with the City Council of Long Beach in regard to the proposed development of the East Long Beach Wilmington Oil Field. It is the suggestion of the Lands Commission that this review be commenced at the staff level, and the Commission hereby authorizes the Commission's staff to meet with the City Council's staff for this purpose at a mutually convenient time subsequent to this afternoon's joint Commission-Council session.

I move that is the present statement of position by the Lands Commission on this matter.

GOVERNOR ANDERSON: I will second the motion.

THE CHAIRMAN: It has been moved and seconded that this position be adopted, which I think opens the way to a productive discussion this afternoon by the Long Beach City Council.

Is there any discussion or comment from Long Beach on this statement?

MR. LINGLE: I am Harold Lingle, Deputy City Attorney. I can only think that your suggestions will lead to progress. I am not authorized to make any statement on their behalf. I know that we have considered it, the points, point by point, and I know the staffs are certainly more than anxious to meet with your staffs.

1 THE CHAIRMAN: Thank you, Mr. Lingle.

2 GOVERNOR ANDERSON: What is the status of this meeting
3 this afternoon? Is this a meeting of the Lands Commission?
4 What is the legal status of it?

5 THE CHAIRMAN: I think under the circumstances that we
6 are the guests of the Long Beach City Council at a regular
7 meeting of the Council. Is that your understanding?

8 MR. LINGLE: It is a regular meeting, a meeting of the
9 Council. I don't know, I can't speak for -- you certainly
10 are guests. (Laughter.)

11 THE CHAIRMAN: Self-invited guests.

12 GOVERNOR ANDERSON: As long as we will be discussing
13 matters, is this in any way in conflict with the Brown Act?
14 Am I correct, is this meeting that we -- is there any
15 guidance that we should have as to what we can or cannot do
16 at this meeting this afternoon?

17 MR. GOLDIN: In my opinion it would not violate the
18 Brown Act.

19 MR. CRANSTON: It certainly won't be secret.

20 MR. GOLDIN: Your meeting today will be open. I am
21 relatively certain that the Commission will not take any
22 formal action this afternoon. I think the purpose is to
23 exchange ideas toward the end of arriving at a constructive
24 solution, and I see no legal impediment to such proceeding.

25 THE CHAIRMAN: With that I think then that the motion
26 stands adopted, and in the absence of any further -- is there

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any further?

MR. HORTIG: There is.

THE CHAIRMAN: Oh, supplemental item.

Well, the time has been amended to 2:30 instead of 2:00.

MR. HORTIG: 2:30 p.m.

THE CHAIRMAN: Do you wish to speak on the supplemental item?

MR. HORTIG: Yes, Mr. Chairman. As the Commissioners will recall at the request of the office of the Attorney General you gentlemen individually have heretofore executed a letter of understanding which was delivered to the City Attorney's office of the City of Long Beach with respect to the disposition and continued payment of tideland oil funds under the section, under the provisions of Chapter 29, 1963, and under the provisions of the Public Resources Code. For your action to have full validity and full support, that is required, it is required that such action be pursuant to a resolution adopted by the Commission at a meeting, and therefore it is recommended that the State Lands Commission ratify, approve and confirm the arrangement with the City of Long Beach pursuant to which, one, the City of Long Beach will forward to the State of California the full statement of tideland oil and dry gas revenue due to the State without deducting therefrom any sums sought to be collected under the provisions of Section 710 of the Code of Civil Procedure, by

any alleged or judgment creditors; 2, that if any final judgment requires the City, its officials or employees, to pay any sum in connection with the case of Howard E. Shoemaker, et al., vs. the State of California, San Diego Superior Court case number 238691, the City is authorized to deduct any amount that it or any of its officials or employees are required to pay from any future oil or dry gas revenues due to the State of California; and 3, that the State of California will defend the City, its officials or employees in any action filed against them because of their failure to make payment to the San Diego Superior Court on behalf of Howard E. Shoemaker, et al., pursuant to filings under Section 710 of the Code of Civil Procedure; all as more particularly set forth in the Attorney General's letter dated October 28, 1963 to the Long Beach City Attorney.

THE CHAIRMAN: What is the pleasure of the Board?

GOVERNOR ANDERSON: I move it.

MR. CRANSTON: Second.

THE CHAIRMAN: Stand approved.

No further matters to come before the Commission -- we stand adjourned.

(Meeting adjourned at 12:30 P.M.)

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STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

I, Margaret L. Lombard, CSR, Hearing Reporter for the Office of Administrative Procedure, hereby certify that the foregoing pages Number 1 through 81 contain a full, true and correct transcript of the stenographic notes taken by me in the Meeting of The State Lands Commission of the State of California, in Los Angeles, California on November 6, 1963.

Margaret L. Lombard
Margaret L. Lombard, CSR
Hearing Reporter

DATED: December 12, 1963.

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TRANSCRIPT

SLC & Long Beach

City Council

Off Shore Oil

CONTRACT

November 6, 1963

REPORTER'S TRANSCRIPT

Joint Meeting of The

STATE LANDS COMMISSION

and The

LONG BEACH CITY COUNCIL

AT LONG BEACH, CALIFORNIA

NOVEMBER 6, 1963, 2:30 P.M.

PURPOSE: TO DISCUSS VARIOUS ASPECTS OF THE PROPOSED OFFSHORE OIL CONTRACT

P A R T I C I P A N T S

STATE LANDS COMMISSION:

Hon. Hale Champion, Director of Finance, Chairman

Hon. Alan Cranston, Controller

Hon. Glenn M. Anderson, Lieutenant Governor

Staff: Mr. Alan Sieroty, Executive Secretary to the Lieutenant Governor

Mr. F. J. Hortig, Executive Officer

Mr. T. W. Kreft, Assistant Executive Officer

Mr. Irwin J. Nebron, Deputy State Controller

OFFICE OF THE ATTORNEY GENERAL:

Mr. Jay L. Shavelson, Deputy Attorney General

Mr. Ernest E. Sanchez, Deputy Attorney General

LONG BEACH CITY COUNCIL:

Hon. James A. Hayes, Vice Mayor, 4th District (acting as Mayor Pro Tempore)

Councilman Raymond C. Kealer, 1st District

Councilman Bert Bond, 2nd District

Councilman Emmett M. Sullivan, 6th District

Councilman William S. Grant, 3rd District

Councilman William A. Graham, 8th District

Councilman R.E. "Pat" Corbett, 9th District

Councilman Robert F. Crow, 7th District

CITY OF LONG BEACH:

Mr. John R. Mansell, City Manager

Mr. Gerald Desmond, City Attorney

Mr. Harold A. Lingle, Deputy City Attorney

Mr. Leonard W. Brock, City Petroleum Properties Administrator

--oo0oo--

Reporter:

LONG BEACH, CALIFORNIA, WEDNESDAY, NOVEMBER 6, 1963, 2:30 P.M.

ooOoo

VICE MAYOR HAYES: Come to order. Madam clerk, will you call the roll?

(Roll called by the city clerk, indicating Councilmen Kealer, Bond, Sullivan, Grant, Graham, Corbett, and Vice Mayor Hayes present.)

THE CLERK: Mr. Mayor, we have the affidavit of posting order of adjournment to be received and filed.

(Moved and seconded.)

THE MAYOR: No objection; it is so ordered.

Ladies and gentlemen, we are gathered here today in an adjourned meeting of the Long Beach City Council, and we are pleased to have with us in attendance at this meeting the members of the State Lands Commission of the State of California.

The purpose of this meeting is to discuss various aspects of the offshore oil contract, proposed contract, and to that end we intend to inquire and to present certain matters to this body and to the State Lands Commission. This is an informal meeting. Neither body is intending by this meeting to take any formal action, but it is an exploratory session.

For purposes of identification I would like to introduce to each of you, so that all of you are familiar with them, the members of the State Lands Commission and also the members of the City Council. First of all, sitting on the stand here with me, the Chairman of the State Lands Commission and the Director of Finance of the State of California, Mr. Hale Champion. And seated at the end of the council table to my right, the Controller of the State of

California, member of the State Lands Commission, Mr. Alan Cranston. And to the left, the Lieutenant Governor of the State of California, member of the State Lands Commission, the Honorable Glenn Anderson.

Members of the City Council seated to my right and around the table, Mr. Raymond C. Kealer of the 1st District, Mr. Bert Bond of the 2nd District, Mr. Emmett Sullivan of the 6th District, Mr. William S. Grant of the 3rd District, Mr. William Graham of the 8th District, Mr. "Pat" Corbett of the 9th District. And I am James A. Hayes of the 4th District, presiding today as the Vice Mayor in the absence of the Honorable Edwin Wade, the Mayor, who is visiting the Mayors Conference in Japan.

I would like to request each of you who speaks today, because there are many of you here, to identify yourself at the time that you speak, so that the reporters are able to identify you in the record. Also I would like each of you to use the microphones in order to make it possible for everyone in the room to hear.

I neglected to mention, and I think I should introduce at this time the Executive Officer of the State Lands Commission, who undoubtedly will be speaking considerable today, Mr. Frank Hortig.

Now at this time I would like to introduce Mr. Champion, to make whatever remarks he would care to make at this time.

MR. CHAMPION: Thank you. We appreciate very much this opportunity to meet and discuss these matters with you today, and as you said, the Commission itself is not in any kind of a formal meeting, and the remarks we make will be as individuals in this kind of an exploratory

1 session, and when I speak, I included, I do not necessarily
2 speak for the Commission, and that will be true of the other
3 members. We want to enter in to a free and full discussion.
4 As a matter of fact, there may even be still some differences
5 of opinion on some various points. The main thing is we
6 want to explore them.
7 One thing that I think is germane to the meeting,
8 the Lands Commission met in Los Angeles this morning, and
9 on the motion of Mr. Cranston we adopted the following
10 resolution:
11 "I move that the State Lands Commission
12 hereby express its desire to enter into
13 a point by point review of the points at
14 issue between the Commission and the City
15 Council of Long Beach, in regards to the
16 proposals for development of the East
17 Long Beach-Wilmington oil field. It is
18 the suggestion of the Lands Commission that
19 this review be commenced at the staff level,
20 and the Commission hereby authorizes the
21 Commission's staff to meet with the City
22 Council staff for this purpose at a mutually
23 convenient time subsequent to this afternoon's
24 joint Commission-Council session."
25 This was unanimously approved by the Commission.
26 The purpose of that is to move us from the situation, "you
27 have a proposal, and we have a proposal," and to try to get
28 a review on individual items to see whether there can be
29 some meeting of the minds. I know members of the Commission
30 in certain areas think that, on review, perhaps some of the
31 things that have been put forth by Long Beach in the past

are correct. We probably would agree with some items on review. There are others on which we think that there is a middle ground between the position of Long Beach and of the Lands Commission. In fact, sometimes in a couple of cases that I can think of, I think the middle ground is more desirable than either of our positions just on its own, without regard to its being middle ground. And it is just to discuss that sort of thing that we wanted to meet with you today, and appreciate this opportunity. I would hope that this exploratory session could open the way, in line with this resolution, to the City Council having some sort of similar action, so that our staffs could get back to work after we have broken the ground here this afternoon, and proceed with this matter which is of such great importance both to you and to us. Thank you very much.

THE MAYOR: Thank you very much, Mr. Champion. I am sure this will be the means of perhaps getting over some of the rough spots that have been inherent in the past.

I'd like now at this time to call upon the Chairman of our Harbor Industries and oil Committee to make a presentation concerning the history of this matter, if you would, Mr. Kealer.

MR. KEALER: Thank you very much, Mr. Mayor.

Mr. Chairman, members of the Commission, guests and friends: this in brief is a short summary of what has taken place, merely to bring us up to date, and before I even attempt to read it I -- it is my belief and I think it is that of my colleagues that when two agencies get together with the objective of getting something done, areas of agreement can always be found. It is my belief that will

1 happen after this meeting. Also the Mayor called for an
2 adjourned meeting in the event that the Council wanted to
3 act on the very thing you mentioned. We will be in a
4 position to do so. And now with your permission I will
5 read this statement:
6 (Councilman Robert F. Crow entered at this point.)
7 "It seems appropriate at this time, particularly
8 since three of our nine councilmen have taken
9 office since July first of this year, to give a
10 brief resume of the circumstances leading up
11 to today's subject.
12 For a considerable time past - a number
13 of years in fact - it has been believed that
14 oil deposits were present in the area east
15 of Pine Avenue and lying mostly offshore.
16 State officials were interested in ascertaining
17 when the City, as the trustee of the granted
18 offshore lands, would take steps to bring
19 about development of the area. However,
20 with the terrible consequences of subsidence
21 in the harbor district still plaguing the City,
22 it was necessary to attain a full solution
23 of that problem before undertaking a new
24 project which might have similar tragic
25 results. Furthermore, a long standing
26 Initiative Ordinance banning oil drilling in
27 a large part of the City had been extended in
28 1956 to prohibit drilling in the undeveloped
29 offshore area without prior approval of the
30 voters.
31 A new City Council term began in July of

1960 and with the prospect good for a full solution in the near future of the subsidence problem, the City Council asked that studies be undertaken to determine what legal or engineering considerations would have to be taken into account. In November of 1960 the City Attorney's office gave the Council an analysis of the legal aspects of the City's responsibilities regarding possible future oil production and regarding subsidence. And on October 21, 1962, the Petroleum and Subsidence Control Division of the Long Beach Harbor Department published an extensive report of their year-long studies and set forth a development plan for the undeveloped townlot and offshore areas of the Wilmington Oil Field.

After considerable further study by the Council's Oil Committee and by the City Council, there was prepared an ordinance implementing the Initiative Ordinance by providing a program for the orderly development, from four islands, of the oil reserves both offshore and upland. A special municipal election was called and on February 27, 1962, the measure was overwhelmingly approved by the voters.

Immediately thereafter, on March 7, 1962, the first of a great many meetings with State officials was held in the Los Angeles office of the State Lands Division. There it was fully understood that development of the area would only be undertaken on a unitized basis

and the first effort to be made was to reach an agreement on the formation of a unit which would be satisfactory not only to the City and State but also - so that they would be executed - the contracts had to satisfy the owners of the upland property or those to whom they had leased, with six or seven oil companies holding the vast majority of the upland area's rights.

From May through August of 1962 meetings were held to work out the necessary Unit and Unit Operating Agreements and the supplementary exhibits thereto.

In addition to the creation of a general Management Committee, others were established to cover specific phases of the problems including an Engineering and Equities Committee, a Legal Committee, an Accounting Committee and a Tract Exhibits Committee. During the four months referred to in addition to the meetings of the technical committees there were fifteen meetings of the Management Committee, the last being on August 29, 1962. Full acceptance of the contracts which resulted was arrived at and the Unit and Unit Operating Agreements were printed and published October 1, 1962.

At all of such meetings, various State offices were represented but it was made clear by the representatives that they were present as auditors and not as voting participants.

Meanwhile, offices of the City Attorney and the City Manager had commenced the drafting

of a field contractor agreement which would be put out for competitive bid. The first draft was completed in October of 1962 and distributed to the State Lands Division, the Attorney General and to some forty companies in the oil industry for the purpose of soliciting suggestions, for the City has always kept in mind the necessity of producing a document which would attract a high number of qualified bidders. Therefore, suggestions received from the industry were weighed carefully in the production of the final draft of the Field Contractor Agreement which in February of 1963 was submitted to the State Lands Commission for approval and first considered by the Commission at a lengthy hearing on February 28. Many suggestions of the State Lands Division and of the Attorney General were included within the final draft and in certain side agreements requested by the Attorney General and approved by the City Council.

Discussion on the proposal was taken up at the Commission meeting one month later. Then, at the recommendation of the Commission, on April 15 and April 22, full days were devoted to a public review of the documents - the Field Contractor Agreement, Unit Agreement, Unit Operating Agreement, the Exhibits thereto. The State Lands Division, the office of the Attorney General and representatives of the City participated in the explanation of the documents

to the oil industry and other interested parties. Further meetings of the State Lands Commission took place on April 25 and May 23.

In the meantime, the State Legislature was in session from January 7, 1963, and a special committee of five Senators was appointed by the Senate Rules Committee to participate in the hearing conducted by the State Lands Commission on February 28. On March 21 four of the committee members submitted a resolution (SR 100) which requested the Lands Commission to withhold its determinations with respect to all of the documents relating to the proposed oil development program and asked that the General Research Committee of the Senate be directed to make an appraisal of the proposal and to report at the current session of the Legislature.

The resolution was adopted by the Senate, a special subcommittee of the Senate General Research Committee was appointed with Senator Virgil O'Sullivan as chairman, the subcommittee employed three Washington lawyers including Oscar L. Chapman to study and report to the subcommittee. On May 18, the report was filed and it was reviewed at a public hearing in Sacramento on June 3, 1963. On June 10, the subcommittee released a progress report. The Legislature adjourned on June 21.

The State Lands Commission at its regular meeting of June 27, 1963, directed the Lands

Division to redraft, in conjunction with the City, the contractual documents with four principal changes as follows:

I. Tract No. 1 (the offshore area between Pine Avenue and the former Alamitos Beach State Park) to be offered in five undivided interests of 45%, 25%, 15%, 10% and 5%, with the successful bidder for the 45% interest to be the Field Contractor, and with cash bonuses on all five interests.

II. A reservation of the right by City and State to take 12-1/2% of production in kind.

III. An option to the City and State to take an additional 12-1/2% of production in kind.

IV. Establishment of a minimum guaranteed operating profit to the City and State by specification of a percentage return of the gross value of production.

Consideration of the foregoing proposed changes was undertaken by the City and, at its regular meeting on September 24, the City Council rejected three of the proposals and approved the second for a reservation of the right to take 12-1/2% of production in kind. The City Council then unanimously adopted a resolution, later transmitted to the Lands

Commission, reaffirming its approval of the Field Contractor Agreement in the form as originally submitted with the one modification just referred to.

A suggestion was then made that the City Council and the Lands Commission meet together to ascertain if a mutually satisfactory conclusion could be arrived at. May I close this summary by stressing these thoughts: First -- every day that passes without undertaking the development of the field means a delay in the receipt of vitally needed revenues. Second -- the Unit Agreement will have no force or effect, without an agreement for extension, if it is not effectuated by January 1, 1964. Third -- all indications are to the effect that this is a propitious time for letting the area for bid, a situation which might not prevail in the future. Fourth -- the documents submitted for approval - the Unit Agreements prepared by the representatives of the working interests and the field contract prepared by the City with the aid of the Lands Division and the Attorney General - have been prepared by legal, engineering and other experts in the oil development field based on local experience where problems similar to those which must be faced have already been encountered and appropriately handled. Fifth -- the public interest in the development of the oil resources has been kept uppermost in preparing the documents which the City believes will prove

1 even more beneficial from the public standpoint
2 than the agreements which in the past have
3 drawn praise as the finest in the history of
4 the oil industry.
5 We have prepared and will distribute at
6 this time pages setting forth the contract
7 proposals and the Commission's recommendations
8 in respect to the four facets of the documents
9 discussed by the Commission at its June meeting.
10 It may be noted in passing that as to the four
11 recommendations for change, the final draft of
12 February 25, 1963, did not vary in these areas
13 from the draft of October 1962."
14 That closes my statement. And Mr. Mayor, and
15 Chairman, should I read this? I have been asked to read
16 these, the contract proposals.
17 MR.DESMOND: Mr. Kealer, I would suggest that since there
18 are four and they are separated in four different proposals
19 of recommended changes, that you read the one first, and
20 then see if there are items to be discussed, and then go
21 to the second one, rather than --
22 MR. KEALER: I believe it will be found that on each
23 of these pages that each page contains one of the proposals
24 and then there is room for notes, if any wish to be taken.
25 The contract proposes:
26 Tract No. 1 to be offered in one undivided 100%
27 interest, the successful bidder to be determined
28 by ascertaining the highest net profit to be
29 shared by the City and State with a provision
30 for 51 million dollars to be advanced by the
31 contractor to the City and State over the first

three years of operation, such payments to be treated as advance production payments.

The Commission recommends:

Tract No. 1 to be offered in undivided interests in the proportions of 45%, 25%, 15%, 10%, and 5%. The successful bidder for the 45% interest to be designated as the Field Contractor to assume all obligations of developing and producing the field, and to be the sole beneficiary of the "Administrative Overhead Allowance" (currently proposed at 3%). The 45% interest to be offered for the consideration of a fixed cash bonus in the amount of $20,000,000, with the biddable element to be the percentage of the net operating profits offered. The remaining undivided interests (25%, 15%, 10%, and 5%) to be offered for the consideration of a fixed percentage of the net profit equal to the net profit bid on the 45% interest, plus payment of a cash 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.)

That is left for notes. If it is the will of your honorable body, gentlemen, I can read the others or I can stop any time you ask me.

On page two in item II the contract proposes: -- do you wish to comment on the other one?

MR. CHAMPION: Well, I have a comment on it, if you want to do it now.

THE MAYOR: I would think it might be more orderly if we have our observations on each portion of the contract as we go along.

MR. CHAMPION: As a basis for discussion on the differences here, I have a couple of suggestions, and these aren't fixed, but I think they offer some principles of meeting the differences here. One is that I think a better way to approach the problem of the initial payment is in this form: To make a total advance production payment as originally suggested by you of the $51 million dollars to be paid at the time the contracts are awarded, the contractors to recover their share of the advance production payment without interest out of the first net profits. Now I think this meets the tax problem, and perhaps will bring us a greater economic benefit; this in lieu of the bonus arrangement. In other words, we would go to an advance royalty and return some, from that. That's one general principle. Of course, there are a number of details in connection with that.

Another suggestion I'd like to make, and that is that these percentages in the undivided interest, I feel very strongly that there should be undivided interest for a number of reasons, but I -- I do have reservations about having no one with a majority control.

Let me say this: I don't think there is any problem at all, as I understand it, among us on the unit agreements. I think that there are also substantial advantages, both economic advantages and operating advantages, to having the winner of the major undivided interest have more than 50%. I was going to suggest 60%.

I am also concerned that perhaps a breakdown at the

other end, somewhere where we had heretofore listed 5%, and I don't know exactly where this 5% might come from, but ought to be broken, one 5% segment or 5% from one of the other segments, ought to be broken into smaller portions. This goes into some other problems, but I think probably this would permit some refiners to benefit from this who would not benefit from the 12-1/2% provision for taking in kind. This would give them an opportunity to participate. These are in this general area, these are the two suggestions I'd like to make personally. Perhaps other members of the Committee might like to.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Mr. Mayor, Mr. Champion, we councilmen are lay people, and we are dependent pretty much on, as some of you gentlemen are on technicians, experts in oil production. We have been told, convinced, Mr. Chairman, that our submitting of the proposition of one unit, or 100% interest will bring the greatest number of dollars return to the State of California and the City of Long Beach. We feel that we have submitted to you, and the way of procedure is, is the best form of development under good oil field practices to develop the fields as economically as possible, and also to protect the City against subsidence. But I believe that we would have to be convinced, and I am open for conviction, I have to go with our technicians just like you gentlemen do, I don't have the privilege in my responsibility to say, "Well, let's let a lot of people in the act." I think our responsibility is to try to get the most number of dollars to the people of the State and the City of Long Beach. We are partners. Now, I am open for conviction, if somebody can show me that they have a better

form of contract than what we have submitted to you gentlemen for your consideration, I am the first one to say, I will support it. But I don't believe that I, as a Councilman, in my responsibility can support a type of procedure that will lessen the dollar return. I think that that's the responsibility of public funds, and I know you as the Chairman of the Lands Commission have to live with it every day, and it is a great problem, and I think that is where we have this troublesome problem, is that we feel this will bring the most dollar return. Now if there is a formula that will accomplish a better return to the people of the State under these circumstances of good oil field practices, I am for it.

MR. CHAMPION: Well, I'd just like to comment briefly on that. I don't think we are far on the facts, at least as I see them. I think there may be a chance that a hundred per cent thing would return the greatest degree. As far as the Lands Commission is concerned, or -- I am again speaking for myself -- I think that is a questionable item. I think there is a lot of speculation as to which way that might go.

But, as I think we made clear in the other discussion we have had, we feel that there is an element of public policy in terms of control of all of this oil, and that there must be some provision to make sure that this is not a monopoly situation, even if a monopoly situation would produce the greatest economic return.

It would be nice if you could operate government totally like a business, and the dollar decided everything. In some ways it would make it a lot simpler. But we have a good many other considerations in public policy here, and particularly in the oil market, and without going into

specific percentages, I think that the Commission on principle all, all believe strongly in the undivided interest theory, to one degree or another.

THE MAYOR: Mr. Cranston.

MR. CRANSTON: Yes. Let me say first, that I feel that the sort of discussion we are having right now is primarily designed to lay the groundwork, I would think, for further exploration by the staff. We can now just explore where there is room for further consideration, and I think make it plain that as many of us as possible are not firmly committed to rigid positions that can't perhaps be ironed out in one way or other. I think we will find some position between, and that perhaps cannot be changed.

Commenting upon what Hale said, I do believe that an alternate method such as the one that he proposes, so far as the initial cash is concerned, is the middle ground between what we would propose, after you made a different proposal, and without committing myself to supporting that at the present time, it seems to me that what he suggested is probably -- and of course it should be acceptable both to the State and the City -- I recommend that we look into it.

On the matter of the undivided interest versus a 100% share, I don't think that it is possible to really decide which way is going to produce more money. You can build a plausible case for somebody paying more for 100% than he will pay for less, because he wants full control. On the other hand, I think you can make an equally plausible case that you can get heightened bidding, heightened participation, and hence more money by having some undivided interest.

I do believe with Hale that a matter of principle is involved here, and that we should not

easily depart from the idea of breaking the field up in some fashion in terms of undivided interest. But I am not firmly committed to any great rigid formula, 45%, 25%, etcetera. I think that they should explore what makes the most sense. I do concur with Hale that we should have some smaller units, such as the two-two-one, very small collection of three units, and I am willing to consider, what is wiser than 45%? I wouldn't be inclined, I think, to go higher than say, 51%, but again I am not trying to be rigid there.

GOVERNOR ANDERSON: Mr. Chairman?

THE MAYOR: Are there any other observations on this first point? Governor Anderson.

Could you use that microphone, Governor, please?

GOVERNOR ANDERSON: Oh yes. First, I'd like to say that I think Hale pretty well gave the general feeling of the Commission. I feel that the -- that we are all agreed on unit agreement, on the unit agreement approach. An advance royalty without interest is one that I hope that we can all agree on, and the break-up of the five per cent into the smaller amounts, again I can't see any reason for having a problem, having a problem on that. The speculation that, as Mr. Cranston pointed out, that the bigger bidder, if you had 100%, would pay more for this hundred per cent, or this monopoly, or control, or whatever you call it, is something that is highly speculative, and if it were true, I would feel that there would be inherent danger in what they would be paying for, which would be one of the things that would concern me. Frankly, I have felt that open competitive bidding, letting more people in, would result in more money than if we have the 100% offering, which would be so big that it would eliminate most of the

prospective bidders in California, and this is one thing I do not want to see, and I would rather see it broken up as it was originally suggested, so that we could have more free competitive open bidding in California. And I think that even if it brought in less money, which I am not willing to accept at this time, because I think this, as Mr. Cranston pointed out, you can raise an argument both ways on this, but that even if it did bring in less money, the interests, the public policy, the fact that California, the City of Long Beach, would be establishing a policy against monopoly control, I think that in itself has some value, and that is in a sense, in a nutshell, how I feel. I am not even entirely convinced, but this is the sense I feel at the present time.

THE MAYOR: Mr. Crow?

MR. CROW: I have a question. When the term "monopoly" comes up, Governor, on what basis would you, or could you, or have you been advised that such a situation exists? Is it not so that the City of Long Beach and the State of California have surveyed this question quite thoroughly through their legal channels, and perhaps there is something that you could add to it by telling us of what the findings have been. Has there been monopoly, has there not, Governor? A direct question to you, that you have been advised by the Attorney General's office that such a situation does exist?

GOVERNOR ANDERSON: I used the word that a 100% offering, a 100% control or monopoly, or whatever you call it -- maybe we are talking about semantics here. When I see a field the size of this being in one hand, to me this tends toward monopoly. It is a large portion of the production of California, and this is the one thing that I am concerned

with. I don't want to see any sizeable unit that could influence the production of oil in California, could influence the cost or anything else.

MR. CROW: I appreciate that answer, but my question was, have you ever been advised by the Attorney General's office that such a situation exists?

GOVERNOR ANDERSON: Such a what?

MR. CROW: A monopoly under these conditions.

GOVERNOR ANDERSON: We are talking about something brand new. We are talking about a bigger field than any of us have ever been involved with. This field in itself can be a condition that never existed and can develop into a tendency toward monopoly in California.

MR. CROW: But then I would gather that in either event from a research standpoint there has been no criticism of one over the other as far as the legality, or that a monopolistic situation does exist in the City's preference on this item I?

GOVERNOR ANDERSON: I would say that the recommendation we made is one that would protect against any monopolistic condition that could develop. We are talking about a field that will be 25% or upwards of the total in the State. There is a lot of oil here.

THE MAYOR: Mr. Champion?

MR. CHAMPION: I'd like to comment that we have, of course, discussed this with attorneys in the Lands Commission We have not raised this as a legal question, that is, a violation of any statutes. We raised it as a matter of public policy rather than legality. I don't think but that there is any question that we have adequate law to deal with antitrust situations. However, this discussion has been

in terms of public policy in the Attorney General's office, and these discussions have felt that this was a serious question of public policy, but not of legality, illegality.

MR. CROW: Mr. Champion, we have also done the same thing on our level, and we have been advised that such a situation does not exist, that it would not be a monopolistic type of contract. That's where I believe that we may be allowed to ask as to who may be right and who may be wrong.

THE MAYOR: Well, I think, Mr. Crow, and gentlemen, I think the problem is one of the use of words. I think everyone is agreed that it is a public policy matter that we are talking about, rather than a monopoly in the true legal sense. I believe that members of the Lands Commission have indicated today that they are not talking about monopoly in the true legal sense, but rather as a public policy matter. Am I correct, Mr. Champion? You have not received an opinion from your Attorney General's office or from the members of your Lands Commission that the proposed contract which we have submitted to you is in any sense violative of any of the antitrust laws?

MR. CHAMPION: No, we have not, and I don't think that we have ever raised the question, the question that it might be.

MR. CRANSTON: I think we are really talking about two separate things, and you, I suspect that you have not been advised by your staff that there is or there is not a public policy. You have asked your staff different questions than we have asked our staff.

THE MAYOR: That is correct.

MR. KEALER: I might just make one statement. In all of my experience in the industry you'd never know where the

top dollar is. You just do what you think is the best deal and get the best deal you can, and get the top dollar.

Item II is the contract proposes:

"The contractor is obligated to take and account for 100% of the production.

The Commission recommends:

A reservation of the right to elect to take 12-1/2% 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.

This recommended change approved by the City Council on September 24, 1963."

MR. CROW: May I ask a question, Mr. Kealer?

THE MAYOR: Mr. Crow.

MR. CROW: Mr. Kealer, was it not the intent of the City Council on September 24 when they agreed on reservation of the right to elect to take 12-1/2% of production in kind, so as to satisfy the smaller refineries, was that the intent as far as the Council of the City of Long Beach?

MR. KEALER: Yes.

MR. CROW: It was.

MR. KEALER: Yes.

THE MAYOR: Any other comments? Mr. Sullivan.

MR. SULLIVAN: Mr. Crow, I am under the impression that there was an informal suggestion by a representative of the Department of Justice that if this did take place, that then would eliminate any possibility of monopoly or freeze-out on the smaller refineries, and I think that that was one of the strong arguments for me to vote for it.

MR. CROW: Right.

THE MAYOR: Excuse me -- Mr. Champion, go ahead.

MR. CHAMPION: Well, I think Mr. Sieroty was probably -- would like to raise the same point that I had in mind. Mr. Sieroty is Lieutenant Governor Anderson's assistant.

MR. SIEROTY: Yes, sir.

THE MAYOR: Would you push in the side of your microphone, please?

MR. SIEROTY: I was going to raise this point, however, that under present State law this 12-1/2% "sell-off" would not, could not be used to sell solely to small refiners or small business. The Federal Justice Department did hope that California could somehow use this 12-1/2% to sell to people in their category of small business. They have certain requirements as to number of employees, and refining capacity, but our State law at the present time would require the City and the State to sell to the highest bidder. So this present 12-1/2% "sell-off" reservation we cannot say would satisfy either the Justice Department entirely, or we cannot say that it would satisfy small business entirely, because it will be open to every responsible bidder to purchase oil. I would hope, however, that perhaps the State Lands Commission might suggest legislation which would allow the City and the State to make some provisions for selling to either companies which had not received an interest in the East Wilmington Field, or companies of a certain size, or some other preferential treatment.

THE MAYOR: Is there anything further on this item? Item number III, Mr. Kealer.

MR. KEALER: Item number III, the contract proposes:

"The contractor is obligated to take and account

for 100% of the production.

The Commission recommends:

An option to the City and State to elect to take up to an additional 12-1/2% 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 consideration of the distribution of the undivided interests, which were offered separately for bid."

THE MAYOR: Mr. Champion?

MR. CHAMPION: For myself, I think that if other, if certain other precautions are taken, that this would not be necessary, and that then this suggestion might very well be withdrawn. Again it is an effort to protect the small companies, the non-integrated company, and particularly if we are able to divide, have these small interests, this additional 12-1/2% I think would be unreasonable and would hurt economically the kind of net percentage we would be offered by a bidder, and therefore we might very well eliminate that request in the contract if the other provisions take care of this item.

GOVERNOR ANDERSON: Yes.

THE MAYOR: Mr. Anderson says the same. Mr. Cranston?

MR. CRANSTON: It would depend upon the undivided interest, but if that can be worked out satisfactorily --

MR. SIEROTY: Mr. Mayor?

THE MAYOR: Mr. Sieroty.

MR. SIEROTY: Might I say that the additional 5% which

Mr. Champion mentioned earlier, which would be broken up in the interest of two, two and one, or three and two, or two and a half and two and a half, or however it is done, I believe that this would be more satisfactory to oil producers and refiners than trying to buy oil under the 12-1/2% "sell-off". This would give them an opportunity to participate in the other advantages of oil production, additional allowances, and providing some profit to them. I think this would be a more satisfactory arrangement, and I think it is in this light that the Commission would suggest that we withdraw the 12-1/2%, the second 12-1/2%, sell-off.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Mr. Mayor, I think to go back to item I again, and I think that it is -- if we get over item I between us without any blood flowing, why, I think the rest of this thing will be wrapped up in about five minutes.

(Laughter.)

MR. SULLIVAN: I think that the State of California, their technicians, the Lands Commission, certainly public -- there is a very strong point that Governor Anderson made, public policy, but we get into another thing of public policy, that's public funds. Now you divided this into a lot of small parcels, they are going to have development problems, they are going to have production problems, that's going to increase the cost and diminish the return. Now, how far do you go in this? 20 parcels of 5%? I mean, we can all make argument for all of this. I mean, I think that some real getting together should be made on this point. Maybe there is some alternative in suggesting the bids. I mean, I am not an oil man, and I am serious about this as you gentlemen are, but I don't want to get the City of Long Beach shot

down by some legislators by saying that you recommended something that doesn't return the constituents -- and I won't name the county, but we can imagine plenty of this -- that original buy. And who is going to get shot down? We are taking a lot of abuse by these people on some unfounded charges right now, and I think, Mr. Chairman, that going along with Governor Anderson's statement, your statement of Mr. Chairman and the Controller's statement, our views on this, let's see which satisfies the equation on this thing. I think these technicians are qualified. You have them, and we have them. What difference? Maybe we could call on one of our people to make an estimate on that, if that would be of any value -- this is an informal meeting -- ask them what do they think would be the difference? Maybe we could get some heop.

MR. CHAMPION: I think that would be very helpful. I know on our examination and discussion with the technicians we are admittedly in a speculative area, what percentage of things you would get a maximum return, or at what point someone might be willing to pay a premium in order to meet a certain -- say a new refinery capacity, or something of that type. We are in an area of speculation, but I think your technicians and ours are in the best position to try to get a consensus on this subject. I'd like to hear what they might suggest.

THE MAYOR: Mr. Kealer.

MR. KEALER: May I express the feeling of this councilman, and perhaps the other -- I am speaking individually in this matter -- that I felt that the whole philosophy underlying this meeting would be to find areas of agreement. And that can't be done immediately over this table, but we can bring out the salient points that immediately need to be discussed, and then the Commission's staff and our own officials from

the City, representatives from the City could get together and try to find a workable solution to the whole thing. That's my sincere hope that that may be accomplished.

THE MAYOR: Yes. Is there anything further as to item number III, gentlemen?

Item number IV, Mr. Kealer.

MR. KEALER: The contract proposes:

"The contractor shall pay over to the City and State amounts in accordance with his bid on a net profits basis.

The Commission recommends:

Establishment of a minimum guaranteed operating profit to the City and State by specification of a percentage return of the gross value of production."

THE MAYOR: Mr. Champion.

MR. CHAMPION: I might say about this, and I am speaking quite personally here, as I recall we had in mind the minimum royalty of 16-2/3%. Unless we are all vastly wrong about this field, it doesn't really make any difference. It seems to me that if this is something that if it satisfies people, to be sure that that is this minimum return it could be in the contract. I don't really -- so far as I am personally concerned I don't think it makes any difference at all. I think it is bound to be greater than that, and that the problem that might be raised in terms of the timing of this, if it were put as against the 51%, I don't think there would be any further burden upon the contractor as far as the payments are concerned. I don't think it would affect the bid in any way. On this point at least I am completely loose. It wouldn't make any difference to me if it weren't in the contract at all. I just feel that

we are bound to get more than the 16-2/3, that it is a figure set which might perhaps give the public some bottom figure, but I, I just don't think it is meaningful in terms of what we expect to happen to this contract.

MR. KEALER: I agree with that, Mr. Champion. I think that the way it will be produced, that you will never get to the terms point, returns to where that will have to be invoked, under the length of time that we can, under the State law, make a contract.

MR. CRANSTON: Ray, I would like to ask if you think it objectionable, does it do any damage, in your opinion?

MR. KEALER: I don't think it will ever be invoked, Alan. If it would satisfy the equation to help people out, where is the hurt?

GOVERNOR ANDERSON: Will you object to having it?

MR. KEALER: I didn't object to it in the first place, Mr. Anderson.

GOVERNOR ANDERSON: Who did?

THE MAYOR: Mr. Sullivan?

MR. KEALER: The reason it was dropped out, Mr. Crow, was pretty -- pretty much -- and I think you can ask our own technical staff about that -- was that it was not felt -- and using one of our old contracts, Long Beach Oil Development Contract, you never get anywhere near the point where that would ever be invoked, even if it were there.

THE MAYOR: Mr. Sullivan.

MR. SULLIVAN: Mr. Kealer, the significant point on what the contract proposes is an item called "net profits basis." Now when the oil committee and the City Council reviewed this very strong arguments were made to put in that net profits basis. I asked the question, I think you made an explanation, that that would tend to perhaps force the

contractor into being a little more economical, if it cut into the profits. Is that a correct statement? Am I correct in that?

THE MAYOR: Mr. Mansell.

MR. SULLIVAN: Is that the reason that was put in, Mr. Mansell?

MR. MANSELL: Yes. On the net profit, Mr. Sullivan and gentlemen, we felt, as does Mr. Hortig, that the over-all operation would be more beneficial on a net basis.

GOVERNOR ANDERSON: What would it encourage?

MR. MANSELL: It would encourage the contractors as well as the City, because he would be sharing the profit. Now, the point that they bring up here, and there might be some time over this contract where the City would want to operate and the State whereby the return would not be 16-2/3% of the gross. I think that Mr. Hortig and I would be in complete agreement if it would be a minimum of 16-2/3%, including the cumulative earning capacity over the entire contract, and the advance royalty payment, which would guarantee a 16-2/3 return both to the City and State. I see no objection to that, if it was worded on that basis. But sometime along the line the City and State both might want to operate this field, when the net profits could conceivably be less than 16-2/3, not the gross. We feel that if this would approach either the Harbor or either one of our Harbor contracts, that figure would be some 70% of Richfield, and some 55% of L.B.O.D. of the gross. So we would have no objection if that wording was in that manner, and would so advise the Council, but to eliminate it completely or to put in the 16-2/3 might discourage the operator in the field, the contractor, to continue his operation, if he had

to guarantee that toward the tail end of the contract.

THE MAYOR: Mr. Champion.

MR. CHAMPION: I think it was always in the Commission's minds that it be considered on a cumulative basis, and so I don't think we really have any difference there. We perhaps did not make that clear in the wording of the proposal, but it is my recollection that this was understood that it was applied cumulatively, and therefore would not have any effect.

THE MAYOR: Well, Mr. Sullivan?

MR. SULLIVAN: Mr. Chairman, would the Commission have any objection to commit bidding on the net profit basis?

MR. CHAMPION: No. I think my opening statement made clear that the net, on the net profit basis was satisfactory, at least to me.

MR. KEALER: Just on the basis, if the contractor is going to get a net profit he is going to operate as economically as possible, and he is going to get a better bid.

THE MAYOR: Mr. Cranston.

MR. CRANSTON: Are we agreed then on that 16-2/3 matter then, subject to testimony? That seems to be the case, subject to draft; is that correct?

THE MAYOR: It would appear to be so, Mr. Cranston.

MR. CRANSTON: On the net profit matter, just to answer, I just want to say that my present belief is, but subject to final decision when we get to the decision point, that the percentage of net profit is a sound way to proceed; but I do not consider myself finally committed therefore.

THE MAYOR: Are there any other comments on this? Mr. Kealer?

MR. KEALER: No, only that after all of everything has been discussed, I would like to offer a motion that may be acceptable to all concerned, since we are in an adjourned meeting, and that would be to the effect that representatives of the Commission meet with representatives of the City to try to iron these out and bring them to their respective bodies for their feeling and possible approval.

MR. GRANT: Is that in the form of a motion?

MR. KEALER: I want to wait until everyone has had everything that they wanted to say, Governor, but I feel that this is where we will inevitably have to go.

MR. SULLIVAN: Mr. Mayor, I believe that as Controller Al Cranston indicated earlier, we are meeting to discuss a matter and to give some instruction, instructions to the "brain trust"-- excuse me for referring to it that way -- to make a deliberation. Now what are we going to ask them to deliberate on? What about Item One, Are we going to give them instructions on that? That's the problem as I see it, what instruction are we going to give them on that?

THE MAYOR: Mr. Sullivan, it would appear to me from listening to the observations that are made around the table here today, that the only area of disagreement still remaining is over item I, which relates to the division of the interests. The City's position at the moment is for the 100% interest undivided, and the Commission's proposal or recommendation is for the division 45%, 25%, 15%, 10%, and 5%, and apparently this is the area that needs exploration, and the others, if that is resolved, would apparently fall into line.

Yes, Mr. Champion?

MR. CHAMPION: I'd like to raise one other point before

we go to that. I think that seems to be the case all right, but there is another area of discussion, at least it has been a matter of discussion in the Commission, and I think as between us both in respect to this contract and with respect to the replacement contract which we approved very recently -- and that is this matter of the determination of price, whether to use the posted price, average posted price, or to go the highest price paid. There still is some uncertainty in the Commission on this, and I would just like to ask the present state of contract proposal as we submitted it to you, was it as average price? I mean, was it on the basis of posted prices?

THE MAYOR: Mr. Desmond.

MR. DESMOND: Gerald Desmond. The Commission approved the four suggestions which we have set forth. There was also an indication that informally that ultimately the contract would also be drawn on the basis of highest posted price rather than average. I believe that what Mr. Shavelson has prepared for the office of the Attorney General to present to the Commission is on the basis of highest posted, in connection with this contract; differently than, of course, the contract -- we realize that that was not a precedent -- but differently than the contract approved on October 10 for the Harbor area development.

MR. CHAMPION: Well, the only thing I wish to add in that situation is that personally unless there is some more satisfactory way than I now know to determine highest price, I would agree on the basis of present knowledge that posted price is the most satisfactory way of doing this. However, the Commission is not, has not arrived to such a determination. I just didn't want us to feel that this matter had

been closed off, and it might be well for us to discuss these. I think we are still interested in having our staff explore with yours whether there is an administrative way to deal with the problems that are posed by highest prices. I know of none. I am satisfied in the replacement contract that nobody came forward with one; that we took the proper position. However, if there is a way of -- if someone on our staff or someone on your staff knows the way to handle that, I think probably the Commission would be interested in introducing this element into the contract. But as of now, as I say, I don't know any way to do it any better than we did it in the replacement contract.

THE MAYOR: Are there any other observations? Mr. Kealer?

MR. KEALER: Mr. Mayor and gentlemen of the Council, as you can see, I am very happy that this thing has come the way it has, and the feeling of all of us that the fact that where the two of us would get together, the two bodies, we would find some solution to our problems, because always when two agencies get together with the idea that a problem can be solved, it will be. Now there are a few things here that have to be straightened out. If we are going to talk about undivided interest, how great is it going to be? How small is it going to be broken up? That is a matter for discussion with representation from the City and the Commission, and it is just the Council's pleasure, of course, and I would not even begin to move it if I thought it met with opposition, but I will try this motion for size. Mr. Mayor --

THE MAYOR: Mr. Kealer, just before you do that, I was talking informally here with Mr. Champion, and we both feel

it might be helpful at this point if we have the benefit of his staff's reasoning or understanding, or arguments concerning the 45%, 25%, 15% and so forth break-down before we go into your particular motion.

MR. KEAIER: Well I will be very happy to hear from him, because -- not being guilty of plagiarism -- somebody once said, "Your judgement is only as good as your information." So let's get all the information we can get.

THE MAYOR: Very well. Mr. Champion, if you would like to call upon any of the technicians of your staff, you may do so at this time.

MR. CHAMPION: Thank you. I think also it might be well if the Commission has the benefit of the views of your staff on the same subject, so that while we are leaving them this latitude to operate in, we know generally what they are going to be talking about.

THE MAYOR: Very well.

MR. CHAMPION: And I'd like to call on Mr. Hortig to go through some of the arithmetic, and I don't think any of us can hold him responsible for it, this is highly speculative, but we ask him to try to make some assumptions and just to see where he comes out, on the economic effect of breaking these things up into undivided interests and what would happen at various breakage points. Frank?

MR. HORTIG: Thank you, Mr. Champion.

MR. CHAMPION: Do you want more than absolution in advance?

(Laughter.)

MR. HORTIG: No, sir. Actually, for purposes of outlining a possible area for consideration by the mutual staffs which I believe was your intent to be covered by my comments,

Mr. Champion, specific numerical values probably would be extremely hazardous, but the principles of the matter certainly should be made available so that both the Commission and the council members might know the range of thinking. Practically there are an extreme range of variations possible in estimates on the effect on bids on undivided interests. For a comparator one must select a probably non-existent hypothetical average oil company with an average financial position and refinery needs, and average hopes for expansion in California, etcetera, for the future, who might be desirous of bidding on this tremendous natural resource which has yet to be developed in Long Beach. For such a bidder, depending again on the type of refinery, input capacity, and guaranteed reserves that the bidder would like to select, the more nearly the amount of interest that he can acquire matches his designed economic program for the future, the higher it is, the higher his bid normally is going to be. Conversely, an undivided interest which is substantially smaller in the first instance than the total amount that a particular bidder might like to decide would probably result in a discount factor being applied to the bid. This, of course, in turn would be offset, or could be offset by the accumulation of the remaining bids for the balance of the undivided parcels. I think the factors that both staffs are going to have to consider in this connection are: the selection of the optimum probable, inasmuch as no one can forecast, as Councilman Kealer has already indicated, what the actual bids are going to be, but the optimum probable can be designed, with the reasonable expectation that the practical results will come, fall somewhere near the design

value in selecting the size of these parcels, selecting the largest parcel if it is to go in undivided interests, to be the -- this sounds incompatible, but the smallest and the largest, largest parcel to be the smallest one that will still produce the highest bid for that amount of oil, and then subdivide the balance of the parcels. There is considerable room for both speculation and evaluation as to whether such parcels should be above or below 50% in the initial instance, and in this connection it must be realized that even if the largest parcel which would be the one to result in the designation of the field operating contractor were to be specified in the first instance under 50%, there is absolutely no prohibition in the statutes, nor could there be in the contract offer, that would preclude any one bidder from being the successful high bidder for all parcels, no matter how many parcel subdivisions were to be decided upon between the Commission and the City Council.

Therefore, again we can only set the ranges for review by staff, by staff to select the optimum parcels, optimum size of parcels to reflect the degree of consideration which the Commission feels should be given to public policy in terms of the maximum size of parcel to be offered, and hold this to a size which will not, if possible, unduly discount the bids for the principal and field operating contractor parcel.

The balance of the divisions would then necessarily have to fall into line. Additionally I think the staff certainly --

MR. CHAMPION: Frank, for purposes of illustration, let me name a figure and see if you can justify it. Say we

should say that the major parcel, that that which would go to the -- to the winner of the bid on it, would be the operating contractor; say we should ask of him a 60% bid. Now what are the factors involved in that, first, in terms of possible discounting of the bid because of the size, or the possible increase by virtue of the other, the other bids that would be coming in, and second, what would be the logic, both operating and economic, of fixing something at that size?

I will take the responsibility for the 60%. You explain it.

MR. HORTIG: Yes, Sir. I believe by "60% bid" you meant a bid for 60% interest; is this correct?

MR. CHAMPION: That's right, as the basic bid. This would be the operating contractor.

MR. HORTIG: In evaluating such a bid, if we assume first a bidder who both had the capacity and the intention to operate in California and utilize the total production of the east, the Long Beach unit, which is estimated to reach a peak of possibly 150,000 to 160,000 barrels per day, a substantially higher bid would be received for an initial parcel size larger than 60%.

Or, conversely, getting into an affirmative answer to your question, a bid for a 60% parcel by such an operator would be discounted and would be lower, and again on selection of most probable values could be on the order of 15 to 20% lower than the bid would have been for a 100% parcel. These again now are predicated on the assumptions which -- I can't go in detail on this hypothetical average oil company.

Going below 60% for the initial parcel would not --

not only result in an expectation and a probability that the bid would be further discounted, but that the discount rate would become even more rapid to the point that very probably below 50% the rate of discount would be very severe in comparison to the rate of discount on a parcel size ranging from 100% down to 60%.

MR. CHAMPION: Let me ask you about the offsetting factors involved. At least in your view, and I must confess in mine, there is a discount involved in going down to 60%. Are there offsetting factors which would tend in the whole bid to restore that, and specifically of the fact that you are going to bring more, there are more qualified bidders for the other size parcels, so there is more total money in the market for the over-all bid, is this -- and are there other factors, are there other factors which would tend to compensate for that discount?

MR. HORTIG: There are both factors which would tend to compensate and there are other possible factors depending upon the actual identity of the bidders, which would discount bids for the remaining parcels. Generally these would break down into two categories: hypothetical bidder A, who on getting the 60% parcel or the 40%, or whatever it was, who really needs more oil, would be bidding enthusiastically to acquire the balance of the interest up to the amount of oil that his design program indicates he wants for a guaranteed reserve, offsetting in part the discount because of not having received the total block of oil that he felt he needed in the first instance. On the other hand, the possibility of receiving augmented bids by a great number of bidders as a result of having produced large scale competition by subdividing into a great number of

parcels is subject to the hazard that inasmuch as the contracts will of necessity require a taking and paying for oil which is a commodity which is only of use to the oil industry as crude oil, you could reach a saturation point where you really run out of potential customers and bidders for all of the number of parcels that this thing could be broken down into, and, as has been discussed, the possible limitations to the point where the smaller operators who would really like to acquire such a parcel cannot afford in the light of their present refinery programs wherein at least a portion of the refinery input is imported oil at a lower competitive price, he can't afford to pay a substantially higher price for Long Beach crude, even in terms of a bid for a parcel. This could be a discount factor again. So the ramifications again are simply going to reduce to what Councilman Kealer said earlier: going to have to design an optimum program, all other things being equal, and hope this is going to produce the highest dollar.

MR. CHAMPION: Would this be a fair summary of your position on this last business, this business of increased participation: up to a point increased participation would tend to offset the discount, but if you pushed it too far you lose the benefit of that added participation; in other words, you have got to be careful not only at what size you set the 60%, if that's the figure you chose, but you have got to be very careful about the distribution of the remaining parcels?

MR. HORTIG: That is correct.

THE MAYOR: Mr. Champion --

MR. KEALER: Mr. Champion, would you, after reply to

your question, I merely wanted to ask Mr. Hortig, it is perfectly in line with your question of breaking these up into many smaller parcels, there is another hazard that the big operators, that in the event, such an event where he couldn't meet his obligations and he defaulted, then the major operator has to assume that obligation, and with their plans and their other royalties, it could increase the hazard to the major operators; is that correct, Frank?

MR. HORTIG: Definitely.

MR. SIEROTY: Uplands --

THE MAYOR: Mr. Sieroty.

MR. SIEROTY: Isn't this also true -- I am speaking now of the point about having small interests, and Mr. Kealer raised the question of what happens if one of the small interest holders would fail, when does the field contractor have to pick up that interest? What would happen if one of the working interest owners on the uplands also failed, what is the -- is there a difference between these two situations?

THE MAYOR: Are you asking Mr. Kealer?

MR. SIEROTY: Well, ask Mr. Kealer or Mr. Hortig.

THE MAYOR: Go ahead, Mr. Hortig.

MR. HORTIG: I don't believe there would be a comparability of working interest owners on the uplands. Actually the interest holders, the undivided interest holders are participants in the proceeds of the development, which would take place solely on the tide and submerged lands, with allocations of production under the unit plan to the holders of the upland properties. So there could be no equivalent default on the part of any member of the contractual team on the uplands, as there could be in connection

with an undivided interest holder under the tideland operating contract as outlined by Councilman Kealer.

THE MAYOR: Mr. Champion.

MR. CHAMPION: I think probably this indicates a kind of discussion we have had, and I'd like to say only one thing more about it, for myself, and that is this: as you know, this matter has been under legislative scrutiny as well as before the State Lands Commission, and it is pretty -- it was clear at least from some of the positions taken, I think would likely be, we as a -- the Commission agrees with this statement of public policy in general, of this part of the so-called Chapman Report, and the subsequent remarks in the State Senate Committee, research committee on this subject. So that even if there were a determination that this discount was not quite compensated for by some of these other factors, I think the Commission would still find itself -- I know I would find myself still in a -- in a very firm and committed position as far as some form of undivided interest approach.

I think very likely that this would immediately -- that if we were not to work this out, that we would find ourselves in a discussion, perhaps not only of this matter but of a number of other matters before the legislature, it would almost certainly become a matter of legislative consideration, and in the discussion of wanting to get top dollar, but recognizing also this public policy, I would hope that the Council would keep in mind this, this added instruction, resolution, what have you, that we have from the legislature. They are very much interested in this as a matter of policy, and I don't think we would feel free, even if there were, even if there were some dollars

involved, to depart from this policy without prior consultation with the legislature on the subject. And I -- this is a strong inhibition on any action we might take in this area, in which we did not have an undivided interest.

THE MAYOR: I would like to ask one question, if I could, of Mr. Hortig. Mr. Hortig, if I understand your statement, you have indicated that a 60% bid would bring some 15 to 20% lower in the bid than the 100% undivided operator. You also indicated that a 50% interest would bring about a rate of discount that would be quite severe. Could you give us some analysis of what percentage below 100% that might be offered, which could conform with the public policy suggestion that's been made by Mr. Champion and the other members of the Commission, which would not bring about any appreciable discount in the bidding price?

MR. KEALER: Mr. Mayor, may I ask that the question be more explicit? I think if you would ask Mr. Hortig this question, it would tell you exactly how he felt with respect to how much better or not better that it would be, but also the fact that you would still have other undivided interest, although they would be smaller, so if there were -- if the major undivided interest were 80% and you broke the remaining 20 up into small ones, I think if Mr. Hortig could answer that pretty clearly --

THE MAYOR: Well, rather than my giving him the example, I wanted him to give me one.

(Laughter.)

MR. HORTIG: Mr. Mayor, I hope I stated that the range of estimates and the percentage of discounts and so forth were arrived at in connection with projections of the

economic impact on a hypothetical and very probably, with my luck, non-existent oil company. But that these could happen under the -- and would happen under the assumed circumstances, if the economic conditions, the refinery demand, the future market demand, and all the factors that go into this situation. As Chairman Champion already stated earlier in these proceedings, and I believe Governor Anderson also, that even if it can be demonstrated and could be estimated that a 100% interest would produce the maximum bid and therefore anything less than 100% is automatically going to produce a lesser, a lesser bid of the type on which you raised your question, that there would be serious concern in the area of public policy as to what had produced the factors that had produced this maximum bid for the 100% interest, which would require other considerations in limitation on the bidding other than simply the maximum dollar return.

THE MAYOR: Well, Mr. Hortig, I consider a 15% or a 20% discount quite severe.

MR. (Unidentified.): Mr. Mayor.

THE MAYOR: Just a moment.

At what particular amount do you think the discount would be somewhat non-appreciable?

MR. HORTIG: This would be a specific range of investigation that the staff of the Lands Commission would like to undertake and report to you in conjunction with your own staff.

MR. MANSELL: Mr. Mayor --

THE MAYOR: Mr. Mansell -- oh, excuse me -- Mr. Sieroty.

MR. SIEROTY: Thank you. No, I would like to state a disagreement with Mr. Hortig's analysis on this point,

because I think it assumes something which is quite speculative, and that is, somebody can go into the California market who is seeking 90,000 to 100,000 barrels a day of production, and I think that there may be other ways of looking at this, which cause there not to be a discount. As a matter of fact, cause there possibly to be an increase by splitting it up. So I would like to make that clear. Basically I feel that there would be more, there would be more competition for 60,000 barrels, there would be more parties who could be interested in 60,000 barrels than there would be at 90,000 to 100,000 barrels, and now 60,000 barrels is roughly 40, 45%, and I think we have to keep in mind too that any bidder here is not precluded from bidding on subsequent undivided interest, even though the Chapman Report indicated a preference for preventing one bidder from achieving more than one interest, but under State law at the present time he cannot preclude a bidder from being the successful bidder on the entire amount, 100%, so that a bidder can go in and bid again if he wants that 90,000 or 100,000 barrels a day, and is likely to likely to pay more for that extra amount. So I wanted to state here that if he was clear, that I think that this discount of 15 to 20% is quite speculative, and it is the result of one situation which may or may not occur.

THE MAYOR: Mr. Crow.

MR. CROW: I feel -- I get undertones, Mr. Champion, of the guide that the legislature might put upon the action of such contracts, one way or another, and I am somewhat confused about public policy. May I have the effrontery to ask you, is there such a thing as public policy as far as

the State legislature is concerned, relative to this particular question that we are discussing today?

MR. CHAMPION: I won't try to unravel the various actions that were taken by the legislature at the last session. There were several and some of them were different, differing in character. To my knowledge there is no full finding by the legislature as to a total body on this matter. However, a good many people expressed interest in this. They asked that the legislature -- that the Lands Commission keep certain guidelines in mind when working on this contract, and have made it quite clear that they will have a continuing interest in whether or not we have observed these guidelines.

Now, it might be that upon consideration by the entire legislature, that we would take some different position. But as to the expressed positions which have come to us in the form of a resolution from the research committee, which I think is probably the most direct comment on this matter; this is not an expression of the whole legislature. It is an expression of the committee of the legislature to which, as Mr. Grant knows, we pay substantial attention.

MR. CROW: Well, we have somewhat the same problem, Mr. Champion. We are trying to -- when we instruct the City Manager and request the City Attorney's office to do certain things for us, we -- they naturally are guided, influenced by the somewhat feeling along, feeling and sentiment of the Council. I was just wondering to what extent this, this feeling went, as far as expressing what we have referred to on many occasions today as public policy, as to whether the outline as has been presented as

the Commission's recommendations is the public policy, insofar as the State legislature is concerned?

MR. CHAMPION: Well, let me say this: it is always easier, of course, to find public policy directions in those things on which you actually agree. In this case I don't think there is any difference between the Commission and those legislators who have spoken on this matter. We agree with them.

MR. CROW: In other words, the legislatures that have contacted this Commission, you are in general agreement as to what the recommendation that the Commission is extending at this time?

MR. CHAMPION: On the undivided interest matter.

MR. CROW: On the undivided interest. Now there has been said that even though a lesser amount of return has been made available, I would say that by that assertion or statement that there is a moral issue involved here, other than a direct responsibility to the constituents, to the State and county, the government, to bring about the best possible return from any type of investment that we would enter into of this nature.

MR. CHAMPION: I wouldn't characterize -- at least my feeling about it -- as having any moral connotation one way or the other. It is our view of the oil market, of the responsibilities of the State in dealing with a whole area of the economy, and in the context of the laws and instructions under which we operate, it is not -- it is not so much moral as a judgement that the public is better served by what we are proposing.

MR. CROW: Even though there is a less return?

MR. CHAMPION: Yes; although I would like to point out

that this matter of the less return, as I tried to point out when Mr. Hortig was speaking, that when he talked about the 15 to 20% discount he is talking about the initial impact in that first major bid, and it would be our hope that whatever was finally worked out, that that would be pretty substantially made up in the total pattern of the bidding. We don't think that the discount would be in this 15 to 20% area if we worked out a total work pattern, good pattern of bidding, so that we are talking about in our judgement, I think, or it is my judgement, a much smaller amount of difference of discount that might be involved because of following just this public policy.

MR. CROW: Well now, this gentleman over here in somewhat rebuttal to the undivided interest says that there is a strong possibility that the return to the City and the State will be greater. I would ask then, do you have any figures to substantiate such remark? What is there that you can aid us with today that would prove your position over the other faction?

THE MAYOR: Mr. Sieroty.

MR. SIEROTY: No, I have no figures to substantiate this, but I am suggesting also that the figures that you have just heard, referring to a 15 and 20% reduction, are not substantiated by the figures here. What I am saying is that these are both speculations, these are both ways of looking at a particular problem. I think it depends how you look at it. It depends on what factors you have in mind as to how you characterize what might happen. So I am suggesting another approach, and I think the approach that I am suggesting is just as valid as the one that has been suggested previously.

THE MAYOR: Mr. Cranston.

MR. CRANSTON: I'd like to comment on that point also. I think that on both matters and both questions before us, in the matter of the undivided interest, there are matters of judgement. It is the judgement of the three members of the Lands Commission that there is a matter of public policy involved in not permitting a bid situation that automatically insures that one company or a prearranged combination of companies will acquire this entire field through one bid.

On the matter of what happens to you in regard to income to the State and to the City, I think that this also as entirely a matter of judgement. The situation presented by Frank Hortig was a matter of a hypothetical company performing certain hypothetical acts. I don't think that we will ever know -- we do not know now, and I do not believe that we will ever know whether one procedure or another is likely to produce and has produced more money or less than some other procedure might produce, and I'd like to suggest three reasons for this: one, in terms of the undivided interest you do get the possibility of more competition because more companies will be able to bid if there are some smaller units. Some companies that cannot bid for 100% of this deal can bid for a smaller interest and a heightened competition might result -- although we will not know this -- in more income rather than less. Then, and two other hypothetical situations which might develop is this: suppose that there is a company, or several companies, hypothetical, who wish to acquire as much of this field as possible. They'd like to get 100 or 80 or 60 or 40, or whatever major amount

they can, and the more the better. I would think that they would bid quite high if they had a chance to bid on the 100%. I would think also that if we start off with a 45 or a 50 or a 60% field, one or more such companies would bid very high to acquire that portion, and then they would proceed to bid very high on the second largest portion so that they would then have a major portion of this field then under their control. The company which bid against them in the first portion that failed might bid very high, I should think, on the second largest undivided interest, in hopes, (a) of acquiring that for themselves, and (b) perhaps in hopes of frustrating company number one in its effort to acquire a very preponderant control here. And this might lead to very heavy bidding and very large income to the State.

I would like to ask Frank Hortig if that is not a hypothetical situation which might possibly develop.

MR. HORTIG: Definitely.

MR. CRANSTON: Good. Now let me ask on another one: do there not quite possibly exist oil companies who have a greater interest in acquiring this oil for refining and other purposes, and interest which is greater in that respect than their interest in the share of the net properties which they would acquire from the field?

MR. HORTIG: This again is a situation applicable to some of the companies, depending entirely on the interrelationship of their prospective reserves and what they hope to have for refinery capacity in the future.

MR. CRANSTON: If that is true of certain possible companies, it would seem to me quite plausible that they would not discount their bids appreciably, if they have to

go to smaller undivided interests smaller than 60, 70, 80, 90 or 100, because the discount would apply to that percentage of that profit which they would ultimately receive and that is not the important factor in their calculation. They are after oil for refining or -- and such purposes.

MR. CROW: Has the State ever before entered into agreement where they had divided interests in their oil leases?

MR. CRANSTON: I don't believe that we have, but I would ask Frank Hortig. Again we are in a completely different situation. I don't think that such precedents need affect our action at this time in any particular way.

MR. CROW: No.

MR. CRANSTON: But I am glad to submit the question with you to Frank Hortig.

MR. CHAMPION: I'd like to have the answer include some statements as to volume. I don't think we have ever considered anything of this as to volume, which would have this total impact on the market. If you could put it to us in terms of the production involved here and the production involved in typical contracts of the past.

MR. HORTIG: In response to the composite question, I think a brief summary is required. One, the State Lands Commission is authorized under law only to issue oil and gas leases, and not to enter into net profits agreement or service contracts for the production of oil such as the City of Long Beach has undertaken heretofore and is proposing under the current contract. The gross production on the average from existing State oil and gas leases is approximately of the same order of magnitude as production has been heretofore under Long Beach Harbor Department's

Contract, and for the Long Beach Harbor Department parcels. The large differential that must be recognized is the fact that the State Lands Commission has never had available for lease offer lands of the quality and the virtually known potential in most instances that the City of Long Beach has had available for development under service contracts. Therefore, a direct comparison of returns under the two systems cannot be made without including all the discount and depreciation factors necessary to get both types of operation to a common base.

THE MAYOR: Mr. Mansell -- excuse me -- Mr. Bond.

MR. BOND: Mr. Champion, I'd like to ask Mr. Hortig a question in regards to his testimony a few moments ago.

Frank, I understood you to say that there was a danger to the field contractors of a default by one of the undivided interests. Well, it is my understanding in talking to our oil people in regards to this contract, as we have offered it, or as you have offered it here in your 45, 25, and 15%, that should there be a default by one of the undivided interests other than the field contractor, that the field contractor would handle that oil and sell it at the best price that he could get for it, and I will -- would you explain the danger that exists for anybody taking the prime contract on this, or the field contract, under a situation of that type? Now if I am wrong on my understanding of this contract, I'd like to know, but that is the way I understand it, that should there be a default by one of the 25, 15, or 10% undivided interest holders, that the field contractor merely is indebted or his interest in it is in selling it at the very best price that he can get for it. This has nothing to do with the average

posted price. It is the best price that he can get for that oil. Would you explain that, please?

MR. HORTIG: I believe you are completely correct in your analysis, Mr. Bond, of the problem you stated, and the proposal for continued production of the total amount of oil, leaving that for which an undivided interest holder might be in default by the field operating contractor is one of the suggested methods of handling the situation, so there would be no danger to the field operating contractor in the context in which you have put it. I hope Councilman Kealer and I were discussing a different type of danger when he used the word "danger" in the sense that on an operation of the type proposed, if there were [illegible] extreme number of undivided interests, and I believe [illegible] were discussing that possibility at the same time, which extreme number of undivided interests would of course heighten the mathematical possibility of defaults by individual interest holders, that the necessity of undertaking operations for and handling additional oil for such defaulting contractors in a large number might be again considered as a discounting factor by the field operating contractor at the time he made his own bid.

MR. BOND: Excuse me, Mr. Hortig. Say that this contract was let at 45, 25, 15, on the undivided interest proposal, and the default should occur by the 25% holder, this would throw on your figures of 150,000 barrels a day some 37,500 barrels of oil on the market every day, immediately, would it not? That's less one-four of the 150,000. Wouldn't this affect the average posted price considerably if this oil was available?

MR. HORTIG: Under the circumstances you have assumed,

Mr. Bond, this same oil would have been available, it would have been being produced by the field operating contractor for the undivided interest holder anyway. The only difference would be that with a defaulting interest holder then the field operating contractor would have to undertake the handling and the marketing of that additional amount of oil, which could be an operating complication suddenly thrust upon a field operating contractor which he normally wouldn't want to assume without some additional compensation, or if there were not provision in the contract for additional compensation or even modification of the production rate so as to leave this, for lack of a better term, defaulted oil in the ground until the new interest, qualified interest holder could be found. Then under those circumstances because of a hazard of having to take on such defaulted oil, a field operator contractor bidding for the largest parcel might discount his bid for the largest parcel for that reason alone.

MR. BOND: Thank you, Mr. Hortig. My understanding was that he would sell it to the best price that he could get, and if it was a matter of tankage, he would have to sell it immediately, so that seems to me of some concern.

MR. HORTIG: This was a suggestion as to a possible method of handling it under the contract, and would definitely would be in the area to be explored by the respective staffs in terms of recommending a final contract back to the Council.

GOVERNOR ANDERSON: Mr. Hortig, I'd like to ask -- like to break in on that defaultee. What happens to his advanced royalty? I don't see where you have got anything to lose if somebody puts up some advance money, and we are only going on

what we are producing each day and we are selling at the market price at that time, I don't see where we would do anything but gain if somebody dropped their interest. I don't see where there is a jeopardy; seems to me like it would be a good deal for someone if one of the people dropped their interest. There is something being raised I don't understand.

MR. HORTIG: I hope I didn't infer that there was any jeopardy. I would agree with your analysis, Governor Anderson. The only difficulties inherent in this situation are as to what sort of a hazard to the bidder, the bidder for the field operating contract would feel existed by reason of this type of operation.

GOVERNOR ANDERSON: There is no hazard, but is it an advantage to him? I see no hazard to anyone, except the guy that gives up his interest and his advanced royalty. We are talking about oil that is being sold every day and at a current market price.

MR. HORTIG: That is correct, Governor Anderson. Under the proposed form of contract the individual undivided interest holder would market his share of the oil. He would have the contracts. If he defaulted, lost his contract, no longer had a market, walked off from the operation, for whatever reason, then there would be that number of barrels of oil every day that the field operating contractor either under the present proposal would have to take physical custody of, which he did not previously, and would have to provide a market for, an operation which he did not conduct previously, all of which would be an additional operating burden on the field operating contractor. If the field operating contractor considered this as a realistic

1 possibility of happening in the operation, he would
2 probably take insurance against this in terms of discounting
3 his bid for the privilege of becoming a field operating
4 contractor. On the other hand, one of the factors that
5 can be reviewed, and will be, I am sure, if we can have
6 the staff conferences which we hope are going to be author-
7 ized, investigate alternative operating procedures whereby
8 such a difficulty and sudden imposition on a field
9 operating contractor need not eventuate; as, for example,
10 evaluate what effect there would be if there was a default
11 as to 5% of the oil, for example, to simply reduce the
12 production rate from the field by 5%, leave that oil in
13 the ground, make the remaining distributions until such
14 time as a new interest holder had bid for and was entitled
15 to receive the 5% of the oil. There are a number of
16 modifications that can be suggested, and a number of
17 methods of eliminating the difficulties that Councilman
18 Bond has pointed up do exist in some of the proposals
19 that are now before the Council and the Lands Commission.
20 MR. CHAMPION: Excuse me -- might it not also be
21 true, however, that depending on the state of the contractor,
22 he might be very happy to get that additional oil? And
23 I think this is the point Lieutenant Governor is trying
24 to make. It could work both ways, I mean, he may be subject
25 to having more oil than he is in a position to handle, or
26 he may be in a very advantageous position of being able
27 to pick up more oil than he hitherto had and could use
28 in the operation.
29 MR. BOND: Mr. Champion, maybe the point did not come
30 out clear here. It is my understanding that in case of a
31 default, the field contractor has to take this oil. He then

will sell it -- he can't store it forever -- he will sell it for the highest offer, not the highest posted price, and perhaps there is an extra quantity of this oil in the field at that time and he can't get it at the posted, get the posted price for it, so this is a danger that is not assumed by the field contractor, but by the City and the State.

MR. CHAMPION: I agree with you, but I think that what Mr. Hortig said is still true. There are ways to deal with this situation where it does not involve a risk on the part of the field contractor.

MR. GRANT: Mr. Chairman --.

THE MAYOR: Mr. Grant, Mr. Mansell has been waiting here for quite a few moments. Mr. Mansell?

MR. MANSELL: Go ahead, Mr. Grant.

MR. GRANT: I just wanted to point out that during our conversation this afternoon it developed by the State officials, the policy that is involved, which is quite important to them, taking into consideration all factors involved. Further, what we are doing now is guessing on what might take place in the event of certain actions on the part of bidders, and so forth. It seems to me that we are entering into a problem where you are going to have to work out a basic procedure that will fit our needs, and perhaps you will make some mistakes; well, that's been done in the past, and I hope we don't in the future -- but nevertheless we are going to try and apparently outguess those that are going to bid upon us, bid on our products. Now naturally everyone involved here wants the best program possible for the State and the City of Long Beach. I think that primarily I wanted to point out those two items, the items that were

basically a matter of policy, which is very important, and the further fact that the major items that we are discussing are completely conjecture, and they will have to be worked out on the basis of the suggestions made that you get together and work out a solution, and that may be done, I am quite sure, satisfactorily to all of us.

THE MAYOR: Mr. Crow.

MR. CROW: Mr. Champion, I always get back to the factor of public policy. We can flower this up all we want, as far as what the State would like and what we would like, but I think the main discussion point that we have today is on the undivided interest. So I really don't know before we leave this room today whether we will have reached any conclusive position whatsoever, but I would like to feel that we, and if we do adjourn, that we somewhat, you somewhat have the feeling of the Council as it may be, how they feel about undivided interest. The public policy that we have heard quite often here today -- undoubtedly is whatever it is -- is guided and influenced by the State Legislature. That being true, Mr. Champion, did not the Assembly unanimously advocate the approval of the Long Beach approach to this oil contract, and did not the Senate reject the O'Sullivan Report and put it into an interim study? Now if these two things are true, if the State Legislature had unanimously approved the approach that the City of Long Beach has to this problem, then I would ask you, Mr. Champion, where is the public policy coming from if it is not coming from the State Legislature which has unanimously approved our position, then who are the people who are establishing public policy as far as Sacramento is concerned?

MR. CHAMPION: You don't mean the legislature, you mean the Assembly?

MR. CROW: I mean the Assembly, yes.

MR. CHAMPION: I think probably the posture here is simply this: that there was not an agreement, that the Legislature has not taken conclusive action; that there was action taken in the Assembly, there was action taken in the Senate, that if we do not find on our own responsibility some agreement in this area, that it will go back to the Legislature and the Senate and the Assembly will have to work out their differences on this, and that this will then be a conclusive legislative finding. There was no conclusive legislative finding.

MR. CROW: Yes, Mr. Champion, but I feel that inasmuch as the Assembly is concerned, as far as the City of Long Beach is concerned is this problem, that we have somewhat the official blessing as to our approach is concerned. Now, if there be problems that we have nothing, no knowledge of, or if someone is magnifying a situation way beyond proportion, then I would think that it would be fair that we would know these positions. But the way that I see it, as has been told to me and what I have read and what I have learned from our City Manager and City Attorney is this, is that although they have not genuine approval for everything that we have done, more or less they are unanimous in their opinion that we are going along on the right path.

I am think to myself, Mr. Champion, and I must speak up loudly when I think to myself, that there undoubtedly are some interests in the State who want it this particular way, and there are those who want it the other way, the undivided portion. Now getting to public policy, the

Assembly has more or less sanctioned our position, and inasmuch as they have, what seems to be the concern as far as these other interests are?

MR. CHAMPION: Well, let me say simply this, and I speak for myself. Fundamentally we have taken the position as the State Lands Commission, we expressed it to you in the previous proposal. Personally I take the position that this is good public policy. If the legislature is -- if we cannot reach an agreement as to what is good public policy here, and if we have differences, then I think the only thing to do is to stop looking at the advisories that we receive from the Assembly or from the Senate Research Committee or from anyone else, and take this whole matter to the legislature and let them resolve it. If we can't do so, that is the form in which it should be resolved. As matters now stand, the body fixed with the legal responsibility for approving this contract is the State Lands Commission, and it has nothing to do with any interests in it; it has to do simply with our judgement as to what best protects the interests of the State. We have the responsibility, no one else. The legislature can alter the conditions of that responsibility, if it wishes to do so, but as far as I am concerned, until the legislature takes that action legally and formally and as a whole body, as I said earlier, not a matter of difference between two bodies or between groups in the two bodies, then this Commission has that responsibility. And I did not mean by anything I said to indicate that the legislature was determining this as of now. I said that unless we could reach an agreement, they were going to.

MR. CROW: Well, now it has been inferred to me that

1 public policy is more or less regulated and guided and
2 influenced by the legislature, and now you are telling me,
3 Mr. Champion, that perhaps the public policy is stemming
4 from the State Lands Commission.
5 MR. CHAMPION: Public policy is the judgement of the
6 people held responsible for any given act, what they consider
7 to be in the public interest. We are given the responsibility
8 of determining in this case what we consider to be in the
9 public interest. We can't talk about public policy as if
10 it were law; obviously not. If we are going to have law in
11 this area, the legislature is going to write new law. In
12 the meantime, we have to act in our discretion within the
13 areas set forth by the present law. And I don't think
14 anybody feels that we are outside that area of discretion.
15 MR. CROW: You wouldn't say that the State Legislature
16 has taken a position saying that the City of Long Beach is
17 contrary to good public policy as far as the --
18 MR. CHAMPION: Not at all, not at all.
19 MR. CROW: That's right.
20 MR. CHAMPION: I might say one other thing about this,
21 and that is, it seems to me, not in this discussion, but at
22 some of the previous discussions, we did want to explore
23 hypothetically this thing, but I think it would be very
24 helpful to both of us if with this kind of background the
25 staff now explored the possibilities, returned to each of us
26 with a specific proposal against which we could pose many
27 of the questions that have been posed here today. And that
28 probably this is, at this point would get to be a more
29 fruitful proceeding than to continue with a number of more
30 hypotheses.
31 MR. CROW: You don't care whether divided interest or

1 undivided interest; that's all it amounts to. We can --
2 MR. GRANT: I agree with Mr. Champion, and he is
3 following a line of procedure which is delegated to this
4 group, and I would much rather see it in his hands than
5 elsewhere.
6 THE MAYOR: Governor Anderson.
7 GOVERNOR ANDERSON: I wanted to ask Mr. Hortig a
8 question earlier, I wasn't able to get to it. Frank,
9 there seemed to be some, when you were making your breakdown
10 earlier of the 100% down to 60% and down to the other,
11 there seemed to be an acceptance -- maybe I am wrong --
12 that someone would pay a higher price, a premium price
13 for a 100% control. Now is this something we have evidence
14 on, or some speculation?
15 MR. HORTIG: This is calculated as a most probable
16 result out of the entire range of results, based on
17 experience of what has happened in connection with both
18 prior service contracts, if you will, that have been
19 issued to date by the City of Long Beach, the expectations
20 on the renewal.
21 GOVERNOR ANDERSON: Anything this big anywhere, Frank,
22 anything of this size anywhere?
23 MR. HORTIG: No, sir.
24 GOVERNOR ANDERSON: In other words, we are speculative
25 on there will be a premium paid for this, aren't we?
26 MR. HORTIG: We are speculating that there could be a
27 premium paid for this, yes.
28 GOVERNOR ANDERSON: Now the second thing, you used a
29 figure of 160,000 barrels per day. How many potential or
30 prospective bidders do we have that could handle that
31 amount?