

1 MR. HORTIG: Relatively few.

2 GOVERNOR ANDERSON: How many, do we have any, without
3 building additional refineries and things:

4 MR. HORTIG: Combinations of larger operators in
5 California could handle this amount of production.

6 GOVERNOR ANDERSON: In other words, we might one if
7 they put a combine together; do we have more than one?

8 MR. HORTIG: We could have.

9 GOVERNOR ANDERSON: But probably not?

10 MR. HORTIG: Probably three.

11 GOVERNOR ANDERSON: Probably three?

12 MR. HORTIG: Three, yes, sir.

13 GOVERNOR ANDERSON: Three potential bidders for
14 160,000.

15 MR. HORTIG: That is correct.

16 GOVERNOR ANDERSON: How many prospective bidders would
17 we have if we dropped it down to, say the 45 or 50% of
18 that?

19 MR. HORTIG: Inasmuch as the three potential groups
20 that we have theorized to, taking it for round numbers,
21 150,000 barrels a day, and even if we cut it down to
22 50,000 barrels a day for the largest parcel, probably every-
23 one of the individual companies that go to make up the three
24 groups might be in position to bid.

25 In other words, you could probably multiply
26 this by a factor of three, nine or ten.

27 GOVERNOR ANDERSON: Ten?

28 MR. HORTIG: By nine or ten.

29 GOVERNOR ANDERSON: Now if a successful bidder got this
30 first, first bid, he was the one, one of the same ones that
31 wanted to even pay that higher price for the 100%, what

1 evidence do you have that he wouldn't then really go out
2 and bid against other competition higher than he would have
3 before, to get that second 25%?

4 MR. HORTIG: There is absolutely no evidence and no
5 assurance this could not be.

6 GOVERNOR ANDERSON: And if he gets that second, and
7 these will all be closed bids at the same time, won't they?

8 MR. HORTIG: No.

9 GOVERNOR ANDERSON: I mean, each one will have a chance
10 to bid against each other, all ten of these groups?

11 MR. HORTIG: For one undivided interest at one time, yes.

12 GOVERNOR ANDERSON: One at a time, so you will have a
13 continual competition, and if one outfit really wanted
14 100% to give you a real premium, and we reject this, and
15 he would still want it, I presume, and then he comes, if he
16 comes in and gets the 45%, and then he still makes sure he
17 gets his 25%, he is going to come out right at the top,
18 maybe. I mean I think if you are talking about dollars
19 and cents, I think 45% will bring him up more than the
20 100%. I just wanted to show that there could be specu-
21 lation either way. I think this is what we ought to
22 realize; it is speculation.

23 THE MAYOR: Mr. Mansell.

24 MR. MANSELL: I think there is a lot of speculation in
25 anything that we do, and I think that the number of people
26 that bid on any commodity isn't necessarily the prime
27 results. I think it is the results that count, is the factor,
28 Now we say that nine people could bid, and then we say that
29 none of them could handle it individually. The City of
30 Long Beach designed this contract to attract the number
31 of companies fused together to make the bid. I agree with

1 Mr. Hortig 100%, that the greatest percentage that you
2 have in the top is the best bid you are going to have. Now
3 if we would discount the bid as the example that he gave,
4 the 60%, the 60%, and it was going to be discounted 20%,
5 then out of the remaining 40% of the bid they would have
6 to bid 33-1/3% above what they would ordinarily bid to
7 make up the 20% that you lost in the beginning.

8 And we, we can say we are going to have more
9 competition, but there's three of us bidding and we know
10 that when Mr. Champion gets his bid he is going to be out
11 of it, and that would leave Governor Anderson and I to bid,
12 and when Governor Anderson got his bid, that's all the oil
13 he can handle, so consequently, Governor, this can work
14 on the downgrade that by eliminating competition as you
15 go along, that the fellow got all the oil he needs, and
16 Frank indicates here that it is a matter of how you could
17 tell their refining capabilities, and he gets out of the
18 ballgame entirely, then you know he is not going to bid
19 against us, and what is left could drastically be discounted.

20 GOVERNOR ANDERSON: You haven't eliminated them.
21 Frank said there were probably nine or ten outfits that
22 could bid for the biggest amount, and you are only talking
23 about --

24 MR. MANSELL: Yes, but they are not going to bid on
25 every amount, but you agreed, sir, that no one company could
26 handle it. We have eliminated one important factor here
27 that hasn't been mentioned by anybody: the cost of operation,
28 the cost of the fact that these people that have the 25,
29 the 25 and 15 -- 55% of the people, 55% of your interests
30 has to rely on 45% of the interest to run his operation
31 for him. How much is he going to discount the fact that

1 he has no say? How much is he going to discount the fact
2 that he is not operating himself? I think that's one of
3 the main factors in here, that when you -- the number you
4 bring in and the more people you bring in, you are going
5 to eventually run out of bidders in here and run out of
6 competition.

7 I think that there are avenues on all phases that
8 can be explored, but our position here is that the closest
9 you can get to the 100% is the best possible return that
10 you can make for the City and State, and that has always
11 been the public policy of this city, is to get the highest
12 possible return into the coffers as a trustee. And certainly
13 we feel that there are some ramifications here, and we will
14 discuss all of them with Mr. Horig, but this operation in
15 my opinion is one of the big points, as Mr. Desmond
16 explained to this Committee far back, that we are trying to
17 force by bid, or force involuntary combines here to take
18 the oil, when in reality these same combines can get together
19 and organize and form a group of companies and set up their
20 own by-laws as they go along, and in my opinion get, make
21 a far better bid than on this basis.

22 I think when you consider the operation, feasibility
23 of this, and the discounting of the bid less than 100%, I
24 would like to see the situation, theoretical situation and
25 I would also like to see if this thing couldn't be bid both
26 ways, 100% basis and the 45, and the other, and explore
27 that and get an official written opinion from the Attorney
28 General -- see if it couldn't be bid on both bases.

29 THE MAYOR: Mr. Sullivan.

30 MR. SULLIVAN: Mr. Mansell, the same proposition that
31 concerns the people of Long Beach far more than the income

1 is their well-being, and that's the problem of subsidence,
2 subsidence protection. Now you, as the City Manager, could
3 you give us your estimate on the operation of subsidence
4 control with one undivided interest, or split up? I mean
5 what, which is the most advantageous?

6 MR. MANSELL: The way I see it, Mr. Sullivan, the
7 State's proposal to the City, the public would be adequately
8 protected under either method, because they are going to
9 have the one contractor that would be responsible, and I
10 think that is one of the things that we can all take cheer
11 about, that we all agree on what I consider a very major
12 phase of the contract, the subsidence control.

13 THE MAYOR: Mr. Kealer.

14 MR. KEALER: Under existing contract as it is written,
15 the City has control over the rates of production and the
16 handling of it so that it would at all times still be in
17 charge of the pressure maintenance program.

18 THE MAYOR: Are there any other observations? Yes,
19 Mr. Sieroty.

20 MR. SIERTY: Before we leave, I'd like to go back to
21 a point that was brought out by Mr. Champion briefly.
22 Mr. Desmond referred to something that Mr. Shavelson was
23 going to present. Without getting Mr. Shavelson involved,
24 very simply I just would like it to be raised again so that
25 we don't forget it, and that is simply the problem of
26 developing an adequate pricing mechanism. We talked about
27 highest posted price, average posted price, prevailing
28 market price, and I'd like to ask this question: whether
29 the contract as proposed would include that provision which
30 was included in the L.B.O.D. replacement contract, which
31 provided that any company which became a contractor -- in

1 this case I would say it would be anyone who would be the
2 high bidder on an undivided interest -- would be obligated
3 to reveal to the City and State its purchases and sales, not
4 only in the Wilmington field but in the Signal Hill field,
5 the Inglewood field, and the Huntington Beach field, with
6 that provision. Is that provision a part of this contract
7 at this time?

8 MR. DESMOND: Mr. Mayor, I'd suggest that Mr. Lingle
9 reply to it.

10 MR. LINGLE: No, it is not in any of the existing
11 proposed contracts, but I think from a legal standpoint it
12 is entirely feasible.

13 MR. SIEROTY: I would hope that it will be included.
14 Along those lines, I think that the objection which was
15 raised to the L.B.O.D. replacement contract, the suggestion
16 that I made, that is, trying to get a prevailing market
17 price as a standard, the objection that was raised at that
18 time was that there was no way of determining it. We don't
19 have any information. I'd like to point out that we would
20 be gathering information, because we will have information
21 resulting from the L.B.O.D. contractor, his purchases and
22 sales in these areas. Additionally we will have information
23 on all of the purchases and sales from contractors, field
24 contractor and other interests having working interests
25 in this East Wilmington field. We will be in a position to
26 sell off 12-1/2%, which will give us from time to time some
27 test of the market, and in addition to that, the staff can
28 be gathering voluntary information and information from
29 other sources. So I think the idea of working out some
30 mechanism for developing a prevailing market price as one
31 standard to go with the average posted, or the highest posted

1 price, is feasible, and I would like that to be explored
2 too by the staffs in their meetings.

3 THE MAYOR: Is there anything further? Mr. Kealer,
4 do you have a motion?

5 MR. KEALER: I think that the first, because I may not
6 get the opportunity to say it later, I want to express my
7 personal thanks to you, Mr. Champion, and Governor Anderson,
8 and Mr. Cranston, for your willingness not only of taking
9 your valuable time to come down here, but I am also
10 appreciative of the receptive attitude that you have had in
11 these discussions. I think that we are part way home when
12 we have that attitude and point of view. It is perfectly
13 obvious that further discussions are going to be necessary,
14 and if there is no further discussion, I would like to
15 move that the State Lands Commission, that the representative
16 of the Lands Commission and a representative of the City of
17 Long Beach get together and discuss thoroughly all of these
18 matters that have been brought before us, and then come to
19 us, the Lands Commission and the Council, with their
20 findings so that we may act on them.

21 THE MAYOR: Is this in the form of a motion?

22 MR. KEALER: Yes.

23 MR. GRANT: I second it.

24 THE MAYOR: Motion by Councilman Kealer, seconded by
25 Councilman Grant, that immediate study be made of the
26 observations gone into in today's meeting, and that the
27 staff members of both our body and the State Lands Commission
28 submit the respective proposals to the two bodies so that we
29 may act upon it in the near future.

30 Mr. Sullivan?

31 MR. SULLIVAN: I'd like to respectfully suggest that

1 when that report is ready, that another meeting be held
2 similar to this, instead of -- we'd be glad to meet with
3 you gentlemen if you'd like to have us come to Los Angeles,
4 we will cooperate, and -- but I think we are going to make
5 some headway in this type of a meeting, rather than having
6 two or three representatives run up to Sacramento. I
7 think the City of Long Beach would frown on the entire
8 Council and everybody fleeing up there, but if we could do
9 this and hold future meetings at this level, I think we
10 might accomplish that. I'd like to respectfully suggest
11 that, to see if the State Lands would be in agreement on it.

12 MR. CHAMPION: Yes. I think that what we might just
13 do is have a general understanding in Los Angeles. We
14 meet there alternatively, and that's no difficulty, and when
15 we see what we have got, if there is some sort of an agree-
16 ment, if there is a basis for discussion, why, I think
17 can speak for the Commission, they'd be very glad to have
18 such a further meeting.

19 I'd like to take this opportunity again to thank
20 you for your courtesy and attention and understanding of
21 our problems and our position, and I do hope that working
22 through the staff we can come to an early and satisfactory
23 conclusion for everybody.

24 THE MAYOR: Before we leave that point, I think
25 probably we should have some expression from the City
26 Attorney's office whether the City Council could legally
27 hold a meeting outside the limits of the City of Long
28 Beach.

29 MR. DESMOND: I will be glad to look into that.

30 THE MAYOR: Mr. Crow.

31 MR. CROW: Speaking of Mr. Kealer's motion, at the risk

1 of offending this honorable body who took an opportunity to
2 be present here today, and naturally we are all very
3 thankful that we are getting to it, I could only summarize,
4 Mr. Chairman, that inasmuch as the Assembly has indicated
5 its approval of our position and thereby establishing public
6 policy, it would lead me to believe that we are on sound
7 ground as far as the City of Long Beach is concerned, and
8 I would like to at this point reiterate and put in the form
9 of a motion, if necessary, that insofar as the divided
10 interests are concerned, that this Council is not in favor
11 of such an act. I say that for the express reason that
12 today I have had -- and in all due respect to you gentlemen,
13 nothing that you have said has influenced me to the extent
14 that I feel that your position is any more tenable than ours,
15 and not as profitable. Now this is not said in any way to
16 cause undue anger or to hurt anyone's feelings, but I, in
17 all honesty as a representative of the City of Long Beach,
18 feel that the best possible return will be made on an
19 undivided type of an interest, and I could never support
20 any change in that policy. And I know that it is a rather
21 harsh statement, Mr. Champion, and I apologize to you and
22 the rest of you honorable gentlemen here today, but
23 nevertheless, that is my position. I feel that we have
24 taken it in all good sincerity, and I see no reason what-
25 soever to change our position. And in all of these meetings
26 by department heads and such are only going to be concerned
27 primarily with divided or undivided interests, and I think
28 that this Council should today take a position one way or
29 another how they feel about it at this particular time, so
30 there is no doubt left in these gentlemen's minds, so that
31 when they return to Sacramento or return to Los Angeles, that

1 this is the official expression of the City of Long Beach.

2 MR. KEALER: Mr. Mayor, may I respectfully suggest
3 that the motion as it is phrased does not foreclose any
4 method; that this is to explore everything and then come
5 up with what is considered the best for all concerned,
6 that will work.

7 THE MAYOR: Mr. Sullivan.

8 MR. SULLIVAN: Well, I concur with Mr. Crow. I am
9 convinced that on what information that has been submitted
10 to me, that what we have submitted is the best proposition.
11 However, Mr. Crow, we have sent people to Sacramento and
12 they have had conferences with the Lands Commission and
13 they have taken reams of testimony, spent lots of their
14 time and our time on the reports, and we are coming down
15 at a point now to see if we can't arrive at some point.
16 Now what they are going to investigate is to see just what
17 impact there is between what they have suggested and what
18 we have suggested.

19 Now I am willing to get that report. I am sure
20 that when that report comes in, as I sit here, it is going
21 to confirm the same position that I have and that you have.
22 But I am willing to give them a chance to go into a confer-
23 ence and submit something. It doesn't mean that I have
24 changed my position at all on this thing, because I have
25 made the statement earlier that I thought our obligation,
26 and what it was, and I have mentioned the Council, I don't
27 have to repeat it, most dollars, orderly development,
28 protection of subsidence, it is a public trust, public
29 monies. But I do believe that it is in the interest of
30 trying to get along with this thing to have this conference

31 Mr. Champion speaking for the Commission agreed to

1 meet with us at this level, this type of a meeting, and see
2 what they come up with, see if we can't get along with it.

3 MR. CROW: I don't disagree, and I certainly feel that
4 out of this meeting today will come many fruitful thoughts,
5 but I don't want there to be in anyone's mind, Mr. Sullivan,
6 that there is a possibility that I might change my mind. And
7 I feel that 99.9% of the discussion is going to be regarding
8 the divided or the undivided interest, and I think that an
9 expression by this Council as to how they feel about it is
10 the most important thing as far as our Body is concerned.

11 Naturally, we can be overruled, but I don't think
12 that we should take at any point a wishy-washy attitude.
13 And you say, "time." I think that this city has, along
14 with this Body, has graciously lent a great deal of its
15 time to this, almost two years now, and do not have a
16 drilling contract as yet. And until we reach a point where
17 we have some positive thoughts as far as we are concerned,
18 I don't know whether we are ever going to have a drilling
19 contract, and anything that we can do to speed that
20 eventuality up I think is most important. And as far as
21 my own personal position, Mr. Sullivan, I could not regard
22 changing it from an undivided to a divided interest. I am
23 not -- there is nothing that I have learned here or learned
24 before that would tend to sway my opinion, and that's the
25 way I feel about it.

26 THE MAYOR: Mr. Crow, have you made this in the form of
27 a substitute motion?

28 MR. CROW: Well, I would like this: I would like the
29 Council today to reaffirm its position as far as the
30 portion of the contract which deals with the divided and
31 the undivided interest of the offshore oil development. I

1 request that an amendment to the original motion may be
2 made, that we reiterate our previous position on that
3 portion of the contract, and I so move; if the maker of the
4 motion will accept that, I would feel very honored.

5 THE MAYOR: Mr. Kealer?

6 MR. KEALER: Mr. Mayor, the maker won't accept it for
7 the reason that the motion as it is now made does not
8 foreclose anything, and I don't think this Council can
9 stand up and say, "This is our policy," or "This is not
10 our policy," till we find out exactly what can or what
11 cannot be done.

12 MR. CROW: Then I will be forced to vote no on the
13 motion unless it is accepted, because this Council has
14 made its policy.

15 MR. KEALER: Mr. Crow, the Council has already by
16 unanimous motion stated that it thought that that contract
17 was best, the 100% single unit. It has already stated that
18 it thought that was best, and the Lands Commission is
19 perfectly aware of that. Now I don't know where we go
20 from here, but I think that after conference and a meeting
21 of minds we can find something that is workable, and I am
22 not in a position today to tell you what that is.

23 THE MAYOR: All right. On the motion by Councilman
24 Kealer, call the roll.

25 Would you read the motion.

26 MR. SULLIVAN: Let's hear the motion.

27 THE CLERK: "That representatives of the State Lands
28 Commission and the representatives from the City of Long
29 Beach get together and discuss thoroughly all of these
30 matters that have been brought before them today, and come
31 to the Council and the Lands Commission with their findings

1 so that they may act on them."

2 MR. CROW: On the motion, Mr. Mayor, I believe that
3 the motion is superfluous. There need be no motion for
4 that type of thing. That has been the purpose of the
5 entire City Council for the last two years, and if the
6 motion was not made it certainly would not in any sense
7 of the matter cut off any relationship that we have with
8 the Lands Commission. And I think our purpose is very
9 clear, and what we have intended to do before, we are
10 going to continue these discussions, sure, but if these
11 discussions have any reference to making a divided interest
12 out of this thing, I cannot support it.

13 THE MAYOR: Mr. Sullivan.

14 MR. SULLIVAN: Mr. Chairman, direction to Mr. Kealer:
15 Mr. Kealer, I personally feel that the motion should be
16 more specific. I haven't heard any evidence here today
17 that convinces me that what I voted for, and that was
18 one parcel, where I have made any error in this matter.
19 And now if you are more specific, you want this staff to
20 evaluate circumstances on this and make a report. Certainly
21 I am willing to listen to information, but I haven't heard
22 -- I agree with Mr. Crow -- I haven't heard anything today
23 that forces me to believe I made a mistake in my vote.
24 Now I think if you would be more specific in your motion on
25 this, then you -- you give the staff of the State Lands
26 Commission and our City a direct task, and I think that
27 that is what we should have.

28 MR. KEALER: Mr. Sullivan, I have asked them to explore
29 all avenues, and this is not -- this motion does not put
30 the Council in a position to do this or that. If we wait
31 till we hear what the representatives of both bodies bring

1 to you, and you could act on it as in your wisdom you see
2 fit.

3 MR. SULLIVAN: Well, Mr. Kealer, I think it is a
4 courtesy to our partner, to a department of the State of
5 California, that their consideration should be evaluated.
6 I think that we should operate that way. I think that
7 that is the only dignified and proper way to handle public
8 business.

9 That doesn't mean that I have changed my mind on
10 this, Mr. Crow. I am not going to give in on this thing
11 until I am convinced that I have made an error, until we
12 show that they have made an error; they may come up with
13 something that would show something else, but up to now I
14 don't believe that.

15 MR. CROW: We have established policy, and I think that
16 a roll call would fairly well indicate at this point
17 whether any member of this Council has changed his mind
18 on a divided or an undivided interest.

19 THE MAYOR: Mr. Graham.

20 MR. GRAHAM: I would like to see in some way the motion
21 worded in a different way. I don't want to preclude any more
22 meetings on this level between the City Council and the
23 State Lands Commission. However, I have to agree with
24 Mr. Sullivan and Mr. Crow that we as a council in our
25 better -- best judgement that we are capable of exhibiting,
26 have concluded that the 100% operation would produce the
27 greatest benefit to the State and to the City, as near as
28 I can figure. And I, in a way, cannot see the worry about
29 a monopoly, when we have been told both by Mr. Hortig and
30 Mr. Mansell that no one company is large enough to handle
31 this as a 100% bid, and even though they, the three or two or

1 three or four companies that might go together as a combine
2 to bid on this thing might be in the over-all situation be
3 handling maybe 25% of the oil produced in the State of
4 California, at the same time that production will be
5 divided among more than one major company who goes into
6 the combine to bid on this. It looks to me like the Lands
7 Commission should come back to us with some type of proposal
8 as to how much they feel that we should, in a way, compromise
9 our judgement, as to what discount we should accept to
10 protect what they call the moral or public welfare assumption,
11 that is necessary for them to swallow this, this contract.

12 MR. KEALER: I believe that I can add this to the
13 motion, that will probably satisfy the equation: that I
14 include in it that in these studies that are being made by
15 the both bodies, that they come up with specific evaluations
16 of what each of these, that of the unit, single unit, and
17 then that of the undivided interest, based on whatever the
18 percentages may be, but if they will come up with specific
19 evaluations of them, I believe then you could really act
20 objectively on it; also could possibly include alternate
21 bids, where you would bid on -- so that you could bid on
22 both.

23 MR. GRAHAM: I think I could accept that, but I mean,
24 I am the same way as Mr. Crow, I am not convinced that
25 the 100% bid isn't the best thing.

26 MR. CROW: How is the Commission going to arrive at
27 such a set of figures when it is at such a speculative
28 stage on this point? In their discussions how are they
29 going to be able to arrive at anything definite that they
30 can propose that is concrete, when we all agree at this
31 point that it has been highly speculative?

1 MR. SULLIVAN: I would say that we haven't given
2 Mr. Brock an opportunity to present the Long Beach side of
3 this. The Council has heard it, and I have heard from
4 Mr. Hortic. I am sure that Mr. Brock has a very convincing
5 argument that supports the position of the City Council on
6 the one unit, and I think they could make a very good case
7 on this thing, as we heard it, and that's why we voted
8 for it.

9 MR. CROW: I am not so naive to think that this case
10 has not been submitted before. That is how we arrived at
11 our position.

12 MR. GRANT: Mr. Chairman, have we a motion before us?

13 THE MAYOR: Yes, we do, the motion by Councilman
14 Kealer is before us.

15 MR. GRANT: I approve the amendment.

16 THE MAYOR: And the second, that is Mr. Grant, has
17 approved the amendment.

18 MR. KEALER: I think that I can help you, I think
19 that you can leave it as it is, but to include in it that
20 the studies made by the two bodies, they come back to the
21 Lands Commission and the Council with specific evaluation
22 of different types of contracts as has been discussed
23 here, and included in that the possibility of alternate
24 bid, one unit basis and the other one on the undivided
25 interest basis.

26 THE MAYOR: On the motion, Madam Clerk, call the roll.

27 (Roll called by the clerk.)

28 (Councilmen Kealer, Bond, Sullivan, Grant, Graham,
29 Corbett, and The Mayor voted "Aye". - Councilman Crow voted
30 "No.")

31 MR. KEALER: Anything further, Mr. Mayor?

1 MR. CROW: Move we adjourn.

2 THE MAYOR: Is there anything further, gentlemen?

3 Before we adjourn I would like to express
4 officially our thanks to these gentlemen, Mr. Champion, the
5 Chairman, Mr. Cranston, the Controller, and Governor
6 Anderson, and the members of the State Lands Commission for
7 making this trip to Long Beach. We gratefully appreciate
8 it. We hope we haven't inconvenienced you by reason of
9 coming here. Personally we feel that we have accomplished
10 much in meeting with you here today.

11 Is there anything further?

12 MR. KEALER: If there is nothing further, move we
13 adjourn.

14 MR. GRAHAM: Second the motion.

15 THE MAYOR: Motion made by Councilman Kealer, seconded
16 by Mr. Graham; call the roll.

17 (Roll called by the clerk.)

18
19 (Meeting adjourned at approximately 5:20 P.M.)
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