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STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

MARCH 2, 1965

10:15 A.M.

STATE LANDS COMMISSION

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MARCH 2, 1965

PARTICIPANTS:

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THE STATE LANDS COMMIS! ION:

Hc., Glenn M. Anderson, Lieutenant Governor, Chairman

Hon. Alan Cranston, Controller

Hon. Hale Champion, Director of Finance

Mr. F. J. Hortig, Executive Officer

OFFICE OF THE ATTORNEY GENERAL:

Mr. Jay L. Shavelson, Assistant Attorney General

APPEARANCE:

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Mr. Glen E. Woodward, Senior Vice President of DeGolyer and MacNaughton, Consultants to the State Lands Commission

1 GOV. ANDERSON: The meeting of the State Lands 2 Commission will come to order.

The calendar item this morning, Number 1, is:
Approval of bids, Contractors' agreement, Long Beach Unit,
Wilmington Oil Field - L.B.W.O. 10,155:

Pursuant to the published notice inviting bids for the 6 Long Beach Unit of the Wilmington Oil Field, approved by the 7 State Lands Commission on October 22, 1964 (Minute Item 38, 8 pages 10,652-54), the City of Long Beach received and opened 9 bids for the Field Contractor's 80% undivided interest under the 10 11 Contractors' Agreement on February 9, 1965, and for the Nonoperating Contractor's 10%, 5%, 2½%, 1½%, and 1% undivided interests 12 13 on February 10, 11, 15, 16, and 17, respectively. A summary table of all bids received for the contractors' interests is 14 15 attached (Exhibit A). The high bids received for the undivided 18 interests are listed in the following table:

Field Contractor's 80% Undivided Share:

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Jointly bid at 95.56% by Texaco Inc., Humble Oil & Refining Company, Union Oil Company of California, Socony Mobil Oil Company, Inc., Shell Oil Company

Nonoperating Contractor's 10% Undivided Share:

Jointly bid at 98.277% by Pauley Petroleum, Inc. and Allied Chemical Corporation

N inperating Contractor's 5% Undivided Share:

Joint15 bid at 100% by Standard Oil Company of California and Richfield Oil Corporation

Nonoperating Contractor's 23% Undivided Share:

Jointly bid at 99.54% by Standard Oil Company of California and Richfield Oil Corporation

Nonoperating Contractor's 14% Undivided Share:

Jointly bid at 99.54% by Standard Oil Company of California and Richfield Oil Corporation

Nonoperating Contractor's 1% Undivided Share:

Jointly bid at 99.55% by Standard Oil Company of California and Richfield Oil Corporation

3. The bids received by the City of Long Beach have been 2 transmitted to the State Lands Commission, and have been reviewed by the staff, by the staff consultants, and by the Office of 3 4 the Attorney General. Included with the high bid for the Field 5 Contractor's undivided thare, there was submitted evidence which, in the opinion of the staff and of the State's consultants, 6 7 establishes the competence and experience of the joint bidders 8 in oil drilling and producing operations. The evidence submitted with all high bids, in the opinion of the staff and of 9 the consultants, established that each high bidder is financially 10 11 responsible and able to take its individual share of the ogude 12 oil.

The Office of the Attorney General has reviewed each high bid, and has advised that all the statutory prerequisites and procedures for the acceptance of the bids have been met and followed by the City of Long Beach and by the State Lands Commission, that the bids comply with the Notice Inviting Bids and with the Bid Form, and that the bids may be considered for approval by the Commission.

20 The City of Long Beach has submitted certified copies 21 of two resolutions of the City Council, Nos. C-19266 and C-19267 adopted on February 23, 1965, directing the City Manager, upon 22 23 the concurrence of the State Lands Commission in the action directed by said resolutions, to execute the Contractors' Agree-24 25 ment, Long Beach Unit, Wilmington Oil Field, California, and to 26 award the Contract to the highest responsible successful bidders 27 designated in the resolutions as Field Contractor and as Non-28 operating Contractors.

The Notice Inviting Bids provides that the successful bidder for the Field Contractor's and for each Nonoperating Contractor's undivided share shall execute the Contractors' Agreement, the Unit Agreement, and the Unit Operating Agreement on

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the date directed by the City and approved by the State Lands Commission, and entitles each such successful bidder to five days' notice prior to such required execution. The City has indicated that, subject to approval by the Commission, it intends to direct the successful bidders to execute said documents at any time after the passage of the resolution recommended herein and on or before March 8, 1965.

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I think I'll stop there, Frank, and let you go on before we take up the resolution itself.

MR, HORTIG: Mr. Chairman, as noted in the bid review 10 which was conducted by the consultants retained by the State 11 Lands Commission, the firm of DeGolyer and MacNaughton pursuant 12 to that review submitted a letter report dated February 26, 1965, 13 copy attached to the Commissioners' calendars following the map. 14 There is a specific recommendation that the State Lands Commis-15 sion award the bids to the highest bidders, which are the same 16 high bidders here recited in the agenda item. 17

18 I would invite the attention of the Commission to the 19 second page of that letter -- specifically, for the record, to 20 the following statement from DeGolyer and MacNaughton:

After the recommendation to award the bids to the highest designated bidders - - and I quote:

"In order to assure that the State will receive maximum profits from the development of the Long Beach Unit, a very aggressive program must be carried out by the Field Contractor. Avoidable delay in the development of the Unit could cost the State as much as three million dollars per month. It, therefore, is essential that the State Lands Commission, the City of Long Beach and the Field Contractor together proceed with their respective responsibilities in the development of the field as expeditiously as possible, with due regard to economics and good oil field practice."

30 If the Commissioners have any questions with particu31 lar reference to the recommendations of DeGolyer and MacNaughton,
32 Mr. Glen E. Woodward is here today to respond to such questions

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1 on behalf of the firm.

2 GOV. ANDERSON: Mr. Champion has a question he would 3 like to ask. Is this the representative of DeGolyer and 4 MacNaughton?

5 MR. HORTIG: The Senior Vice President of DeGolyer and 6 MacNaughton, who has personally been directing this work on be-7 half of the State Lands Commission.

8 GOV. ANDERSIN: Do you wish to ask a question? MR. CHAMPION: Yes. Mr. Woodward, what I wanted to 9 10 ask is this: It is not specifically covered in your letter. I assume the answer, but I would like to know it for sure. When 11 12 we asked for the employment of consultants, we asked not only that you review the bids and tell us what should be done with 13 14 them, but you would also go back over the whole procedure lead-. 15 ing to this -- looking at the law, at the basic premises on which we were working in the contract -- and tell us whether the 16 17 contract was also a good and viable document; in addition to 18 eliciting bids which we are satisfied with, that you would be satisfied this would be a good document to work with -- the 19 contract as it went to bid. 20

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What is the opinion of the consultants?

MR. WOODWARD: I think the answer is yes, it is a good contract. We fortunately received bids from competent operators. We have, of course, many problems with an operation of this size involving tremendous amounts of oil and money, most of which will go to the State. It takes a lot of work.

27 It is almost inconceivable to get a higher bid or 28 higher return to the State, under any circumstances.

29 MR. CHAMPION: That's the other thing I wanted to go 30 into. I want to go into the provisions of the contract - there 31 was a good deal of dispute as to various questions on conditions 32 of the contract -- whether you think the contract itself, in

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1 addition to conditions on operation, is a good document.

MR. WOODWARD: I think again I'd have to say yes on 2 3 that, but I must add that the Lands Commission has great responsibility and duties which they have to work out -- this is a 4 tremendous amount of work -- to assure that the State gets every 5 6 nickel coming to them. I can't stress that enough because I think basically we have to realize at the Long Beach Unit. Tract 7 One at least, that we own ninety-six percent of that thing now, 8 and ninety-six percent of the total income is ours and we have 9 to pay ninety-six percent of the cost; and when you are talking 10 11 about a billion dollars or more, this puts a great responsibility on the Commission which has to take care of this matter. 12

MR. CHAMPION: I think the Commission recognizes this,
but the question we needed to have settled was not only whether
we had desirable bids, but whether we had a document that could
lead up to this.

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MR, WOODWARD: I am sure they can. They would have to.

18 GOV. ANDERSON: I was a little interested in the last
19 paragraph of your letter, where you are stating a very aggressive
20 program must be carried out by the Field Contractor. Could you
21 amplify on this? Are we the only ones that would lose if they
22 did not move in this direction? What could we do also to comply
23 with this?

MR. WOODWARD: Basically, there are two people who would be hurt on this thing. One would be the Field Contractor and the other would be the State. The Field Contractor puts up a large amount of money and this costs him interest if it is his own money or borrowed money, so consequently it must be his aim to get that money back as soon as possible.

Basically, the same thing applies to the State. The
sooner you get your money, the better it is. You get interest
on the road. It is to our interest to get the thing into the

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black as soon as possible because then we start getting our 1 large share of the net profits. 2 If this thing dragged on and 3 on in a program that was not aggressive, then, of course, the 4 Field Contractor would not be in a position to pay his minetyfive percent to the State and would be paying advance royalties 5 all this time 6 GOV. ANDERSON: It is to our mutual advantage to get 7 8 moving. 9 MR. WOODWARD: Yes. 10 GOV. ANDERSON: It would not just hurt the State. 11 MR. WOODWARD: It would be primarily the Field Con-12 tractor and the State. GOV. ANDERSON: Any other questions of Mr. Woodward? 13 14 (No response). 15 Is there anything you would like to say, Mr. Woodward, 16 to amplify any further? 17 MR. WOODWARD: No, I think that's it. 18 GOV. ANDERSON: I think Assemblyman Kennick just came 19 in. Joe, do you have anything to say on this? If you do, let 20 us know. We know you are very interested. I don't want to go 21 on in the meeting without calling upon you, ASSEMBLYMAN KENNICK: Just very happy to be here. 22 23 GOV. ANDERSON: Go ahead, then, Frank. 24 MR. HORTIG: Yes, Mr. Chairman. The Commission has 25 received the following letter for the record from Dynamic 26 Industries Company, 1619 Beverly Boulevard, Los Angeles 16, 27 California: 28 Hon. Glenn M. Anderson Chairman, State Lands Commission 20 State of California State Capitol Building 30 Sacramento, California 31 Dear Governor Anderson: 32 We understand that the State Lands Commission will

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be meeting on March 2, 1965 for the purpose of having submitted to it the proposed contracts for the development of the East Wilmington Oil Field.

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We wish to take this means of advising you -- as we are sure you are already aware -- of the probable invalidity of any such contracts under the plans now contemplated. I have reference to the fact that the plan of operation for the field contemplates the construction of four islands to be utilized as drilling sites, which islands will be located in the navigable waters of the United States. As such, they will constitute an obseruction to the navigable capacity of said waters. Your attention is invited to the provisions of the River and Harbor Act approved by the Congress on March 3, 1899, 30 Stat. 1151. Section 10 of that Act, which has been codified in 33 U.S.C. 403, reads as follows:

'Sec. 10. That the creation of any obstruction not affirmatively authorized by Congress, to the navigable capacity of any of the waters of the United States is hereby prohibited; and it shall not be lawful to build or commence the building of any wharf, pier, dolphin, boom, weir, breakwater, bulk-head, jetty, or other structures in any port, road-stead, haven, harbor, canal, navigable river, or other water of the United States, outside established harbor lines, or where no harbor lines have been established, except on plans recommended by the Chief of Engineers and authorized by the Secretary of War; and it shall not be lawful to excavate or fill, or in any manner to alter or modify the course, location, condition, or capacity of, any port, roadstead, haven, harbor, canal, lake, harbor of refuge, or inclosure within the limits of any breakwater, or of the channel of any navigable water of the United States, unless the work has been recommended by the Chief of Engineers and author-ized by the Secretary of War prior to beginning the same.

There has been no approval whatever by the Chief of Engineers or by the successor to the Secretary of War of the proposed islands. Indeed, so far as we have been able to determine, there has not even been any contact made with those authorities to determine in advance whether or not the proposed plan of development utilizing sais islands would be approved, pursuant to said Act.

Since the islands are an indispensable feature of the development of the East Wilmington Oil Field as now contemplated, we are sure that the State Lands Commission would not wish to approve contracts which, if performed, would necessarily violate the provisions of Federal law.

> Sincerely yours, DYNAMIC INDUSTRIES COMPANY By H. A. Hansen, President

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Copies to: Honorable Alan Cranston and Hon. Hale Champion

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1 MR. HORTIG: (continuing) We have with us today 2 Assistant Attorney General Jay Shavelson, and Deputy Actorney 3 General Warren Abbott, whom some of you members of the Commission 4 have not met previously, who will respond to the legal phases of 5 the questions raised in Mr. Hansen's letter.

6 On behalf of the staff, both for the State Lands Divi-7 sion and the City of Long Beach, I should like to comment that 8 in the letter there is a statement:

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"Indeed, so far as we have been able to determine, there has not even been any contact made with those authorities to determine in advance whether or not the proposed plan of development utilizing said islands would be approved, pursuant to said Act."

12 Now, the facts are, of course, that both the City of 13 Long Beach and the State Lands Division have been in consultation with the District Engineer's Office, Los Angeles Office of the 14 U. S. Army Corps of Engineers, for at least the last three years, 15 at which time it was contemplated initially that erection of 16 these islands offshore be authorized as a result of an initiative 17 measure adopted by the citizens of Long Beach with respect to the 18 proposed development of the offshore; and if this were to be an 19 essential item to the practicability of the operation, the City, 20 of course, wished to know in advance that this was feasible under 21 general terms and could be approved by the U. S. Army Corps of 22 Engineers as a matter of operation. 23

Similarly, up to two years ago, when the State Lands 24 Commission adopted its more intensive studies with respect to 25 26 this operation, even prior to Chapter 138, at which time it appeared that a program was going to be initiated by the City of 27 Long Beach, the State Lands Division had similar consultations 28 with the United States Corps of Engineers to determine that 29 30 there were no basic difficulties that would clearly preclude or prohibit the Army Engineers from approving reasonable plans for 31 a reasonable number of islands at reasonable locations, which 32

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1 they would concur did not inhibit the navigation interests which 2 they are called upon to control.

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Additionally, as a matter of uniform practice in Cali-3 formia, with respect to placement of offshore structures, no 4 permit has ever been received from the Army Engineers prior to 5 the issuance of a lease which necessitated the placement of such 6 7 structure; but every such proposal has been discussed informally and in advance with the Army Engineers, and we have never had an 8 operation that could not be designed to comply with the necess-9 ary requirements of the Army Engineers; and, therefore, we have 10 never had a proposal ... lace a structure on State leases along 11 the State of California offshore that has been refused, rejected. 12 13 by the local Army Engineers Office.

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GOV. ANDERSON: Mr. Shavelson.

MR. SHAVELSON: Thank you, Mr. Chairman. 15 As Frank 16 pointed out, the procedure of the Corps of Engineers is to 17 approve the location of islands when that exact location has been determined; and the exact location of the islands involved 18 here is going to be determined as a result of study made by the 19 20 City and the State and the Field Contractor and, 45 Frank also 21 pointed out, this is completely consistent with the procedure that the State has always followed in connection with its own 22 23 offshore leases.

24 The contracts specifically recognize that there can be no impairment of navigation by any operation under the contract 25 and that there must be full compliance with Federal laws and 26 27 rules and regulations. Specifically. I would like to call the Commission's attention to Section 3,5 of the Unit Agreement, 28 29 which provides that: "Any impairment of the public trust for 30 l commerce, navigation or fisheries to which any committed parcels 31 or any lands in the Unit are subject, is hereby prohibited." 32 So all parties understand that no operation shall take

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they would concur did not inhibit the navigation interests which they are called upon to control. 2

Additionally, as a matter of uniform practice in California, with respect to placement of offshore structures, no permit has ever been received from the Army Engineers prior to the issuance of a lease which necessitated the placement of such 6 structure; but every such properal has been discussed informally and in advance with the Army Engineers, and we have never had an operation that could not be designed to comply with the necess-9 ary requirements of the Army Engineers; and, therefore, we have 10 never had a proposal to place a structure on State leases along the State of California offshore that has been refused, rejected, by the local Army Engineers Office.

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GOV. ANDERSON: Mr. Shavelson.

15 MR. SHAVELSON: Thank you, Mr. Chairman. As Frank pointed out, the procedure of the Corps of Engineers is to 16 17 approve the location of islands when that exact location has been determined; and the exact location of the islands involved 18 19 here is going to be determined as a result of study made by the City and the State and the Field Contractor and, as Frank also 20 pointed out, this is completely consistent with the procedure 21 that the State has always followed in connection with its own 22 offshore leases. 23

The contracts specifically recognize that there can be 24 25 no impairment of navigation by any operation under the contract and that there must be full compliance with Federal laws and 26 27 rules and regulations. Specifically, I would like to call the 28 Commission's attention to Section 3.5 of the Unit Agreement, 29 which provides that: "Any impairment of the public trust for commerce, navigation or fisheries to which any committed parcels 30 31 or any lands in the Unit are subject, is hereby prohibited." 32

So all parties understand that no operation shall take

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1 place that will impair the trust for navigation.

Article 28 of the Contractor's Agreement provides that "Each of the contractors and the State agree to be bound by all valid provisions of Federal, State, Municipal, and local laws, ordinances, rules and regulations in any manner affecting Field Contractor's operations hereunder and to the extent of their respective powers hereunder to faithfully comply therewith."

8 In our opinion, these provisions are adequate to as-9 sure no operations under this contract will interfere with navi-10 gation, and also reflect a clear understanding of all parties 11 that the location and size of any island will be subject to 12 approval by the U. S. Corps of Engineers, as required by Federal 13 law.

14 GOV. ANDERSON: Any further comment on this item?
15 MR. CHAMPION: I don't think it requires any action by
18 the Commission, does it?

17 GOV. ANDERSON: The secretary will make note of Mr.
18 Hortig's remarks and Mr. Shavelson's remarks.

I might point out that Assemblyman Deukmejian and
Senator Begovich have joined us. If you wish to comment, we
give you the same opportunity we gave to Assemblyman Kennick,
which he declined.

23 Is there anything further we should take up on this at 24 this time?

25 MR. HORTIG: Unless the Commissioners have any specific 28 questions, it might be appropriate to point out for the record 27 the Attorney General's opinion.

GOV. ANDERSON: It has been pointed out that we might include for the record that the Attorney General's opinion states that everything is sufficient and in order, and it goes into each of the individual bidders and is rather complete. I don't incend to read all of this, but at least it is a matter of record;

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1	and, Mr. Shavelson, if there is anything that I should do on
2	this, as far as reading or anything like that; let me know so
3	there is no question.
4	MR. SHAVELSON: No, sir.
5	GOV. ANDERSON: We don't very often let something
6	quite this large.
7	Then the resolution is:
8	IT IS RECOMMENDED THAT THE COMMISSION FIND AND DETER- MINE THAT THE FOLLCWING ARE THE HIGHEST RESPONSIBLE
9	BIDDERS FOR THE CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, AND THAT THE ACCEPTANCE
10 11	OF THE FOLLOWING BIDS IS IN THE BEST INTERESTS OF THE STATE OF CALIFORNIA AND OF THE CITY OF LONG BEACH IN ITS CAPACITY AS TRUSTEE FOR THE STATE OF CALIFORNIA:
12	FIELD CONTRACTOR'S 80% UNDIVIDED SHARE
13	JOINTLY BID AT 95.56% BY: TEXACO INC:; HUMBLE
14	OIL & REFINING COMPANY; UNION OIL COMPANY OF CALIFORNIA; SOCONY MOBIL OIL COMPANY, INC.; SHELL OIL COMPANY
15	NONOPERATING CONTRACTOR'S 10% UNDIVIDED SHARE
16 17	JOINTLY BID AT 98.277% BY: PAULEY PETROLEUM, INC. AND ALLIED CHEMICAL CORPORATION
18	NONOPERATING CONTRACTOR'S 5% UNDIVIDED SHARE
19	JOINTLY BID AT 100% BY: STANDARD OIL COMPANY OF CALIFORNIA AND RICHFIELD OIL CORPORATION
30	NONOPERATING CONTRACTOR'S 25% UNDIVIDED SHARE
21 22	JOINTLY BID AT 99.54% BY: STANDARD OIL COMPANY OF CALIFORNIA AND RICHFIELD OIL CORPORATION
23	NONOPERATING CONTRACTOR'S 15% UNDIVIDED SHARE
24	JOINTLY BID AT 99.54% BY: STANDARD OIL COMPANY
25	OF CALIFORNIA AND RICHFIELD OIL CORPORATION
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27	JOINTLY BID AT 99.55% BY: STANDARD OIL COMPANY OF CALIFORNIA AND RICHFIELD OIL CORPORATION
28	IT IS FURTHER RECOMMENDED THAT THE COMMISSION CONCUR IN THE ACTIONS DIRECTED BY CITY COUNCIL RESOLUTIONS
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31	BEACH OF SAID CONTRACTORS' AGREEMENT ON BEHALF OF THE CITY, AS TRUSTEE FOR THE STATE OF CALIFORNIA,
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HIGHEST RESPONSIBLE BIDDERS AS FIELD CONTRACTOR AND AS NONOPERATING CONTRACTORS, RESPECTIVELY.

IT IS FURTHER RECOMMENDED THAT THE COMMISSION APPROVE THE CITY'S DIRECTING THE AFORESAID SUCCESSFUL BIDDERS TO COMPLETE EXECUTION OF THE CONTRACTORS' AGREEMENT, THE UNIT AGREEMENT, AND THE 1^R OPERATING AGREEMENT, LONG BEACH UNIT, WILMINGTON 6 JIELD, ON OR BEFORE MARCH 8, 1965.

MR. CHAMPION: I so move.

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MR. CRANSTON: Second the motion.

GOV. ANDERSON: It has been moved and seconded. Any further comment or remarks? (No response) If not, it is carried unanimously.

I just might say that the acceptance of today's high bids represents a milestone in the development of California natural resources; that this can produce between one and onehalf to two billion dollars for the State Treasury in the next thirty-five years, and today's action is the largest on a single development in California's history.

17 It has been suggested that I thank some people who 18 have been helpful in putting together this contract: Of course, 18 Mr. DeGolyer and Mr. MacNaughton, who are consultants in this; 20 and the following State Lands Division staff members and asso-21 ciates have been the principal participants with the Executive Officer in the development of the Long Beach tideland contracts 22 under consideration for approval today by the State Lands Com-23 mission: 24

Mr. A. W. Pfeil, Assistant Executive Officer; Mr. O.
V. Wysynsky, Senior Geologist; Mr. C. V. Boquist, Senior Mineral Resources Engineer; Mr. R. L. Johnson, Staff Engineer; Mr. C. N.
Hurlbut, Supervising Financial Examiner; and, of course, the associates -- Mr. Jay L. Shavelson, Assistant Attorney General;
Mr. Warren Abbott, Deputy Attorney General; and Mr. Howard
Goldin, former Assistant Attorney General.

Perhaps there are others we should be dashking for

their help and cooperation, but for the record we want to make sure those names are noted.

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Is there anything else, Frank? Anything else that should be brought up before we bring this matter to a halt?

MR. HORTIG: Not with respect to this matter, Governor. Now we have only the problem of going to get the oil.

GOV. ANDERSON: If there is nothing further, the meeting is adjourned.

ADJOURNED 10:45 A.M.

CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing (pages one through thirteen) are a true, accurate, and full transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California, on March 2, 1965.

- 13 -

Dated: Los Angeles, California, March 5, 1965.

Louise H Lillico