TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

MARCH 2, 1965
10:15 A.M.
STATE LANDS COMMISSION

MARCH 2, 1965

PARTICIPANTS:

THE STATE LANDS COMMISSION:

Hon. 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:

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

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GOV. ANDERSON: The meeting of the State Lands
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
Long Beach Unit of the Wilmington Oil Field, approved by the
State Lands Commission on October 22, 1964 (Minute Item 38,
pages 10,652-54), the City of Long Beach received and opened
bids for the Field Contractor's 80% undivided interest under the
Contractors' Agreement on February 9, 1965, and for the Nonoper-
ating Contractor's 10%, 5%, 21%, 1%, and 1% undivided interests
on February 10, 11, 15, 16, and 17, respectively. A summary

<table>
<thead>
<tr>
<th>Contractor's Share</th>
<th>Bids Received</th>
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<tbody>
<tr>
<td>Field Contractor's 80% Undivided Share:</td>
<td>Jointly bid at 95.56% by Texaco Inc., Humble Oil &amp; Refining Company, Union Oil Company of California, Socony Mobil Oil Company, Inc., Shell Oil Company</td>
</tr>
<tr>
<td>Nonoperating Contractor's 10% Undivided Share:</td>
<td>Jointly bid at 98.277% by Pauley Petroleum, Inc. and Allied Chemical Corporation</td>
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<tr>
<td>Operating Contractor's 5% Undivided Share:</td>
<td>Jointly bid at 100% by Standard Oil Company of California and Richfield Oil Corporation</td>
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<tr>
<td>Nonoperating Contractor's 21/2% Undivided Share:</td>
<td>Jointly bid at 99.54% by Standard Oil Company of California and Richfield Oil Corporation</td>
</tr>
<tr>
<td>Nonoperating Contractor's 13/2% Undivided Share:</td>
<td>Jointly bid at 99.54% by Standard Oil Company of California and Richfield Oil Corporation</td>
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Nonoperating Contractor's 1% Undivided Share:
Jointly bid at 99.55% by Standard Oil Company of California and Richfield Oil Corporation
The bids received by the City of Long Beach have been transmitted to the State Lands Commission, and have been reviewed by the staff, by the staff consultants, and by the Office of the Attorney General. Included with the high bid for the Field Contractor's undivided share, there was submitted evidence which, in the opinion of the staff and of the State's consultants, establishes the competence and experience of the joint bidders in oil drilling and producing operations. The evidence submitted with all high bids, in the opinion of the staff and of the consultants, established that each high bidder is financially responsible and able to take its individual share of the crude 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.

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

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 which was conducted by the consultants retained by the State Lands Commission, the firm of DeGolyer and MacNaughton pursuant to that review submitted a letter report dated February 26, 1965, copy attached to the Commissioners' calendars following the map. There is a specific recommendation that the State Lands Commission award the bids to the highest bidders, which are the same high bidders here recited in the agenda item.

I would invite the attention of the Commission to the second page of that letter -- specifically, for the record, to 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."

If the Commissioners have any questions with particular reference to the recommendations of DeGolyer and MacNaughton, Mr. Glen E. Woodward is here today to respond to such questions.
GOV. ANDERSON: Mr. Champion has a question he would like to ask. Is this the representative of DeGolyer and MacNaughton?

MR. HORTIG: The Senior Vice President of DeGolyer and MacNaughton, who has personally been directing this work on behalf of the State Lands Commission.

GOV. ANDERSON: Do you wish to ask a question?

MR. CHAMPION: Yes. Mr. Woodward, what I wanted to 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 we asked for the employment of consultants, we asked not only that you review the bids and tell us what should be done with them, but you would also go back over the whole procedure leading to this -- looking at the law, at the basic premises on which we were working in the contract -- and tell us whether the contract was also a good and viable document; in addition to eliciting bids which we are satisfied with, that you would be satisfied this would be a good document to work with -- the contract as it went to bid.

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.

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

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

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

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.

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

GOV. ANDERSON: I was a little interested in the last paragraph of your letter, where you are stating a very aggressive program must be carried out by the Field Contractor. Could you amplify on this? Are we the only ones that would lose if they did not move in this direction? What could we do also to comply 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
black as soon as possible because then we start getting our
large share of the net profits. If this thing dragged on and
on in a program that was not aggressive, then, of course, the
Field Contractor would not be in a position to pay his ninety-
five percent to the State and would be paying advance royalties
all this time....

GOV. ANDERSON: It is to our mutual advantage to get
moving.

MR. WOODWARD: Yes.

GOV. ANDERSON: It would not just hurt the State.

MR. WOODWARD: It would be primarily the Field Con-
tractor and the State.

GOV. ANDERSON: Any other questions of Mr. Woodward?
(No response).

Is there anything you would like to say, Mr. Woodward,
to amplify any further?

MR. WOODWARD: No, I think that's it.

GOV. ANDERSON: I think Assemblyman Kennick just came
in. Joe, do you have anything to say on this? If you do, let
us know. We know you are very interested. I don't want to go
on in the meeting without calling upon you.

ASSEMBLYMAN KENNICK: Just very happy to be here.

GOV. ANDERSON: Go ahead, then, Frank.

MR. HORTIG: Yes, Mr. Chairman. The Commission has
received the following letter for the record from Dynamic
Industries Company, 1619 Beverly Boulevard, Los Angeles 16,
California:

"Hon. Glenn M. Anderson
Chairman, State Lands Commission
State of California
State Capitol Building
Sacramento, California

Dear Governor Anderson:

We understand that the State Lands Commission will
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.

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 obstruction 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, bulkhead, jetty, or other structures in any port, roadstead, 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 authorized 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 said 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

Copies to:
Honorable Alan Cranston and Hon. Hale Champion
MR. HORTIG: (continuing) We have with us today
Assistant Attorney General Jay Shavelson, and Deputy Attorney
General Warren Abbott, whom some of you members of the Commission
have not met previously, who will respond to the legal phases of
the questions raised in Mr. Hansen's letter.

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

"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."

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

Similarly, up to two years ago, when the State Lands
Commission adopted its more intensive studies with respect to
this operation, even prior to Chapter 138, at which time it ap-
peared that a program was going to be initiated by the City of
Long Beach, the State Lands Division had similar consultations
with the United States Corps of Engineers to determine that
there were no basic difficulties that would clearly preclude or
prohibit the Army Engineers from approving reasonable plans for
a reasonable number of islands at reasonable locations, which
they would concur did not inhibit the navigation interests which they are called upon to control.

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 structure; but every such proposal 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 necessary requirements of the Army Engineers; and, therefore, we have 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.

GOV. ANDERSON: Mr. Shavelson.

MR. SHAVELSON: Thank you, Mr. Chairman. As Frank pointed out, the procedure of the Corps of Engineers is to approve the location of islands when that exact location has been determined; and the exact location of the islands involved 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 pointed out, this is completely consistent with the procedure that the State has always followed in connection with its own offshore leases.

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

So all parties understand that no operation shall take
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GOV. ANDERSON: Mr. Shavelson.

MR. SHAVELSON: Thank you, Mr. Chairman. As Frank
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Commission's attention to Section 3.5 of the Unit Agreement,
which provides that: "Any impairment of the public trust for
commerce, navigation or fisheries to which any committed parcels
or any lands in the Unit are subject, is hereby prohibited."

So all parties understand that no operation shall take
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."

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

GOV. ANDERSON: Any further comment on this item?

MR. CHAMPION: I don't think it requires any action by
the Commission, does it?

GOV. ANDERSON: The secretary will make note of Mr.
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.

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

MR. HORTIG: Unless the Commissioners have any specific
questions, it might be appropriate to point out for the record
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 in-
tend to read all of this, but at least it is a matter of record;
and, Mr. Shavelson, if there is anything that I should do on
this, as far as reading or anything like that; let me know -- so
there is no question.

MR. SHAVELSON: No, sir.

GOV. ANDERSON: We don't very often let something
quite this large.

Then the resolution is:

IT IS RECOMMENDED THAT THE COMMISSION FIND AND DETER-
MINE THAT THE FOLLOWING ARE THE HIGHEST RESPONSIBLE
BIDDERS FOR THE CONTRACTORS' AGREEMENT, LONG BEACH
UNIT; WILMINGTON OIL FIELD, AND THAT THE ACCEPTANCE
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:

FIELD CONTRACTOR'S 80% UNDIVIDED SHARE

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 98.2777% BY: PAULEY PETROLEUM,
INC. AND ALLIED CHEMICAL CORPORATION

NONOPERATING CONTRACTOR'S 5% UNDIVIDED SHARE

JOINTLY BID AT 100% BY: STANDARD OIL COMPANY
OF CALIFORNIA AND RICHFIELD OIL CORPORATION

NONOPERATING CONTRACTOR'S 2½% UNDIVIDED SHARE

JOINTLY BID AT 99.54% BY: STANDARD OIL COMPANY
OF CALIFORNIA AND RICHFIELD OIL CORPORATION

NONOPERATING CONTRACTOR'S 1½% 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

IT IS FURTHER RECOMMENDED THAT THE COMMISSION CONCUR
IN THE ACTIONS DIRECTED BY CITY COUNCIL RESOLUTIONS
NOS. C-19266 AND C-19267, AND, IN ACCORDANCE WITH
THE PROVISIONS OF SECTION 3, CHAPTER 138, STATUTES
OF 1964, FIRST EXTRAORDINARY SESSION, APPROVE THE
EXECUTION BY THE CITY MANAGER OF THE CITY OF LONG
BEACH OF SAID CONTRACTORS' AGREEMENT ON BEHALF OF
THE CITY, AS TRUSTEE FOR THE STATE OF CALIFORNIA,
AND AWARD THE SAID CONTRACTORS' AGREEMENT TO THE
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 1st OPERATING AGREEMENT,
LONG BEACH UNIT, WILMINGTON OIL FIELD, ON OR BEFORE
MARCH 8, 1965.

MR. CHAMPION: I so move.

MR. CRANSTON: Second the motion.

GOV. ANDERSON: It has been moved and seconded. Any
further comment or remarks? (No response) If not, it is car-
ried 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 one-
half 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.

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

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

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.

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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.

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