24 two alternate schemes, so that then we could compare the bids
25 in the terms of which system we can get the most money? If so,
26 I think there would be an intrinsic difficulty there for the
27 very reason the bids have to be comparable. If we introduce
28 the fact that the splitting up of the tract into undivided
29 tracts has an anti-monopoly effect, if we introduce a comparable
30 protection as to the single interest, then they would cease to
31 be comparable and I think we would run into more serious
difficulties.

1 MR. CHAMPION: In other words, and this was my assumption
2 tion when I asked the question, you could introduce almost all
3 of the other factors, but the one involved in the undivided
4 interest cannot be compensated in any way in this alternative
5 bidding system.

6 MR. SHAVELSON: I don't think so; and for that reason,
7 unless it were determined by the Commission that the sole objective
8 of the bidding system was to get the most revenue for the
9 State, I don't think this alternative bidding system would do
10 more than to enable the Commission to evaluate the effect of
11 what the State is paying for the anti-monopoly features; but we
12 would be compelled probably as a matter of law, unless we rejected
13 all bids, to accept that system that gave the most revenue to
14 the State once we did that.

15 MR. CHAMPION: We just determine the cost of a fixed
16 public policy as against another public policy.

17 MR. SHAVELSON: Yes.

18 MR. WANVIG: May I add one more comment? This is
19 essentially an argument from authority which I hesitate to make,
20 but I am sure you gentlemen realize that the job of our office
21 is to keep Standard out of anti-trust troubles; and we don't always
22 manage to keep them out of trouble but we have so far managed
23 to beat off most of the trouble. You can, I am sure, appreciate
24 that we would never advise Standard that it could go
25 into a bid on Tract 1 as a whole if we thought for a moment
26 there were any serious, or any, anti-trust problem involved.
27 Now, as I say, that is simply an argument from authority.

28 MR. CHAMPION: We already have that, both in your opinion
29 and in the opinion of the Chapman group, that there is
30 nothing illegal about the original proposal.....

31 MR. WANVIG: Yes.

1 MR. CHAMPION: ... nor anything that would of itself
2 be a violation of anti-trust -- not necessarily what actions
3 might be taken thereafter, but in the contract itself.

4 MR. WANVIG: Yes, and I might add that if there is any
5 anti-trust trouble that results from this, the trouble will fall
6 on the successful bidders, not on the City or State, as I under-
7 stand the Attorney General has advised you; and if in the con-
8 ceivable event there were monopoly or other anti-trust trouble,
9 that can be corrected under remedies that are presently avail-
10 able under existing law administered by the Attorney General,
11 both of California and of the United States.

12 MR. CRANSTON: Are there further comments or questions?
13 I think that it is rather obvious that the two approaches are so
14 different that there is no clear-cut or scientific way to com-
15 pare them in terms of the benefits to the State and the public.
16 Mr. Wanvig, thank you very much. Are there others who would
17 like to be heard?

18 MR. SCOTT: My name is L. E. Scott, Pauley Petroleum.

19 MR. HORTIG: Mr. Scott, would you please speak direct-
20 ly into the microphone? We have been informed by the sound room
21 out there that if you climb into it, you can be heard.

22 MR. SCOTT: We reiterate our position of February 28th
23 and again request that you consider everything we said in that
24 presentation, so I will not go back into it again.

25 (Audience: "Can't hear.")

26 MR. SCOTT: First, we would like to recommend that
27 you go the undivided interest approach. We think it's the only
28 approach that will save the oil industry in California and pre-
29 vent it from being placed under control of two or three compan-
30 ies. It is the market control, the production and refining and
31 price control that we object to being vested in one group; and

1 when you couple that with a gift by the State of onshore drill-
2 sites to give the onshore bidders an unfair advantage, it makes
3 it an unfair, unconscionable situation which we cannot recommend
4 nor can we be a party to.

5 Now, to go on further, we recommend that Tract 1 be
6 split up into eight or nine interests. You realize, gentlemen,
7 that forty-five per cent interest in Tract 1 gives a company con-
8 trol of in excess of one-half billion barrels of oil; twenty-five
9 per cent gives a company control of a quarter billion barrels of
10 oil. I refer to an Oil and Gas Journal that came out just re-
11 cently, where they have pointed out that in 1960 there has been
12 only one field found in the United States that had in excess of
13 one hundred million barrel oil reserve, and only two or three
14 were found in the whole of the United States in 1950. So it is
15 easy to understand why this fight for Tract 1 goes on, because
16 you are fighting for tremendous stakes here and you are also
17 fighting for control of District V and the west coast of the
18 oil industry, and perhaps you would have repercussions in the
19 international field.

20 Now, Mr. Wanvig spoke of imports. I am going to
21 introduce into evidence Standard Oil's statement to the import
22 hearing on May 3, 1963. There it points out that the small
23 independent refiner is mistreating the major refiner, but in
24 that statement it has something I think I will read. It says:

25 "Excessive throughput leads to the accumulation of excess-
26 27 28 29 30 31
ive product inventories which must be disposed of at low
prices. This acts to depress crude prices and hence to
diminish the incentive to explore for new domestic reserves.
The scale should be made less, not more regressive."

28 And, Mr. Champion, you asked me at the February hearing why
29 would this reduce domestic exploration in California. I don't
30 think you were satisfied with my answer. The main reason I
31 brought this here today was to give credence to it, since our

1 very nice opposition also said it. It says:

2 "Furthermore, if one thing is clear from the history of oil
3 import controls, it is that maximum flexibility is needed
4 to meet constantly changing requirements. It is not un-
5 likely, for example, that domestic production in District
6 V will increase in the future as the result of new on- and
7 offshore discoveries. This prospect alone, only one of
8 many variables to be considered, should indicate the im-
9 practicability of attempting to freeze allocations at a
10 particular level based on the situation existing at a
11 particular point in time."

12 MR. SCOTT: (continuing) Gentlemen, we have a refin-
13 ery of about five thousand barrels a day capacity. We intend to
14 increase that capacity if we can get crude to run it. Import
15 quotas in District V are based on one thing. You don't get any
16 refinery imports unless you have throughput. You have to have
17 throughput to get oil and will continue to have to have through-
18 put to get oil. This is just exactly the situation in the
19 State here today and I think you should understand that when you
20 cast your vote.

21 So far as the cash bonus is concerned, Mr. Champion,
22 all of us like to get our money back, but one thing about the
23 cash bonus -- the State doesn't have to give this money back
24 when you get it. It just goes in your pocket. Mr. Wanvig point-
25 ed out this gross production guarantee, -- just another name for
26 a landowner's royalty. To be very frank, I'd like to see no
27 royalty on this, because it is a lot easier on the operator; but
28 to my knowledge there is not a crude operator in the United
29 States that would put out a parcel like this on a purely net
30 profits basis. It is absurd, and I invite this Commission and
31 this staff to review all the major land companies -- Kern Land,
Louisiana Land and Exploration, and all the companies that own
fee land. In very few instances might they go the net profits
approach. The idea of having this fixed landowner's royalty
against these premises will cause the properties to become more

1 economic at an earlier time, that's true. Perhaps that merely
2 points out to you gentlemen in a very clear and concise manner
3 that you are taking the risk on that property, as I pointed out
4 in February; and if you take the landowner's royalty or go the
5 royalty route, fix a royalty or fixed bonus, perhaps you are go-
6 ing to exercise your decision for the public interest better than
7 if you take the net profit. You are taking the total risk on
8 that net profit and I don't think you ought to kid yourself
9 about it.

10 That's all I have to say. By the way, I am not
11 against this alternative approach. You can't compete with these
12 people when they get control of the market -- they control the
13 price, everything else.

14 MR. CHAMPION: I'd like to ask one question about that
15 net profit. Our approach to that and Long Beach's approach and
16 the staff's recommendation is based on the experience they have
17 had with the net profit approach. Hasn't that tended to produce
18 more revenue than the cash bonus-royalty?

19 MR. SCOTT: I don't know, Mr. Champion, whether it has
20 or not on wells drilled before the present time; I don't know
21 whether it is good or bad -- that's your decision. But the
22 fact this issue was made of having a landowner's royalty on this,
23 pointing out that the operator would have to be excused because
24 it would put him in position of not making any net profit --
25 you just remember this: If the operator isn't making any net
26 profit, neither is the State or City.

27 MR. CHAMPION: In effect, isn't the State really in
28 the same position as an operator?

29 MR. SCOTT: That's right; you are in the oil business.

30 MR. CHAMPION: You are saying you are taking a minimum
31 risk taking a cash-royalty bid, the minimum you can make and
still get a bid....

1 MR. SCOTT: That's right.

2 MR. CHAMPION: Whereas we are in the position of
3 sharing the risk, with presumably the greater return.

4 MR. SCOTT: I have no objection to the State going to
5 net profits. I mean, this is all right. Just remember you are
6 taking the risk.

7 MR. CHAMPION: I recognize that but it is very seldom,
8 at least as it has netted out, that on the cash bonus-royalty
9 basis any oil company has suffered thereby; and it seems to me
10 highly unlikely in this situation, with a proven field, that the
11 State is going to suffer thereby.

12 MR. SCOTT: This I can't argue with. If you want to
13 go net profit, fine; but I don't think there is any prudent
14 owner in the United States that would issue a parcel of land
15 without a landowner's royalty. I think it's good - - you may
16 want to have that sliding scale to eliminate when there is no
17 net profit, but I think it is imperative that the State reserve
18 some landowner's royalty here. I don't care what tag you put on
19 it. You have to have a portion of the gross as public policy.

20 MR. CHAMPION: What is your view on that?

21 MR. HORTIG: This, of course, is a combination of
22 factors -- actually a cash bonus payment for any substantial
23 portion of the production of the field and for the interest, or
24 however this matter might be devised or even whether offered as
25 one total tract, as a prepayment and a guaranteed minimum income
26 that the City and State would receive. So there is this matter
27 of guaranteed minimum income already reflected in the situation
28 if the leases are awarded or the tract is awarded on a cash bonus
29 payment situation. Additionally, the staff contemplation in the
30 suggestion for consideration of guaranteed minimum as reflected
31 in Section 4 of the recommendations is in keeping with the prin-
ciples, if not in consonance with the particular mechanical de-
tails, which Mr. Scott has been discussing here.

1 MR. CRANSTON: Any further questions?

2 GOV. ANDERSON: Yes. Is there any protection in
3 your Item 4 -- "Establishment of a minimum guaranteed operating
4 profit to the City and State by specification of a percentage
5 return of the gross value of production" -- Now, is there any
6 balance in this where, if the net profits are low due to, oh,
7 all kinds of expenses -- is there any way that you can balance
8 against that to have a minimum of the gross?

9 MR. HORTIG: This would be the protection feature
10 which would be established by specification of a percentage re-
11 turn of the gross value.

12 GOV. ANDERSON: What percentage?

13 MR. HORTIG: Well, the selection of that percentage
14 is again a feature that is going to require particular evalua-
15 tion such as will establish a value that would both give the
16 minimum detrimental effect on the bidding, as was suggested by
17 Mr. Wanvig would occur, and would still guarantee a reasonable
18 equitable minimum return to the City and State.

19 GOV. ANDERSON: What that would be -- a cash bonus and
20 then the balance on net profit, balanced off against gross
21 production?

22 MR. HORTIG: With a guaranteed minimum royalty
23 payment.

24 GOV. ANDERSON: Guaranteed on what basis?

25 MR. HORTIG: Based on the gross value of oil produced.

26 GOV. ANDERSON: Not the profit?

27 MR. HORTIG: No, sir. In other words, on the basis,
28 for example -- and selecting a value merely for illustration and
29 not because this has been calculated or even suggested -- it
30 might be specified that the operator would pay at all times,
31 after production was established and developed and oil was

1 actually being produced -- that the minimum net profit, irre-
2 spective of the percentage bid, minimum net profit payable to
3 the City and State could not be less than one-eighth of the
4 value of the oil produced. If the calculated percentage of the
5 net profit bid were greater than that amount of one-eighth of
6 the gross, then such higher value would be paid to the City and
7 State. If the calculated value were lower, the one-eighth is a
8 floor below which the payments could not be.

9 GOV. ANDERSON: One-eighth to the City and State, or
10 one-eighth to each?

11 MR. HORTIG: The exact value hasn't been selected.
12 If it were one-fourth, it would be under present law one-eighth
13 to each the City and State.

14 GOV. ANDERSON: But when we read various reports
15 about four and one-half billion -- the City and State will
16 receive one and one-half billion, which is approximately a
17 third; and then I hear one-eighth thrown in, and there is a
18 difference between one-eighth and one-third.

19 MR. HORTIG: This would be the suggested guaranteed
20 minimum and, as I say, this has not been calculated. It might
21 be twenty-five per cent by the time we recommend it to the Com-
22 mission, but the point is this would be one of the other fac-
23 tors which would be guaranteed in addition to the cash bonus
24 already received under this procedure.

25 MR. CRANSTON: Any further questions? Thank you
26 very much, Mr. Scott.

27 MR. MITCHELL: My name is Johnny Mitchell, and I am
28 with Jade Oil and Gas Company. I would like, first thing, to
29 compliment this meeting today, because it looks like a real
30 sincere business meeting and (inaudible to reporter and
31 audience indicated they could not hear.)

1 I would like to be as constructive as I can today and
2 answer the points that I feel are imperative for the quick prog-
3 ress of the Long Beach Unit Agreement. Can you hear me back
4 there?

5 In referring to Mr. Scott's opinion, I can go along
6 with Scott here in the undivided interest, but as an onshore pro-
7 ducer -- I mean, owner of onshore property -- I am deeply con-
8 cerned that my part of the property be produced in the most
9 efficient manner. Now, a division exists between companies
10 that can become too bulky. Naturally, the glory and the future
11 possibility of the oil in place at Long Beach looks like a
12 wonderful thing for a man to buy; but I worry, deeply worry,
13 that in the long run at great expenditure -- you talk about mil-
14 lions of dollars -- that the average small man that may be able
15 to buy into the bidding group may never be able to continue to
16 perform with the efficiency and rate of production that his
17 field has to have to pay out and pay the State and City.

18 I will read just a few lines of what I think my feel-
19 ings are, and I say here to you, Mr. Cranston: (Read from letter
20 of June 26, 1963 submitted at meeting):

21 " Jade Oil & Gas Co, is presently the owner of approxi-
22 mately 14% of the onshore leases. We at the present time
23 have approximately 1,600 onshore royalty owners. It is our
24 obligation to our royalty owners and to the welfare of
25 Jade Oil & Gas Co. that the combined operation of the on-
26 shore and offshore leases, under the field contractors
27 agreement, is so awarded that the present and future equity
28 of the successful bidder is great enough to insure a
29 selfish interest for the most efficient operation for the
30 next 35 years. Unless the successful bidder is permitted
31 to own enough equity in the undivided interest, it is reas-
onable to assume that this 35-year contract of operation
will lose efficiency caused by production problems and many,
many other unaccountable problems that will arise. We are
all aware that the successful high bidder will have to
furnish many of his key operating personnel for this great
project and unless the equity justifies it, the successful
bidder will be reluctant to transfer this key personnel to
the East Wilmington Unit. Without this key personnel, the
efficiency of his operation is sure to be impaired and the
State, the City of Long Beach and Jade Oil & Gas Co. will

1 "be the losers. For this reason, I firmly believe that the
2 initial 45% interest should be raised to approximately
3 75% or something in that category. In turn, the bonus of
4 \$20,000,000 can be raised proportionately. I sincerely
5 believe that in such a tremendous operation, a larger per
6 cent of ownership will automatically mean a higher bid.
7 For this reason, by raising this percentage to 75% or
8 better, it should result in a higher bid for the State and
9 the City.

10 On the remaining 25% interest, it could be divided in
11 any manner the State Land Commission desires.

12 It is the responsibility of the State Land Commission
13 that the successful bidder of the larger piece is never
14 handicapped by delayed payments, refusal of payment, or
15 subject to any opposition by the minority interests. This
16 contract should read that the minority interest holders of
17 the undivided interest must pay their proportionate part
18 of the operations currently, or their interest will revert
19 automatically, free of cost, to the field operator. Other-
20 wise, the field contractor will be unable to carry on its
21 obligation both to the State, the City of Long Beach and
22 to the other onshore operators. The State, the City of
23 Long Beach, and my company cannot jeopardize their future
24 interests in this combined agreement by subjecting them-
25 selves to the whims of the minority interest holders. It
26 would be unfair to have the successful bidder of the larger
27 piece be responsible for the minority interest group in
28 future operations. The minority bidders must be non-
29 operators in the field contractor's agreement or it will
30 mean that this operating unit will become a hodge-podge of
31 confusion and may become political again.

18 In Sections 2 and 3 of the calendar items, the State
19 can reserve part of the production for the State and City
20 to use or for the use of smaller refineries. However, this
21 reservation of production means that the State, the City or
22 small refineries must agree to purchase only the produced
23 oil at the same price as the other oil is sold. Secondly,
24 this reservation of production should be made on at least
25 a six months contract for only in this manner can the
26 field contractors produce and market the balance of his
27 oil properly.

28 The other points brought up are minor and may fit
29 into the contract, but they should not impair the effi-
30 ciency of the field contractor."

31 MR. MITCHELL: (continuing) Now, I want to bring one
point forward to you three gentlemen. I imagine in oil produc-
tion I don't think there's very few people in this audience that
has drilled as many wells as I have, that has worked in the
industry as long as I have, that has worked on import problems,
export problems. I know imports far more than even the majors

1 know themselves, because their interests are selfish and would
2 hesitate to say that by adding oil in California, wherever it
3 may be -- whether it be Wilmington or anyplace -- it will mean
4 that less oil will come in from Venezuela, Mexico and other
5 imports. At least, it means we will collect State revenue on
6 State oil. It will mean we will pay our own labor and materials
7 to produce our oil. It is the greatest incentive and the great-
8 est thing that happened to California in ten years. But if they
9 shut this thing down or operate it inefficiently to permit the
10 small refiners, who never contribute one bit of money to drilling
11 or producing oil - - Mr. Pauley is an exception; he drills oil
12 in California; most of the other refiners have to look for the
13 windfall of handouts, because every gallon they import they get
14 a dollar of benefit. The refiners are the only people that get
15 a subsidy and they are not entitled to it at the expense of Cali-
16 fornia production.

17 Now, you gentlemen should never worry about refiners'
18 problems because they contribute nothing to California economy.
19 I mean, this could be a great producing state. If refiners are
20 concerned about production, let them go out and drill like I do,
21 or Mr. Pauley does, or Standard, or anybody else; but they spend
22 all their time in Washington asking for an increase in refinery
23 imports so they can cut the prices of the domestic oil here in
24 California and impair our economy.

25 There is something to think about here, because if we
26 ever become self-sufficient, then in a national emergency this
27 State would survive. Right now, if we were at war tomorrow,
28 you would be without oil for sixty days -- no pipelines, nothing
29 but ships and sunken ships, and your sons and my son at the bot-
30 tom of the ships. We should look far ahead and pray and have
31 a chance to make our production. I don't care about the

1 Mexicans ... I am an American. I'd like to build up in my
2 state first, and the rest of them can go to hell.

3 One thing, too - - I think I've said enough.

4 MR. CRANSTON: Any questions?

5 MR. CHAMPION: I'd just like to ask Frank: In your
6 judgment, in the contracts as proposed are there sufficient
7 guarantees of performance for each of the undivided interests?

8 MR. HORTIG: Well, the proposal as before the Commis-
9 sion would provide for staff recommendation to the Commission of
10 limitations whereunder only the Field Operating Contractor would
11 have full field operating responsibility and there would be no
12 operating responsibilities or possibilities

13 MR. CHAMPION: I am not talking about that. I am
14 talking of financial responsibility. In other words, are we
15 adequately protected in the area that anybody who bid on an un-
16 divided interest would be required to have sufficient financial
17 responsibility?

18 MR. HORTIG: This is a definite intent to provide
19 this. This has not yet been written, because actually the un-
20 divided interest approach has not yet been authorized for study
21 by the Lands Commission.

22 MR. CHAMPION: Then let me ask one other question...

23 MR. CRANSTON: On that point, we definitely, if we go
24 to the undivided interest approach, we absolutely must have
25 guarantees that protect the field operator against defaults,
26 financial defaults, by holders of undivided interests. That
27 would be the unanimous agreement among us.

28 MR. CHAMPION: Except I'd like to make one comment.
29 I don't think the undivided interests should revert without any
30 consideration of anybody else to the Field Contractor. The
31 undivided interests should revert in accordance with percentages
across the board.

1 MR. CRANSTON: Any further questions or comments?
2 Does anyone else wish to speak? (No response) I think it would
3 be appropriate for Long Beach to say whatever it wishes to say
4 at this point.

5 MR. DESMOND: Mr. Chairman, members of the Commission,
6 the City did receive the calendar item, I believe, some time last
7 week and we have been studying it in the City Manager's office
8 and the City Attorney's office. When we have completed our
9 studies we intend to discuss it with the City Council and parti-
10 cularly with the Oil Committee of the Council, which is chair-
11 maned by Councilman Ray Kealer. We have no comment to make at
12 this time. We have started; we have followed with interest the
13 comments today, and we will study them and other things.

14 MR. CHAMPION: Do you have any idea when your com-
15 ments will be ready?

16 MR. DESMOND: No, I do not. We are at work on
17 another project, as I advised the Commission would be necessary,
18 and we realize that that is a different field, a different size,
19 and different stage of completion; and we are somewhat concerned.
20 We believe there will be some differences in what we have pro-
21 posed for the larger and new field than would be in the redevelop-
22 ment of the existing Harbor area parcels. But we are trying
23 our very best now to anticipate your questions and make sure
24 that this is satisfactory to you. We are working on that now.

25 MR. CHAMPION: I think there is no application
26 before us?

27 MR. DESMOND: That's right.

28 MR. CHAMPION: Are you working with the staff, so
29 that we will not lose time? We recognize your time problem on
30 the other. Is there adequate communication now, so we may
31 proceed together?

1 MR. DESMOND: Mr. Champion, the lines of communica-
2 tion are certainly open, as they have been at all times. We
3 have not yet discussed the matter with the staff. We are trying
4 first to make our own proposal, then we will take it up with the
5 staff.

6 MR. CHAMPION: I simply want to make it clear we
7 recognize your time limit and want to help you in any way. We
8 stand ready to act.

9 MR. CPANSTON: I would simply say the earlier time you
10 involve the staff in your thinking, the closer we will be to a
11 decision.

12 MR. DESMOND: Thank you.

13 MR. GOGGIN: Mr. Chairman, I would like to be heard.
14 I don't know whether you are going to reconvene at two o'clock
15 or not.

16 MR. GRANSTON: We are going to try to continue along
17 now if we can. Do you wish to testify?

18 MR. GOGGIN: May I? My name is George T. Goggin. I
19 am associated with the Douglas Oil Company of California and I
20 have been authorized by the Independent Refiners Association of
21 California to appear at this hearing on their behalf.

22 In reviewing the presentations made by Standard Oil
23 Company, we of course differ considerably with their application
24 of the principle of public policy insofar as monopoly and anti-
25 trust facets are concerned. The observation that they make that
26 this is loose talk and misunderstanding by certain members of
27 the industry is not justified in view of the case that has been
28 previously filed against them and the other six major oil com-
29 panies of this area. Also, with respect to the observation
30 made that the import program so far as foreign oil is concerned
31 is based upon a loaded formula to favor small refiners is also
in error.

1 Mr. DeMaris, Executive Vice President of this
2 association, testified before the Department of Interior at its
3 hearing in Los Angeles in May of 1961 and stated, among other
4 things, that by way of illustrating the demise of the independ-
5 ent refiner in this area, the record of the Bureau of Mines in
6 the California State Board of Equalization reveals that in 1940
7 there were fifty independent refiners in existence and today
8 that there are less than seventeen.

9 He further states that these facts will bear out the
10 extreme concern over the import program and illustrate in a
11 sense that the program is relatively more important to the re-
12 maining independent refiners than to some of our larger major
13 competitors.

14 The complexity of this program can best be illustrated
15 by a finding of the Department of Justice, which was incorpor-
16 ated in their civil action Number 11584-C, wherein it was found
17 that ninety-four per cent of the crude oil in this area is owned
18 or controlled by the major oil companies. I have been advised
19 that this control now approximates ninety-eight per cent. In
20 other words, you might say that the typical small refiner of
21 this State is completely at the mercy of his major competitors
22 for the very life blood of his refining operations, namely,
23 crude oil.

24 I can say without hesitation that without the import
25 program the independent refiner would be nonexistent in this
26 area. I don't think that there is a clearer example in any
27 other industrial area in the United States of the problems con-
28 fronting a manufacturer who must buy practically all of his raw
29 material, either domestic or foreign, from a competitor many
30 times his size and then attempt by whatever efficient means he
31 has at hand to compete in the open market with that same
company.

1 The immediate and extremely critical problem facing
2 most of the small refiners in this area is a steadily decreasing
3 supply of domestic crude. However, to generalize the condition,
4 the recent purchase of crude oil by the major oil companies has
5 in many instances placed some of these small companies in a
6 position where, due to lack of crude, their operations were
7 temporarily shut down. The only possible way that companies in
8 this predicament can survive is through the medium of increased
9 availability of crude. This problem of increasing nonavailabil-
10 ity of domestic crude has pinpointed an inherent weakness. With
11 the cancellation or lack of renewal of a domestic contract, if
12 a small refiner should find himself without an immediate source
13 to replace this loss, this results in a reduction of his runs
14 with a comparable reduction of his foreign crude quota, as
15 computed under the present formula.

16 With respect to that particular formula, which has
17 been classified by Standard Oil Company as being loaded in favor
18 of small refiners, let's take a look at it. The records show
19 with the first ten thousand barrels of crude oil that is through-
20 putted in a refinery, that that refinery will receive fifty per-
21 cent of the total amount of the input. If he runs between ten
22 and thirty thousand barrels, he will receive presently 25.9 per
23 cent of the amount in that classification. This is for both
24 the small and the big, so where is there anything loaded in this
25 formula? If a man has a five-thousand-barrel refinery or a ten-
26 thousand-barrel refinery, he gets the identical same percentage
27 as the giant that is controlling the market in this area, so
28 there isn't anything loaded except in the brain of the giant,
29 who tries to control this market.

30 Now, with respect to the case that was referred to,
31 that was filed by the Department of Justice, I wish to make

1 this quotation. In paragraphs 14 and 15 of that complaint, it
2 states that in January of 1948 there were approximately nine
3 hundred fifty producers of crude oil in the three producing
4 areas in California -- that's San Joaquin, Los Angeles Basin,
5 and the coastal region. Approximately fifty per cent of the
6 crude oil produced in these three areas is produced by the seven
7 defendant majors, approximately two per cent by the integrated
8 independent refiners, and approximately forty-eight per cent by
9 non-integrated independents engaged only in the production of
10 crude oil.

11 It further states that the defendant majors purchased
12 approximately ninety per cent of the crude oil produced by the
13 non-integrated producers. These purchases, when added to their
14 own production, provided defendant majors for refining purposes
15 with approximately ninety-four per cent of the total amount of
16 crude oil produced in the Pacific State areas.

17 The Justice Department stated in paragraph 19:
18 "Independent refiners of crude oil, when purchasing their sup-
19 ply, must pay at least the posted price of the posting defend-
20 ant majors. In many instances they are required to pay a bonus
21 or premium above the posted prices in order to secure adequate
22 supply, because of the dominant position of the defendant
23 majors."

24 In our opinion, it would appear that in the event
25 the present proposal, prior to the Chapman-Friedman report, is
26 approved, that the power of the one successful single combine
27 could very well unreasonably restrain trade and commerce, in
28 lessening competition, and in creating a monopoly. It could, in
29 fact, eliminate all real competition at all levels of the oil
30 industry and control the competition of independent producers
31 and refiners. It could make it impossible for independents and

1 smaller companies to compete effectively; and certainly it would
2 discourage new capital and new enterprise to enter the petroleum
3 business in any of its branches in California.

4 This oil field is reputed to be the largest undevel-
5 oped proven oil pool in the United States. We believe that
6 there is an obligation and a duty upon the officers of this
7 State to encourage that which is best for the public interest,
8 as well as that which will strengthen our national security and
9 improve our national defense. We, therefore, believe that the
10 proposal made by the staff of this Commission is a constructive
11 step forward, in order to attempt to protect the interests of
12 the smaller independents.

13 We believe, however, that the five undivided inter-
14 ests is not sufficient for the purposes that would enable the
15 smaller refiner to participate and we believe that a more equit-
16 able and more feasible formula on the division of interests
17 would be on this basis: Forty per cent for the successful field
18 operator; two fifteen-per-cent-increments; two ten-per-cent-
19 increments; one five-per-cent-increment; and two two-and-one-
20 half-per-cent-increments. On this basis we feel that we can
21 offer a bid, either individually -- separately or jointly --
22 and that we will have an opportunity to participate in the
23 actual ownership and the operation of this particular property.

24 It is all good and well to set aside a certain por-
25 tion of the production for the purpose of allowing the independ-
26 ents to purchase that oil; but they are purchasing it primarily
27 at the artificial or fictitious posted price that is fixed by
28 four major oil companies that are participating in this area.
29 We have gone through experiences that have shown that the posted
30 price does not reflect the true market price of the product;
31 and this was illustrated in the Suez crisis. When it was

1 resolved, the price of crude dropped fifty to seventy-five cents
2 a barrel at the market under the posted price of the major oil
3 companies, and I pose the question to you: Why did they not
4 lower that posted price to meet what the actual market price was?
5 And I throw out the suggestion for thought -- the depletion
6 allowance.

7 We believe that the public policy demands that this
8 State and that the City of Long Beach be not a party to anything
9 that will further monopoly or anti-trust in this area.

10 Thank you, sir.

11 MR. CRANSTON: Thank you. Any questions? Thank you,
12 Mr. Goggin.

13 MR. GOGGIN: Thank you.

14 MR. CRANSTON: Is there anyone else who wishes to
15 testify? (No response)

16 MR. CHAMPION: I'd like to offer a motion that in the
17 absence of comment from Long Beach, after all the major partner
18 of the State in this operation, that we instruct the staff to
19 again begin work on the necessary documents along the lines out-
20 lined in the staff report, but that any final commitment to these
21 principles be subject, first, to what comments we have from Long
22 Beach, and after the study of today's testimony that will be
23 offered; but I think we ought to get about the work of preparing
24 these documents on the principles that have been outlined here.
25 I think such changes that might come later can be worked into
26 it, but I don't think any time ought to be lost in that work.

27 MR. CRANSTON: Is there a second to that motion?

28 GOV. ANDERSON: Second.

29 MR. CRANSTON: The effect of that motion, as I would
30 interpret it -- I am not wholly clear on what we are doing.
31 The Lands Commission, in effect, tentatively approves the staff

1 recommendation as outlined in this calendar item; that there is
2 nothing inflexible in our decision. We recognize we are in part-
3 nership with the City of Long Beach, and as we took time, and
4 considerable time, to study what they recommended to us, we
5 recognize their right and need to have whatever time they need
6 to examine our thinking on the subject; and there can be further
7 negotiation and further efforts to come to an agreement if they
8 find there will be any segments they want to change.

9 I think the Lands Commission will have the say on the
10 vote, but we have the need for activity and further action back
11 on Long Beach's standpoint. Is that a fair statement?

12 MR. CHAMPION: Yes, it is. I think also we should not
13 conclude that the Commission itself might not have further exami-
14 nation of some of the points. There may be some

15 GOV. ANDERSON: I'd like to ask Frank one thing. I
16 am in favor of the motion, I seconded it; but there is one point
17 I am not too clear on. What is our present status? What are we
18 thinking of as to the price we pay to the City and what is the
19 present view of the staff as far as posted price or average price?
20 On what basis would the price be determined?

21 MR. HORTIG: The answer, Governor -- in view of the
22 fact that there have also been other problems raised with respect
23 to both applicable price and production limits and standards as
24 contained in the present agreements, which must be clarified or
25 desirably should be clarified in order to eliminate any misunder-
26 standing and any ambiguities -- with respect to price as such,
27 it is the intention of the staff to recommend including in the
28 final draft of the documentation some price basis that will
29 clearly reflect calculations of returns to the State on the
30 reasonable market value of the production.

31 GOV. ANDERSON: Now, in our present leases -- not

1 what we are talking about today, but the other leases -- we are
2 using the current market price, but not less than the highest
3 quoted price?

4 MR. HORTIG: That is correct. However, even that re-
5 quires qualification and probably amplification; and in the new
6 contract, because of the question that has been raised heretofore
7 on definition, there is included the term "substantial quantities"
8 and patently there must be agreement on minimum limits of what
9 would constitute substantial quantities. This, at least, would
10 have to be defined additionally, over and above the present
11 definitions.

12 GOV. ANDERSON: As a result of this motion, then, you
13 will be coming in with a recommendation that you think will meet
14 what I am concerned with here, and at that time we can discuss it
15 back and forth?

16 MR. HORTIG: That is correct, sir.

17 MR. GRANSTON: Any further discussion? (No response)
18 If not, the motion is adopted unanimously by the Lands Commission.

19 At this point, to spare the girls that are busy taking
20 all this down, we will take a five-minute recess, but we will
21 then seek to complete the calendar.

22 (Recess 12:30-12:37 p.m.)

23 (END OF ITEM -- Balance of meeting not reproduced
24 on stencils)

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