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TRANSCRIPT OF
MEETING

of

STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

May 25, 1967

MEETING
of
STATE LANDS COMMISSION
SACRAMENTO, CALIFORNIA

May 25, 1967

PARTICIPANTS:

THE COMMISSION:

Hon. Houston I. Flournoy, Controller, Chairman

Hon. Robert H. Finch, Lieutenant Governor

Hon. Gordon P. Smith, Director of Finance

Mr. F. J. Hortig, Executive Officer

APPEARANCE:

Mr. Harold A. Lingle
Deputy City Attorney
City of Long Beach

I N D E X

(In accordance with Calendar Summary)

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
1 Call to order			
2 Confirmation of minutes of meeting of April 27, 1967			1
3 PERMITS, EASEMENTS, RIGHTS-OF-WAY, NO FEE:			
(a) Konocti County Water Dis.	25	1	1
(b) City of Napa	28	3	1
(c) City of Napa	29	5	1
(d) Pacific Tel & Tel Co.	24	7	1
(e) Marin County Flood Control and Water Conserv. District	40	8	1
(f) City of Napa	33	12	1
(g) City of Berkeley	49	14	1
(h) City of Napa	44	16	1
(i) Orange County Harbor Dist.	45	17	1
(j) State of Calif. Dept. of Fish and Game	41	19	1
(k) State of Calif., Dept. Gen. Serv., Arch. and Construc.	46	24	1
(l) State of Calif., Dept. of Water Resources	54	27	1
4 PERMITS, EASEMENTS, RIGHTS-OF-WAY, LEASES -- FEE:			
(a) Brazos Oil & Gas., Divn. Dow Chemical Co.	26	38	1
(b) Pacific Gas & Elec. Co. (1)	30	30	1
(2)	32	32	1
(3)	35	34	1
(4)	36	36	1

continued

I N D E X
(In accordance with Calendar Summary)

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
4 PERMITS, EASEMENTS, LEASES, RIGHTS-OF-WAY, FEE: cont'd			
(c) Pacific Gas & Elec. Co.	21	38	1
(d) Pacific Gas & Elec. Co.	27	39	1
(e) Pacific Gas & Elec. Co.	39	40	1
(f) Pacific Gas & Elec. Co.	34	41	1
(g) Mountain Copper Co., Ltd.	23	43	1
(h) The River Lines, Inc.	37	45	1
(i) Shell Chemical Co.	38	47	1
(j) W. G. Lopachuk	22	49	1
(k) Reynold C. Johnson Co.	31	51	1
5 OIL & GAS AND MINERAL LEASES AND PERMITS:			
(a) Atlantic Richfield Co.	11	53	2
(b) Continental Oil Co.	9	54	2
(c) Pan Petroleum Co., Inc.	10	55	2
(d) Shell Oil Co.	6	56	2
(e) Shell Oil Co.	13	57	2
(f) Signal Oil & Gas Co.	8	58	2
(g) Continental Oil Co.	12	59	2
(h) Continental Oil Co.	50	60	2
(i) Shell Oil Co.	4	61	2
(j) Shell Oil Co.	5	62	2
(k) Signal Oil & Gas Co.	7	63	2

continued

I N D E X
(In accordance with Calendar Summary)

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON</u> <u>CALENDAR</u>	<u>PAGE OF</u> <u>CALENDAR</u>	<u>PAGE OF</u> <u>TRANSCRIPT</u>
5 OIL & GAS AND MINERAL LEASES AND PERMITS: cont'd			
(l) Atlantic Richfield Co.	17	64	2
(m) Capitol Oil Corp. & Bruce D. Brooks	18	65	2
(n) Humble Oil & Refining and Texaco Inc.	42	66	2
(o) McCulloch Oil Corp. of Calif	16	67	2
(p) Phillips Petroleum Co.	48	68	2
(q) Standard Oil Co of Calif.	15	69	2
(r) Standard Oil Co of Calif.	47	70	2
(s) Shell Oil Co.	53	71	2
(t) Everett S. Hamman	51	72	2
(u) Humble Oil & Refining Co. and Texaco Inc.	14	75	2
(v) Authorization to offer Parcel 49, WO 6465	52	77	2
6 CITY OF LONG BEACH			
(a) Subsidence costs under Nos. 399, 459 and 580	19	79	2
(b) Revised expenditure for constr. Belmont Beach Center	2	81	2
(c) Expenditure for constr. of wharf and back area Berths 245-247 L.B. Harbor Dist.	3	83	2
(d) Fourth Modification 1967 Plan Long Beach Unit	20	85	2

continued

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I N D E X
(In accordance with Calendar Summary)

<u>ITEM CLASSIFICATION</u>	<u>ITEM ON CALENDAR</u>	<u>PAGE OF CALENDAR</u>	<u>PAGE OF TRANSCRIPT</u>
7 ADMINISTRATION			
(a) Authorization re quitclaim deeds - Charles deMartini and Thomas Broderick	1	86	3
8 INFORMATIVE - Litigation	56	87	3
9 BIDDING PROCEDURE FOR PURCHASE OF TUBULAR GOODS, LONG BEACH UNIT, WILMINGTON FIELD	57	90	4
10 NEXT MEETING			13

I N D E X (In accordance with item numbers)

ITEM ON CALENDAR	PAGE OF CALENDAR	PAGE OF TRANSCRIPT	ITEM ON CALENDAR	PAGE OF CALENDAR	PAGE OF TRANSCRIPT
1	86	3	41	19	1
2	81	2	42	66	2
3	83	2	43	not on calendar	1
4	61	2	44	16	1
5	62	2	45	17	1
6	56	2	46	24	1
7	63	2	47	70	2
8	58	2	48	68	2
9	54	2	49	14	1
10	55	2	50	60	2
11	53	2			
12	59	2			
13	57	2	51	72	2
14	75	2	52	77	2
15	69	2	53	71	2
16	67	2	54	27	1
17	64	2	55	not on calendar	1
18	65	2	56	87	3
19	79	2	57	90	4
20	85	2			
21	38	1			
22	49	1			
23	43	1			
24	7	1			
25	1	1			
26	28	1			
27	39	1			
28	3	1			
29	5	1			
30	30	1			
31	51	1			
32	32	1			
33	12	1			
34	41	1			
35	34	1			
36	38	1			
37	45	1			
38	47	1			
39	40	1			
40	8	1			

NEXT MEETING

13

1 MAY 25, 1967 - 10:17 A.M.

2
3 MR. FLOURNOY: The meeting of the State Lands
4 Commission will come to order.

5 We will proceed with the calendar as stipulated here.

6 Am I correct, Mr. Hortig, that we have no indication
7 from anyone in the audience -- with one exception, that there
8 is no desire to testify on any of the items outside of that
9 one instance we just discussed?

10 MR. HORTIG: That's correct, Mr. Chairman.

11 MR. FLOURNOY: Let's proceed to confirm the minutes
12 of the meeting of April 27, 1967.

13 GOV. FINCH: Move approval.

14 MR. FLOURNOY: Without objection, so approved.

15 As we have in the past, we will move through these
16 items quickly, unless there is some objection or desire for
17 discussion.

18 GOV. FINCH: I move all the items under "3."

19 MR. FLOURNOY: Permits, easements, and rights-of-
20 way which are to be granted to public and other agencies at
21 no fee, pursuant to statute -- without objection, those items
22 so listed will be approved as indicated.

23 MR. SMITH: I move all the items under Number 4.

24 MR. FLOURNOY: These are permits, easements, leases
25 and rights-of-way issued pursuant to statutes and established
26 rental policies of the Commission. If there is no objection,

2
1 all those items shall be approved as indicated.

2 GOV. FINCH: Move approval of items under "5."

3 MR. FLOURNOY: These are oil-and-gas and mineral
4 leases and permits issued pursuant to statutes and established
5 policies of the Commission. If there is no objection or dis-
6 cussion, all those items shall be approved as indicated.

7 Number 6 is four items relative to the City of Long
8 Beach.

9 GOV. FINCH: I'd like to have some explanation of
10 this, if you would, please, Mr. Hortig.

11 MR. HORTIG: Yes, Governor -- with respect to all
12 the items or one specific item under "6"?

13 GOV. FINCH: Just the background.

14 MR. HORTIG: The whole background, Governor, is con-
15 tained in the legislative requirements and assignments to the
16 Lands Commission in Chap 29, Statutes of 1956, First Extra
17 Session -- which was the first legislative determination for
18 monitoring and participation by the State in Long Beach tide-
19 land operations, as a result of the decision of Mallon versus
20 Long Beach, which indicated that the State and the City were
21 in a trustor-trustee relationship, and the State had an inter-
22 est in the Long Beach tidelands.

23 Chapter 29 was established and gave monitoring
24 responsibility to the State Lands Commission for their
25 development.

26 Thereafter, in 1964, by Chapter 138, First Extraordinary

1 Session, the Legislature authorized development of the there-
2 tofore undeveloped Long Beach tidelands, designated as the
3 Long Beach Unit, and provided the mechanism for that develop-
4 ment to be through a service contract to be issued to a con-
5 tractor pursuant to competitive public bidding; the day to
6 day operations of the contractor to be supervised and directed
7 by the City of Long Beach as the agent of the State, and the
8 entire program to be conducted in accordance with an annual
9 plan and budget approved by the State Lands Commission.

10 All of the items that are before you under Item 6
11 are items that require either nonobjection or approval by the
12 State Lands Commission in advance, pursuant to the statutory
13 requirements of the two statutes I have already referred to.

14 MR. FLOURNOY: Any further questions or discussion
15 of these four items under Item 6? (No response)

16 MR. SMITH: I move that Item 6 be adopted.

17 MR. FLOURNOY: Without objection, it will be so
18 ordered.

19 Item Number 7 -- Administration; one item, accept-
20 ing a quitclaim deed. Is there any discussion or question on
21 that matter? (No response) Without objection, that will be
22 approved -- to authorize the acceptance as indicated.

23 Number 8 is informative only. Are there any ques-
24 tions or discussion with regard to the status of present
25 litigation?

26 GOV. FINCH: I'd like to know about item 4, the

1 Pacific Fluorite matter. What can be said publicly about
2 that proposed settlement, Mr. Hortig?

3 MR. HORTIG: I believe the fact that a reasonable
4 settlement can be recommended by the Office of the Attorney
5 General and the State Lands Division. The grounds for it have
6 been developed and, as reported here, separate stipulations
7 for entering a judgment as to all defendants are now being
8 prepared, based on the reasonableness of this settlement --
9 in lieu of carrying on the litigation which had to be brought
10 by the State because of trespass operations on State lands.

11 GOV. FINCH: Does this contemplate that Pacific
12 Fluorite will continue to operate?

13 MR. HORTIG: No, sir.

14 GOV. FINCH: They have ceased as of now doing
15 business?

16 MR. HORTIG: They have ceased doing business as of
17 some time past. Actually, the mineral deposit was not pri-
18 marily located on State lands, but the processing mill was on
19 State-owned lands without any authorization. They have not
20 been running an economically effective mineral extraction
21 operation, even in trespass, for several years.

22 GOV. FINCH: O. K.

23 MR. FLOURNOY: Any further discussion on that item?
24 (No response).

25 Then we move to Item Number 9 -- Bidding procedure
26 for the purchase of oil field tubular goods, Long Beach Unit,

1 Wilmington Oil Field.

2 Now, at the last meeting of the Lands Commission
3 we agreed that we would not take additional testimony from
4 persons interested in the conclusion of this item. However,
5 in conferring with the other members of the Lands Commission,
6 we had an advance presentation made to us from the City of
7 Long Beach -- that they feel their role as operator and their
8 responsibility for that function has been alluded to in an
9 uncomplimentary way, and they wish to make a brief statement
10 that addresses itself primarily to their role as Unit manager.
11 The members have concluded that we will hear this, and this
12 alone.

13 MR. LINGLE: Mr. Chairman, members of the Commis-
14 sion, I am Harold A. Lingle, Deputy City Attorney of the City
15 of Long Beach.

16 After review of the transcript of the last meeting
17 in regard to the policy to be adopted relative to the pur-
18 chase of tubular goods for the Long Beach Unit, the City of
19 Long Beach does not believe that the statements critical of
20 its economic interests and motives and its recommendation can
21 go unanswered.

22 You will remember that the City has complied with
23 the existing policy recommended by the Lands Commission, i.e.,
24 that all tubular goods be purchased by unrestricted competi-
25 tive bidding. This spring you asked us for our recommendation
26 concerning your policy and we gave it to you.

1 The easiest thing in the world for the City of Long
2 Beach to have done would have been to duck the issue and have
3 said to you it is a long-range economic policy to be decided
4 by the State, but as we are the Unit operator and the trustee,
5 we think we have an obligation to give you our opinions even
6 through they may invoke criticism. We also had the alterna-
7 tive of ignoring oil field practices in the United States and
8 recommending that you purchase foreign pipe so as to singularly
9 benefit our Port income.

10 Anyone believing that the City of Long Beach does
11 not have an economic interest in the return from the Long
12 Beach Unit, East Wilmington Field, does not understand the
13 contract, the law, or the economics of the oil field. Our
14 engineers tell us that there is a good probability that the
15 nonoperating contractors will be in the net during the period
16 when the City receives 50% of the income from the East Wilming-
17 ton oil field, and there is a possibility that THUMS will also
18 be in the net during this period.

19 The City has no guarantee in this oil field. Our
20 only restriction is as to maximum; and oil fields being oil
21 fields, it is always possible that the maximum might not be
22 reached. Thus, over the long pull, we have every incentive to
23 bend every effort to guarantee a high return to the City and
24 State. We are a part of the State of California, and what is
25 good for the State is good for the City.

26 The City receives a 1% overhead fee in lieu of

1 attempting to itemize many of its management costs. Those
2 who argue that our 1% overhead allowance will be increased by
3 the purchase of more expensive items overlook the fact that
4 anything that we gained by this 1% overhead allowance will be
5 offset by the increased costs attributable to operation of
6 our Townlot properties. In this instance, the estimated in-
7 crease in our administrative allowance would amount to
8 \$60,000 or \$1,714 per year over the life of the contract.
9 Does anyone seriously think that the City of Long Beach, after
10 our history in Sacramento, would jeopardize its position by
11 advocating the purchase of unnecessarily expensive items?

12 Prior to our recommendations to you we made an
13 intensive investigation as to the oil companies' purchasing
14 policies. We asked for the THUMS parent company policies.
15 We asked the policies of our other tideland operators, and
16 we asked the policy of all the oil companies who participate
17 in the Long Beach Unit. We found that they all follow the
18 practice of buying domestic tubular goods in their own opera-
19 tions including State tideland leases.

20 Long Beach has permitted the development of this
21 field, realizing its importance to the State's economy --
22 while other tideland cities have declined to allow tideland
23 development. We think the Long Beach Unit is a showcase of
24 urban oil development, and we believe that other tideland
25 cities will permit development of their oil fields when they
26 see how we have pioneered. Long Beach led the fight from

1 California in the Congress for the return of the tidelands to
2 the states. The Long Beach oil contracts have resulted in
3 hundreds of millions of dollars of State revenue to date, with
4 more than an estimated billion dollars yet to come. Long Beach
5 overcame a disastrous subsidence and sponsored the legislation
6 permitting repressurization and unitization of the Long Beach
7 tideland fields. These laws will give the State additional
8 hundreds of millions of dollars. These same laws permitted
9 the tremendously advantageous THUMS net profit contract. We
10 are proud of our administration of these tideland fields.

11 Mr. A. C. Rubel, in an address in 1966 relative to
12 the tideland development of California, said:

13 "The City of Long Beach early realized the
14 importance of the harbor oil potential and
15 in spite of many obstacles imposed by the
16 State, has done a fantastic job of devel-
17 opment."

18 In closing, we think the maximum benefit from the
19 Long Beach Unit can only be achieved with the cooperation and
20 mutual understanding of the State, the City, and THUMS. On
21 the whole, we think that THUMS, under our supervision, has
22 done a creditable job. We would like to have you come to
23 Long Beach to see for yourselves the job Long Beach is doing.

24 MR. FLOURNOY: Thank you very much.

25 Now the matter of the purchase of oil field tubular
26 goods is before the Lands Commission for our action and discus-
27 sion. I defer to the Director of Finance.

28 MR. SMITH: Mr. Chairman, I do have a motion to make

1 and perhaps you would like to have discussion on the motion.

2 MR. FLOURNOY: Very good.

3 MR. SMITH: After studying the issue of whether or
4 not the resolution of the State Lands Commission of September
5 23, 1965, requiring open competitive bidding on oil well cas-
6 ing, tubing and line pipe products for the Long Beach Unit
7 development program and requiring the awarding of contracts
8 to the lowest possible bidder; and after listening carefully
9 to the presentation made here today and previous days, and
10 reading all the material from both sides on that issue, I am
11 convinced that the question presently before the State Lands
12 Commission is not one of free trade versus Buy-American.

13 The question before us is the degree to which the
14 State Lands Commission, a governmental body, should involve
15 itself in the operating details of private business with which
16 it has a direct or indirect relationship.

17 In other words, the real problem before us is
18 whether the State Lands Commission, under the September 23, 1965
19 resolution, is in fact unnecessarily encroaching upon the in-
20 herent rights of American companies now operating in a free
21 enterprise system -- a system which is indeed more the basis
22 of our heritage than a purchasing principle.

23 I am convinced that the companies involved have long
24 experience in determining pipe purchasing policy in their
25 highly technical industry -- far more than the State Lands
26 Commission. Although I have firm convictions and am a firm

1 believer in competitive bidding, I have an even firmer con-
2 viction with regard to free enterprise.

3 There is no doubt that the State Lands Commission
4 must assure the people of the State of California that the
5 State will receive maximum economic recovery from this field;
6 but this assurance should not be dictated by encroachment on
7 free enterprise -- for if we encroach upon free enterprise and
8 all applicable laws, we all will suffer a great loss and that
9 loss will be the loss of the free enterprise system.

10 Therefore, with due respect for the ingenuity of the
11 Japanese industry and its various manufacturing components,
12 and even its participation in free trade, I move that the
13 resolution of September 23, 1965 be rescinded.

14 I hasten to add that this resolution is not intended
15 to mean that oil well casing, tubing, and line pipe require-
16 ments should not be purchased from foreign sources; but that
17 the companies in the Long Beach development program be per-
18 mitted to make their own decisions, acceptable to their prac-
19 tice in the past, as to where to purchase these goods.

20 GOV. FINCH: I second the motion. I subscribe in
21 general to the statement made by the Director of Finance. I
22 have been very ambivalent about this issue. I am torn between
23 the economic repercussions.

24 I have no question about our jurisdiction. I dis-
25 card entirely the argument of the proponents of Buy-American
26 that we had no real jurisdiction. I think that's not even a

1 question.

2 I do believe that we have entered into this agreement
3 with this consortium in what is an independent agency. We
4 have rightly or wrongly given them that managerial responsi-
5 bility. If we were to lay down this imposition, we would open
6 up the door to deciding what their salaries and their other
7 managing criteria would be.

8 I must say, on the basis of their performance, I
9 have serious doubts as to whether they are doing a good job;
10 but the point is that they have that responsibility and,
11 therefore, we must let them discharge it.

12 I am further motivated by the fact that I am given
13 to believe that in terms of supporting an obligation, they
14 must consider the competitive situation and I believe that
15 with their relations with Japan, the Japanese tubing will be
16 given fair consideration; and I think that the whole climate
17 engendered by the recently concluded Geneva Treaty will be an
18 incentive in this direction.

19 So what we are doing here is saying it is up to them
20 to produce, and produce better than they are; and I second the
21 move to rescind the prior order.

22 MR. FLOURNOY: Before calling for a vote on this
23 matter I would merely like to make my position clear in this
24 regard.

25 In the first instance, I feel that there is abso-
26 lutely no question about the legal authority of the Lands

1 Commission under the law to have a responsibility for the
2 general economic control and development of the operations,
3 and that we have the responsibility and the capacity and the
4 statutory authority to decide this question -- either as a
5 part of the economic plan or as apart from the economic plan;
6 and, therefore, I think we cannot in any way avoid a responsi-
7 bility for decision.

8 In the second place, I think there has been abso-
9 lutely no demonstration, and I think all the evidence is to
10 the contrary, that there is any substantive difference in
11 quality of the material, availability of service, deliver-
12 ability, and the like, and it is not a question of whether or
13 not there is a substantive material advantage between one
14 product and the other.

15 I think, thirdly, that there has been absolutely no
16 proof that there is a non-price economic advantage to the
17 State of California from buying domestic; and I think that the
18 economic analyses that we have received from both sides in
19 this controversy to my satisfaction tend very strongly to sup-
20 port the fact that, all other things being equal, and they are
21 relatively so, there is still a substantial price differential
22 and there is a substantial cost to the State of California in
23 the return that we receive from the THUMS operation by limit-
24 ing bidding to domestic companies, which is the effect, in my
25 view, of a decision to rescind the order -- and I feel that
26 this is unjustified in terms of our responsibility to the

1 taxpayer; I think it is unjustified in terms of our responsi-
2 bility for the development of the field for maximum economic
3 recovery, and I must, therefore, with due regard for the
4 judgment of my colleagues on the Commission, oppose this
5 motion

6 Any further discussion before I call for the
7 question? (No response)

8 All of those in favor?

9 GOV. FINCH: Aye.

10 MR. SMITH: Aye.

11 MR. FLOURNOY: Opposed? No.

12 The "ayes" have it -- the motion is carried.

13 The only remaining item before the Commission today
14 is to reconfirm the date, time and place of the next Commis-
15 sion meeting, set for Thursday, June 22nd, ten o'clock in
16 Sacramento.

17 GOV. FINCH: I'd like to, for the record, say that
18 since the Legislature has not seen fit to provide me with a
19 Deputy, as my colleagues have, I will not be present at the
20 next meeting as I have to be at a meeting of the State colleges.
21 I'd like the record to show that.

22 (Adjourned 10:40 a.m.)

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CERTIFICATE OF REPORTER

I, LOUISE H. LILICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing pages one through thirteen contain a full, true, and accurate transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California on May 25, 1967.

Dated: Los Angeles, California, May 29, 1967.

Louise H. Lilico