

1 June 11, and June 12 to December 31. The necessity for  
 2 breaking the approval for expenditures into these periods  
 3 results from the fact that it is not felt that funds could  
 4 be legally expended for actual operations prior to the ex-  
 5 piration of the hundred-day statutory period specified in  
 6 Chapter 138, which will expire on June 11th; but that funds  
 7 which are necessary for preparation, organization, pre-  
 8 planning and doing those things that would be done in any event,  
 9 irrespective of the actual operating decisions made after  
 10 June 12th, may be properly expended at this time.

11 Patently, the Field Operating Contractor is in-  
 12 tensely interested and does want to proceed with acquisition  
 13 of staff, establishment of their headquarters for operation,  
 14 and of committing for purchases particularly of steel equip-  
 15 ment which is going to be used under any operating program.

16 For these features, it has been determined that a  
 17 budget of \$1,572,028 for the period April 1 to June 11 is  
 18 reasonable and should be approved, with the balance of the  
 19 funding in the amount of \$12,212,972 to be authorized for  
 20 expenditure after June 12 and prior to December 31, to com-  
 21 plete the calendar year 1965 phase of these operations.

22 This is not to indicate that this will be the only  
 23 plan or only budget that will be before the Commission this  
 24 year, but these are the features and the operations of the  
 25 program on which there is a consensus, which are definitely  
 26 necessary in order to initiate the development of the

1 operation under the Field Operating Contract which was  
2 let by the City of Long Beach and approved by the Lands  
3 Commission.

4 Therefore, it is recommended that the Commission,  
5 pursuant to Section 9.5 of the Unit Operating Agreement,  
6 Long Beach Unit, Wilmington Oil Field, approve the "1965  
7 Investment and Expense Budget for the Long Beach Unit," dated  
8 April 1, 1965, as prepared by the Field Contractor and sub-  
9 mitted by the City as Unit Operator, said budget to be sub-  
10 ject to adjustment, in accordance with said Section 9.5, to  
11 conform in all respects with the initial plan of development  
12 and operation as ultimately adopted, and to be adjusted also  
13 to cover any expenditures prior to the adoption of said plan  
14 for any items or categories not now included in said budget.

15 Mr. Chairman, in view of the fact that there seems  
16 to be a discussion of a problem between counsel - - -  
17 Apparently it has been resolved. I will stand on the recom-  
18 mendation I just read.

19 MR. CHAMPION: I'll move approval of the recommen-  
20 dations.

21 GOV. ANDERSON: How much did our staff work with  
22 them on the preparation of this budget? Is this something  
23 Long Beach and the operator worked out, and you looked over  
24 rather lightly, or \*\*\*\*

25 MR. HORTIG: It has been looked over rather heavily,  
26 it has been dissected, and alternatives have been considered

1 by our staff and your consultants.

2 GOV. ANDERSON: Mr. Sieroty.

3 MR. SIEROTY: Just to clarify a couple things in  
4 here - - I am referring to the blue book here - - let me  
5 ask about the item of "Pre-Unit Printing" which is under  
6 "Operation and Maintenance" -- a \$75,000 item for pre-Unit  
7 printing. Does that have to do with the Unit Agreements and  
8 the work that was done over the past two or three years?

9 MR. HORTIG: Yes, Mr. Sieroty. The Unit Agreement  
10 itself provided that as a Unit expense, as and when the Unit  
11 Agreement became effective -- which it did on April 1, 1965 --  
12 the preparation costs for the documentation that had been  
13 necessary for the accomplishment of the Unit Agreement and  
14 the additional volumes necessary thereto, specifically the  
15 Unit Operating Agreement and Exhibits to the Unit Operating  
16 Agreement, would be allocated as a Unit operating expense  
17 and would be paid for by all participants in the Unit in the  
18 proportions that the Unit participants share ultimately in  
19 the revenues from the Unit.

20 This includes both payments for material which has  
21 been prepared by and for the City of Long Beach and also  
22 prepared by the State of California, which resulted in the  
23 last printing of the Unit documents which the State Lands  
24 Commission authorized.

25 MR. SIEROTY: All right. I'd like to ask another  
26 question here as to the "Administrative Allowance." How was

1 that determined? Was that provided for by statute?

2 MR. HORTIG: No; this is provided for in the  
3 Unit Agreement.

4 MR. SIROTY: How is that allocated? It's a  
5 \$480,000 tax...?

6 MR. HORTIG: This is correct.

7 MR. SIROTY: ... Administrative allowance.

8 MR. HORTIG: There is a specific provision, if Mr.  
9 Pfeil can find it in the Unit Agreement there.

10 MR. SIROTY: As I recall, there was a one percent  
11 and a three percent figure.

12 MR. HORTIG: Section 5.15 of the Unit Operating  
13 Agreement provided as follows, and I quote:

14 "Administrative Overhead: In lieu of any  
15 charges for any part of the salaries and wages paid managing  
16 officers and other employees not otherwise chargeable under  
17 the provisions of Article 5 hereof, and any part of the ex-  
18 penses of Unit Operator's and Field Contractor's offices  
19 other than the offices provided in other named sections  
20 hereof, the Unit Operator shall on behalf of itself charge  
21 an amount equal to one percent and on behalf of the Field  
22 Contractor shall charge an amount equal to three percent of  
23 the net amounts chargeable to Unit expenses, excluding any  
24 other stated costs which are incurred" and which are  
25 detailed also in this section.

26 In other words, the Unit Operator, who in this

1 instance will be the City of Long Beach and is the City of  
2 Long Beach since the effective date of this operation - -  
3 there will be an administrative overhead charge made from  
4 the Unit to the City of one percent and to the Field Contractor  
5 of three percent of the amounts chargeable to Unit expenses,  
6 which are detailed specifically in the Unit Agreement as to  
7 what amounts are chargeable and for what factors and for  
8 what services.

9 MR. SIEROTY: All right. There is an item of  
10 \$69,000 for "City of Long Beach Production and Business  
11 License Fees." I wonder if we could have some explanation of  
12 that. What is a production fee? I assume the business  
13 license fee is for somebody doing business, but how is it  
14 calculated?

15 MR. HORTIG: It is calculated as far as the well  
16 permit fees, which is also an allocation there, the next  
17 thousand dollars, on a well basis; and the production tax is  
18 a tax which is levied by the City of Long Beach at three  
19 cents a barrel on every barrel of oil that is produced within  
20 the City limits of Long Beach.

21 MR. SIEROTY: Is this \$69,000 a calculation at  
22 three cents a barrel?

23 MR. HORTIG: That is correct. As to the additional  
24 element of "Business License Fees," if I might ask either Mr.  
25 Lingle or Mr. Brock to comment on the factors which are in-  
26 cluded under that heading - -

1 MR. BROCK: What is that, Frank -- a thousand  
2 dollars?

3 MR. HORTIG: No. The statement is "City of Long  
4 Beach Production and Business License Fees." Now, over and  
5 above the three-cents-per-barrel production tax, what are  
6 the other business license fees which were included in the  
7 estimate to bring the total to \$69,000 for the budget?

8 MR. BROCK: That's all. There are drilling permits.

9 MR. HORTIG: That's the well permit fees, which  
10 are set out separately.

11 GOV. ANDERSON: Then the words "Business License  
12 Fees" should have been removed from that, and the \$69,000  
13 is all the three cents per barrel?

14 MR. BROCK: The three cents per barrel is a  
15 production license fee.

16 MR. CHAMPION: In other words, "production" and  
17 "business" modify license.

18 GOV. ANDERSON: I see. It is one fee.

19 MR. SIEROTY: Do you expect from your calculations  
20 over two million barrels of oil produced this year? Is  
21 that correct?

22 MR. BROCK: The last estimate was it would be up  
23 to about eighteen thousand barrels a day at the end of the  
24 year, so I would assume two million barrels would be  
25 reasonable.

26 MR. SIEROTY: I haven't calculated it here. I

1 assume what you are saying is the \$69,000 is based upon  
2 the three cents a barrel. Of course, if you don't produce  
3 that many, it's not that big a tax.

4 MR. HORTIG: That is correct and, therefore, it  
5 would not be an expenditure under the budget. It can't be  
6 expended for anything else.

7 GOV. ANDERSON: Any further questions or comments?  
8 (No response) It has been moved and seconded the budget  
9 items be approved, carried unanimously.

10 Any further items, Mr. Kortig?

11 MR. HORTIG: No, Mr. Chairman. Thank you.

12 GOV. ANDERSON: Any further comments from the  
13 audience? If not, the meeting is adjourned.

14 MR. HUTCHINS: Mr. Chairman ....

15 GOV. ANDERSON: Mr. Hutchins. We will re-open  
16 the meeting for a moment.

17 MR. HUTCHINS: If you are through, I'll defer and  
18 write you a letter.

19 GOV. ANDERSON: I'd just as soon have you say it  
20 now.

21 MR. HUTCHINS: My name is Hutchins. I am asso-  
22 ciated with Ed Pauley and Associates. I just think the  
23 record ought to show, Mr. Chairman, and we would like it to  
24 show that in the future when there is any discussion that  
25 comes up with the operating companies and the non-operating  
26 companies, we are of the opinion that outside of the THUMB

1 group consisting of the operators themselves, we would  
2 like to be included in any discussions with the non-operators.  
3 I know there won't be anything when things are nice and  
4 hunky-dory, but we would know in that event there won't be  
5 any case of forcing anything down anybody's throat.

6 GOV. ANDERSON: Mr. Hortig, would you like to com-  
7 ment on that, or the City of Long Beach?

8 MR. HORTIG: I would like to comment and possibly  
9 I think the City of Long Beach would like to comment on it  
10 also; and possibly our legal counsel here today, Deputy  
11 Attorney General Warren Abbott.

12 The contemplation under the award of the contracts  
13 was very clearly that the operating control, the development  
14 of the entire Unit area, would be the responsibility of the  
15 Field Operating Contractor, the successful bidder for the  
16 eighty percent portion of the field, as directed by the City  
17 of Long Beach, as approved and authorized by the State Lands  
18 Commission; and that non-operating contractors, by the very  
19 choice of the words for non-operating contractors, were not  
20 included in any operating committee or executive board or to  
21 be included in any of the discussions with respect to how the  
22 field operations were to be conducted, in fact, because the  
23 non-operating contractors by the nature of their very con-  
24 tract have no voice, no vote, and therefore their participa-  
25 tion in any discussions for the field development, it would  
26 appear on the general on-going basis, could serve no effective

1 purpose.

2 MR. CHAMPION: Frank, before we go on and try to  
3 cover the whole waterfront here -- Mr. Hutchins, just  
4 exactly what kind of conversations are you concerned the  
5 other interest holders might be involved in?

6 MR. HUTCHINS: Mr. Chairman, I'd like to answer  
7 Mr. Champion's question: Just from the point Mr. Kortig is  
8 talking to itself, we appreciate just what he said. We know  
9 what the contract says. What I mean is if any of the other  
10 non-operators are included that we would like to be, also.

11 MR. CHAMPION: Equal treatment among non-operators?

12 MR. HUTCHINS: That's right. We would have the  
13 desire to have this one big ball of wax. I know that is the  
14 intent now, but thirty-five years is a long way from now.  
15 For the first meeting on this purpose, I'd like this on the  
16 record.

17 MR. LINGLE: I think it appropriate that the City  
18 comment. This is the first time we knew that anybody had a  
19 complaint. We asked the Field Contractor, as the Field Con-  
20 tractor was going to have to advance the money, and we had  
21 discussions with the Field Contractor and with your consult-  
22 ants, but not with any non-operating contractors.

23 I think in future we will. We were breaking our  
24 backs trying to get this thing out and if they feel slighted  
25 in any way, the oversight would make money for them and money  
26 for you. I want to assure you we didn't talk to anybody and

1 believe in equal treatment of all.

2 MR. HUTCHINS: Mr. Chairman and members of the  
3 Commission, we have no complaint at the present time, but  
4 we would like to be sure there is no basis for complaint in  
5 the future. I know Long Beach has every intention of doing  
6 just what Mr. Lingle said. I just wanted to put it on the  
7 record at the first meeting you had for this purpose, so we  
8 will be able at all times to do the same thing for the same  
9 reason that the City and the staff of your Commission are  
10 looking forward.

11 GOV. ANDERSON: Thank you. No further comments,  
12 the meeting is adjourned.

13 ADJOURNED 11 A.M.

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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing twenty pages contain a full, true and accurate transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held in Sacramento, California, on April 8, 1965.

Dated: April 9, 1965.

/s/ Louise H. Lillico