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MEETING
STATE OF CALIFORNIA
STATE LANDS COMMISSION

STATE CAPITOL
ROOM 2107
SACRAMENTO, CALIFORNIA

ORIGINAL

TUESDAY, AUGUST 8, 1978
10:30 A.M.

NANCY L. ROLLER
C.S.R. NUMBER 3882

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5	Calendar Item: Approval of the Award of the	
6	Crude Oil Sales Contract for Sale	
7	of 8 percent of the Crude Oil, Long	
	Beach Harbor Department Tidelands	
	Parcel, City of Long Beach, Los	
8	Angeles County	1
9	Adjournment	11
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MEMBERS PRESENT

Mr. Sid McCausland, Presiding Member
Ms. Betty Jo Smith

STAFF PRESENT

Mr. William Northrop, Executive Officer
Mr. W. M. Thompson
Mr. Alan Hager
Mr. Jack Rump
Mr. Michael Crow
Ms. Diane Jones, Commission Secretary

ALSO PRESENT

Mr. N. Gregory Taylor, Assistant Attorney General
Mr. John Jervis

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P R O C E E D I N G S

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PRESIDING MEMBER MCCAUSLAND: The meeting will please come to order.

MR. TAYLOR: May the record reflect that the two commissioners that are present and voting are Sid McCausland and Betty Jo Smith. Mr. Jervis from the Controller's office is present but is not voting today. He is here in the capacity as an observer.

EXECUTIVE OFFICER NORTHROP: Mr. Chairman, we are here this morning in response to the notice for inviting bids on the 1978 crude oil sales contract on the Long Beach Harbor development tidelands sell-off parcel, the 8 percent increments. These bids were submitted to the Office of City Clerk, City of Long Beach on August the 4th for an offer to execute a crude oil sales contract covering that same 8 percent.

Mr. Hager from the Attorney General's office would report further on this item.

MR. HAGER: The way the bidding was set up is that we are asking the bids to execute the contract. Four bids were received. In that case the bidding form said that lots would be drawn to determine the successful bidder. Four bids were received; lots were drawn.

The first one picked is a company called Petroleum

1 Energy Distribution.

2 PRESIDING MEMBER MCCAUSLAND: Is that one of the
3 seven sisters?

4 EXECUTIVE OFFICER NORTHROP: As far as we can
5 ascertain, it is an independent broker who is in the process
6 of establishing his own refinery. At the present time we
7 have an indication that Macmillan Ring Free Oil Company of
8 Long Beach--or Los Angeles, would take the oil in the interim
9 period until the contract is okayed. So to answer your
10 question, I don't think so.

11 PRESIDING MEMBER MCCAUSLAND: Thank you.

12 MR. THOMPSON: Possibly for the record we should
13 get in the order of sequence, because there were four bidders
14 and we had to draw by lots.

15 PRESIDING MEMBER MCCAUSLAND: I would appreciate
16 that.

17 MR. THOMPSON: The first bidder was Petroleum
18 Energy Distribution, 700 South Flower, Suite 1220, Los
19 Angeles, California 90017; Century Oil Management, Inc.,
20 1538 North Century Boulevard, Santa Ana, California 92703;
21 McCauley Oil Company, P. O. Box 16014, Long Beach, California
22 90806; Sunland Refining Corporation, 1017 LaCienega Boulevard,
23 Los Angeles, California 90069.

24 In case of default by any of the previous ones,
25 then we would merely go down that particular order. Since

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1 all the bids were identical at ceiling price, then the
2 competitive bidding portion had to be resolved by drawing
3 by lot then.

4 MR. HAGER: A financial statement was requested
5 and submitted by Petroleum Energy Distribution. They are
6 in the process of obtaining a letter of credit from the
7 United California Bank as required by the contract. We
8 talked with the bank this morning, an officer in the
9 Bakersfield branch. He says he has discussed it with them,
10 but they have not received a formal application yet. When
11 they do they will consider it, and they have not acted on
12 it.

13 The contract itself requires that they furnish the
14 letter of credit before delivery commences; and that would
15 be a prerequisite to their being awarded the contract by the
16 City. In other words, it's a precondition to starting the
17 contract. If they don't provide the letter of credit, they
18 haven't complied with the provision for obtaining the
19 contract.

20 MS. SMITH: Have you heard from Powerine? Have
21 they elected to do anything?

22 MR. HAGER: We have determined that we have to
23 give them notice of a bona fide offer, and it was our feeling
24 that this should be an offer that could be accepted.
25 Therefore, before we made the notification to Powerine, we

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1 would submit the proposal to the State Lands Commission,
2 which we are doing today, for their consideration. And only
3 if we have an approved contract that the City could enter
4 into, then we would issue the letter to Powerine. I am
5 informed by the City that should the Commission approve this
6 today, today a letter will go out to Powerine. And I believe,
7 though I do not know as a fact, that that will be hand
8 delivered today, and they would then have 15 days from today
9 to make their decision whether or not they will choose to
10 meet the price offer.

11 MR. THOMPSON: The Long Beach City Council is also
12 acting on this today, and the action by the Long Beach City
13 Council and the Commission completes that bona fide bid; and
14 the letter has been drafted, and it will be delivered either
15 today or tomorrow. That will start the 15 days.

16 MS. SMITH: Have you also requested financial
17 statements from the other three companies? or will you be
18 waiting until you fail to be satisfied with the financial--

19 MR. THOMPSON: We already have financial statements
20 on two of the other companies that were submitted with their
21 bids. But we wouldn't put those through this particular
22 system unless they would come up in sequence.

23 MS. SMITH: Right. But you will be collecting all
24 the information in the meantime, in case you have to move
25 down the line of bidders?

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1 MR. THOMPSON: Yes, because the next one up has a
2 financial statement attached to it, which is Century Oil.
3 And they all had to deposit \$24,000. Those checks are still
4 held by the City of Long Beach.

5 EXECUTIVE OFFICER NORTHROP: And none of them
6 elected to pick up their \$24,000 after the bid.

7 MR. HAGER: Betty Jo, may I make one statement.
8 If Petroleum Energy Distribution doesn't appear to
9 be able to meet the letter of credit requirement, we would
10 come back to the Commission for the next one; because the
11 calendar item is asking you--recommending approval of the
12 contract to this particular company, not asking you to--

13 MS. SMITH: Yes, I understand that. Except when
14 you come back to us, wouldn't it be more expedient if you
15 already had the financial statement and the letter of credit
16 on the second bidder?

17 MR. THOMPSON: Yes. We will expedite everything
18 if we have to come back with a second bidder, in the interests
19 of time.

20 PRESIDING MEMBER MCCAUSLAND: I did not read the
21 calendar item to be bidder specific. I read the calendar
22 item to be approval of the contract form, the bid process
23 form, and sequencing of the bids by lot.

24 MR. THOMPSON: Exhibit "A" that's attached is
25 actually a specific company.

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1 MS. SMITH: I see.

2 PRESIDING MEMBER MCCAUSLAND: All right. I stand
3 better informed.

4 EXECUTIVE OFFICER NORTHROP: You did not have
5 Exhibit "A" when you got the other one. That may explain it.

6 PRESIDING MEMBER MCCAUSLAND: I believe I have
7 Exhibit "A" with a blank page.

8 EXECUTIVE OFFICER NORTHROP: You did not have
9 Exhibit "A."

10 PRESIDING MEMBER MCCAUSLAND: Let the record note
11 that I understand that the material handed to me at the
12 meeting today is more detailed than the background material
13 which I read last night. But in substance it's the same.
14 It's just that it now is company specific.

15 MR. THOMPSON: The caveat form has been the same
16 as you saw before. The only thing that has been added is
17 that specific letter from the number one lot.

18 MR. HAGER: Since the approval is for a specific
19 contract, that contract would have to be the essential
20 element in this part.

21 PRESIDING MEMBER MCCAUSLAND: I appreciate the
22 clarification.

23 Is there any further discussion on the proposed
24 contract?

25 MS. SMITH: I have one question. Who reviewed the

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1 financial statement submitted by Petroleum Energy
2 Distribution?

3 MR. THOMPSON: The City of Long Beach and our
4 staff will shortly review it.

5 MS. SMITH: It has not been reviewed yet?

6 MR. THOMPSON: We have reviewed it, yes. Would you
7 like to see the financial statement?

8 MS. SMITH: No, I just want to know whether or
9 not you found any problems--

10 MR. THOMPSON: Not at the present time.

11 MS. SMITH: --with the assets and liabilities.

12 MR. THOMPSON: The main financial responsibility
13 we would look to would be the \$400,000 letter of credit.

14 EXECUTIVE OFFICER NORTHROP: Mr. Chairman, I think
15 for the record I would like to submit a letter from CORCO,
16 who indicates that they would have also bid on this oil.
17 However, there is a lawsuit that's been filed in Washington
18 by Exxon, Mobil, and Texaco where the relief that they would
19 hope to get for exporting California crude oil to Puerto
20 Rico is being challenged. We would like to discuss that
21 lawsuit in executive session. But they indicate they would
22 have bid also on this parcel if that lawsuit hadn't been a
23 factor.

24 PRESIDING MEMBER MCCAUSLAND: And if they had bid,
25 that would be another company added to the list?

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1 EXECUTIVE OFFICER NORTHROP: That would be a fifth
2 company.

3 PRESIDING MEMBER MCCAUSLAND: But in reality, all
4 companies would have been subjected to the same process of
5 drawing by lot?

6 EXECUTIVE OFFICER NORTHROP: That's correct.

7 PRESIDING MEMBER MCCAUSLAND: There would have
8 been no test of financial strength in terms of ranking bids.
9 All bids have equal footing in the process?

10 EXECUTIVE OFFICER NORTHROP: That's right.

11 MR. THOMPSON: But this is another step in this
12 long process of having an oil sell-off. And I know present
13 members here are probably sick and tired of this. You've
14 been in on this for three or four years. But the staff has
15 been involved in this for over seven years.

16 PRESIDING MEMBER MCCAUSLAND: You look tired
17 than we do.

18 (Laughter.)

19 MR. THOMPSON: I think we are coming up pretty
20 soon on about the anniversary of the time that the Attorney
21 General of the United States served notice on the existing
22 Commission at that time, a stay order to stop an action on
23 the sell-off in 1971, I believe. They were served that about
24 9:30 in the morning when we were trying to approve a sell-
25 off. So we have been arguing sell-offs for a good many years

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1 here. We have been in and out of court.

2 EXECUTIVE OFFICER NORTHROP: Probably it's well
3 to note here that this sell-off follows on the heels of an
4 offer somewhat less than six months ago, in which we had no
5 response at all. So it has to mean that the response of
6 four, plus the indication of a fifth, indicates that the
7 recent change in DOE regulations has had no small effect on
8 the sell-off.

9 PRESIDING MEMBER MCCAUSLAND: Would you like to
10 restate that in an affirmative fashion for the record, since
11 it was a significant statement.

12 EXECUTIVE OFFICER NORTHROP: I think the changes
13 in the DOE regulations have had a positive effect on our
14 sell-offs. We got responses this time that we did not have
15 in the past.

16 MR. THOMPSON: Conversely, the postings that came
17 out in June have not increased with the ceiling price
18 increases in July and August. Therefore, we may be pegged
19 at a flat level, a posted price, with the ceiling price going
20 up. And that, again, is the reasoning for going into a
21 sell-off.

22 EXECUTIVE OFFICER NORTHROP: The staff is looking
23 now at the possibility of releasing other increments for
24 sell-off because while it's obvious we did get a price
25 increase, it does not reflect the true market value of the

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1 oil.

2 MR. THOMPSON: Then again, you realize that if
3 Powerine comes back in and decides to pay the ceiling price,
4 they again would maintain and would now have a contract for
5 this period of time, and Energy Distribution would not be
6 one we would take.

7 PRESIDING MEMBER MCCAUSLAND: It is the recommenda-
8 tion of the staff that the Commission, acting pursuant to
9 Section 10(a) of Chapter 29, Statutes of 1956, 1st
10 Extraordinary Session, approve the proposed contract for the
11 sale of the 8 percent portion of the oil allocated to the
12 Long Beach Harbor Tidelands Parcel, which contract is
13 attached hereto as Exhibit "A," and approve the awarding of
14 that contract by the City of Long Beach to the successful
15 bidder recommended by the City and the Commission's staff,
16 provided that this contract shall not be awarded until the
17 present purchaser of the 8 percent portion of the oil has
18 been given the opportunity to meet and fails to meet within
19 15 days the price offered by the successful bidder.

20 Is there any further discussion?

21 MS. SMITH: No.

22 PRESIDING MEMBER MCCAUSLAND: Would you like to
23 make a motion on this.

24 MS. SMITH: Yes. I move the adoption of the
25 staff's recommendation.

1 PRESIDING MEMBER MCCAUSLAND: The chair will
2 second it. All those in favor say aye.

3 MS. SMITH: Aye.

4 PRESIDING MEMBER MCCAUSLAND: Aye.

5 Opposed, nay.

6 The ayes have it.

7 Let the record reflect that the Commission
8 alternates Smith and McCausland approved the calendar item
9 as recommended by the staff.

10 Is there any further business?

11 If not, we will adjourn to executive session and
12 discuss pending litigation.

13 (Thereupon the State Lands Commission
14 special meeting was adjourned at 10:55 a.m.)

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