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TRANSCRIPT OF
MEETING
of
STATE LANDS COMMISSION

SACRAMENTO, CALIFORNIA

March 11, 1966

1 MARCH 11, 1966 - 3:18 P.M.

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MR. CRANSTON: The meeting will please come to order.

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First item is: Proposal to enter into Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County - W. O. 5200.510.

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Frank?

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MR. HORTIG: Yes, Mr. Chairman. The Commission will recall that Richfield Oil Corporation, now Atlantic Refining by merger on December 9, 1965, submitted high bid as shown on Exhibit A of your agenda, page 3, offering a bid percentage of 23.677 percent as a limited over-ride to be paid on the first six million barrels of oil produced from the tract, in addition to the basic bid percentage of 96.25 percent of the net profits attributable to the contractor.

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The net result of this bid is that the successful bidder will pay somewhere on the order of one hundred one percent of the net profits on the oil that is produced from this tract to the State of California.

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This tract is of particular interest to the State in that here the minerals are owned entirely by the State and there is no allocation of any of the profits from this operation to any other governmental agency, but these will be remitted as all oil and gas revenues which are produced for the account of the State through the State Lands Commission.

1 It is recommended that the Commission accept the
2 bid and authorize the issuance to Atlantic Refining Company,
3 as successor in interest to Richfield Oil Corporation, the
4 Tract No. 2 Agreement, as detailed in the recommendation be-
5 fore you. The bid percentage has already been discussed,
6 and the Executive Officer should be authorized and directed to
7 execute the Unit Agreement and Unit Operating Agreement on
8 behalf of the State of California as to the State's portion
9 of the offshore area;

10 And the successful bidder should be directed, within
11 fifteen days of this award and the execution of the Tract No.
12 2 Agreement by the State, to complete execution of the Unit
13 Agreement and Unit Operating Agreement, Long Beach Unit,
14 Wilmington Oil Field, California, with respect to the parcel
15 including Tract No. 2; and within fifteen days of such award
16 to execute and deliver to the State Lands Commission the per-
17 formance bond required under Article 24 of the Tract No. 2
18 Agreement.

19 GOV. ANDERSON: So move.

20 MR. CHAMPION: Second. I'd just like to ask a
21 couple questions about this.

22 I assume the one hundred one percent really goes to
23 the theory on which this bidding has been conducted -- that
24 it is done in view of the secondary benefit of what is to be
25 done with the oil, not asking the company to pay us more money
26 than the oil is worth to them. The theory of bidding more

1 than one hundred percent is that they want the use of the oil.

2 MR. HORTIG: This is the only reasonable assumption.

3 MR. CHAMPION: What is the estimate of the yield on
4 this basis to the State? Do you have an estimate?

5 MR. HORTIG: I don't have a dollar figure in mind.
6 This is, very roughly, within a possible dollar-a-barrel net
7 value and a potential production of seventy million barrels
8 of oil -- this could be in the order of seventy million
9 dollars.

10 MR. CRANSTON: What would be a rough figure of
11 the possible value?

12 MR. HORTIG: Seventy million dollars.

13 MR. CHAMPION: As a net profit figure?

14 MR. HORTIG: Right.

15 MR. CHAMPION: Those are the only two questions I
16 had.

17 MR. CRANSTON: Have you seconded the motion?

18 MR. CHAMPION: Yes, I have.

19 MR. CRANSTON: The motion is moved, seconded and
20 if there is no discussion it is unanimously approved.

21 Calendar Item 2 -- Proposal for restrictive purchase
22 of submarine line pipe, Long Beach Unit, Wilmington Oil Field.

23 MR. HORTIG: At the meeting of the Commission on
24 March 1, 1966, the Director of Finance asked specifically
25 whether any engineering investigations had been made to satis-
26 fy the question of whether this is a genuine problem --

1 whether cost alternatives had been explored; how much might
2 be paid for an additional amount of protection that might or
3 might not be required.

4 The answer at that time was these had been explored
5 and had been evaluated, but that due to the press of time it
6 would probably be preferable to report on these items in
7 greater detail at the next meeting of the Commission, which
8 was then set for March 11th, and which is the meeting where
9 we are here today.

10 In summary, and in confirmation of what was reported
11 on March 1st with respect to the recommendation that purchases
12 of pipe to be used for submarine pipelines for the gathering
13 system from the offshore islands to convey the oil across the
14 harbor area in Long Beach to the mainland, a confirmation of
15 the justification on further review has been outlined in sum-
16 mary on page 2 of the agenda item before you, in which it is
17 stated:

18 That well casing and tubing purchased from foreign
19 manufacturers and selected to meet the minimum specification
20 standards specified by the American Petroleum Institute is
21 satisfactory for subsurface well installations where pipe
22 failures cannot hazard the general public health, welfare, and
23 safety.

24 Two, that experience of a major testing laboratory
25 has shown that pipe of foreign manufacture has a notably
26 higher incidence of rejection, particularly at operating

1 levels above minimum specifications, than domestically pro-
2 duced pipe, indicating that procedures of manufacture, test-
3 ing, and shipping by United States mills generally provide
4 quality above minimum specifications.

5 Three -- The estimated cost for the total submarine
6 project (this is a recommendation for a one-time purchase,
7 a one-time contract, a bid contract election only) is
8 \$400,000 compared with at least \$40,000,000 to be expended for
9 well casing and tubing, all of which to date has been pur-
10 chased, or the majority of which has been purchased, on com-
11 petitive bid from foreign sources. No practice will be
12 established in the purchase of pipe for submarine lines which
13 could be alleged to have further mandatory applicability to
14 the project.

15 Four -- The maximum price differential estimated by
16 foreign suppliers is about \$40,000. Such additional amount
17 for domestic pipe appears to be justified as insurance, par-
18 ticularly in consideration of the public health and safety
19 hazards from a harbor submarine pipeline installation, and
20 even the high cost of elimination of contamination resulting
21 from any line failure.

22 Reference should also be made, as pointed out by the
23 Attorney General's Office, to the fact that judicial decisions
24 have extended the law of manufacturers' warranty to the point
25 that a mill could be held responsible for damages arising out
26 of failure of its pipe for intended use. A judgment against

1 a foreign mill might be more difficult to obtain and, cer-
2 tainly, to enforce as against delivery from a domestic mill.

3 Under these circumstances, then, it is the opinion
4 of the staff, as it was on March 1st, that it should be recom-
5 mended that the Commission modify the resolution of September
6 23, 1965 to permit the field contractor for the Long Beach
7 Unit to limit bidding for line pipe required to construct sub-
8 marine pipelines for the four offshore islands to pipe manu-
9 factured in the United States.

10 I point this out -- that in doing this, if we were
11 to purchase this from a foreign concern we might have saved
12 as high as ten percent, \$40,000; but in order to protect the
13 waterfront, the beaches, and general welfare there, we are
14 willing to expend that additional amount...

15 GOV. ANDERSON: As insurance?

16 MR. HORTIG: This would qualify as insurance.

17 GOV. ANDERSON: I think it should be made clear in
18 this case that we are going to that expense as protection to
19 the people in that area, as protection against breakage of
20 that line pipe.

21 MR. CHAMPION: Under this we would continue to use
22 lowest cost pipe in areas where there is no possibility that
23 it would affect the public -- that is, casing?

24 MR. HORTIG: This is the case.

25 MR. CRANSTON: There is no precedent that would
26 apply to future pipe purchased?

1 MR. HORTIG: No.

2 MR. CHAMPION: I'll move approval.

3 MR. CRANSTON: Is there any discussion? If not,
4 approval is unanimous.

5 Calendar Item 3 -- Proposed legislation -- relief
6 to State from payment of local leasehold taxes assessed on
7 State's interest in net-profit oil and gas contracts.

8 MR. CHAMPION: Mr. Chairman, I'd like to ask that
9 this item go over to the next session. I have not yet com-
10 pleted review of what the impact would be, what the legal
11 situation is, with respect to the need to act on this at the
12 special session, or whether this is a matter that might be
13 carried over.

14 I'd like to ask the Commission to extend it to the
15 next meeting, which is March 31st. I can report on that
16 situation then.

17 MR. CRANSTON: If there is no objection, that will
18 be the order.

19 Finally, Calendar Item 4 -- Approval of Lybrand,
20 Ross Brothers and Montgomery, Certified Public Accountants,
21 to study the State Lands Division audit function and recommend
22 improved procedures and work measurements.

23 Frank?

24 MR. HORTIG: Mr. Chairman, this recommendation for
25 a contract for conduct of an independent study of audit pro-
26 cedure of the State Lands Division is recommended on the

1 basis of three primary factors:

2 First, the State Lands Division has, as a result of
3 association with the Long Beach Unit oil development, of
4 necessity increased interest and must apply increased emphasis
5 on net profit interest contracts; and these contracts require
6 a more diversified approach to auditing than the royalty con-
7 tracts that the Lands Commission has dealt with almost ex-
8 clusively before -- an approach more akin to public accounting
9 than government auditing.

10 The second factor is that cooperation in a joint
11 venture such as the oil development in the City of Long Beach
12 requires the closest coordination of auditing effort to pre-
13 vent needless duplication while still protecting all parties'
14 interests.

15 Thirdly, an independent survey in depth has never
16 been made of the whole State Lands Division auditing function.
17 As a matter of fact, this has been the subject of question
18 both by the Auditor General, as well as the Audits Division
19 of the Department of Finance.

20 In addition, such study would be timely now because
21 the supervisor of the State Lands Division audit section re-
22 tired in January 1966; and the position has not been filled
23 in anticipation that the manner of billing and the scope of
24 audit programs that would be undertaken under such supervision
25 could be redirected as a result of an independent audit study
26 by a contracting auditing firm.

1 Therefore, leading public accounting firms were
 2 solicited for proposals. Four responses were received and
 3 on evaluation of these responses by the Lands Division -- also
 4 reviewed by the Division of Audits of the Department of Finance;
 5 also reviewed by the General Services Department as to the
 6 desirability -- it is recommended that the Commission author-
 7 ize the execution of a service contract with Lybrand, Ross
 8 Brothers and Montgomery, Certified Public Accountants, on
 9 behalf of the State Lands Commission as contractor, providing
 10 for an independent study of the auditing program and responsi-
 11 bilities of the State Lands Division as set forth in that
 12 company's bid proposal of February 21, 1966. The maximum
 13 amount of the contract is not to exceed \$10,500 -- which is an
 14 amount which has been provided and is in the budget of the
 15 State Lands Division, available for contract services.

16 GOV. ANDERSON: I move it.

17 MR. CHAMPION: Second.

18 MR. CRANSTON: Is there any discussion? If not,
 19 approval is moved, seconded and so ordered unanimously.

20 That finishes our agenda?

21 MR. HORTIG: Yes, sir, until the 31st of March.

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MEETING ADJOURNED 3:35 P.M.

CERTIFICATE OF REPORTER

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I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing nine pages 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 March 11, 1966.

Dated: Los Angeles, California, March 15, 1966.

Louise H. Lillico