

41. PROPOSED NET PROFITS AGREEMENT, ALAMITOS BEACH PARK TIDE AND SUBMERGED LANDS, TRACT NO. 2, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY, CALIFORNIA - W.O. 5200.510.

After consideration of Supplemental Calendar Item 41 attached, and upon motion duly made and carried, the following resolution was adopted:

THE STATE LANDS COMMISSION:

1. DETERMINES, IN ACCORDANCE WITH THE PROVISIONS OF SECTION 3(j) OF CHAPTER 138, STATUTES OF 1964, FIRST EXTRAORDINARY SESSION, THAT IT IS IN THE BEST INTERESTS OF THE STATE TO OFFER THE OFFSHORE PORTION OF THE ALAMITOS BEACH PARK LANDS FOR BID UNDER A NET PROFITS AGREEMENT FOR THE PRODUCTION OF OIL, GAS AND OTHER HYDROCARBONS, AND TO AWARD SAID NET PROFITS AGREEMENT TO THE HIGHEST RESPONSIBLE BIDDER UPON THE TERMS AND CONDITIONS SET FORTH IN THE TRACT NO. 2 AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY, CALIFORNIA (EXHIBIT "A"), AND IN THE PROPOSAL TO ENTER INTO SAID AGREEMENT (EXHIBIT "C"), ON FILE IN THE OFFICE OF THE STATE LANDS COMMISSION AND BY REFERENCE MADE A PART HEREOF;
2. AUTHORIZES AND DIRECTS THE EXECUTIVE OFFICER TO OFFER FOR BID, PURSUANT TO SAID CHAPTER 138, THE SAID TRACT NO. 2 AGREEMENT IN ACCORDANCE WITH THE TERMS AND CONDITIONS SET FORTH IN THE SAID PROPOSAL;
3. AUTHORIZES AND DIRECTS THE EXECUTIVE OFFICER TO CAUSE TO BE PUBLISHED THE NOTICE OF INTENTION IN THE FORM OF EXHIBIT "B", ON FILE IN THE OFFICE OF THE STATE LANDS COMMISSION AND BY REFERENCE MADE A PART HEREOF. SAID NOTICE SHALL BE PUBLISHED IN A NEWSPAPER OF GENERAL CIRCULATION IN LOS ANGELES COUNTY. IF THE NOTICE IS PUBLISHED IN A WEEKLY NEWSPAPER, IT SHALL APPEAR THEREIN ON AT LEAST TWO DIFFERENT DAYS OF PUBLICATION AND IF IN A NEWSPAPER PUBLISHED OFTENER, THERE SHALL BE AT LEAST FIVE DAYS FROM THE FIRST TO THE LAST DAY OF PUBLICATION, BOTH DAYS INCLUDED;
4. RESERVES THE RIGHT, IN ITS DISCRETION, AT ANY STAGE OF THE PROCEEDINGS, TO WITHDRAW THE OFFER TO RECEIVE BIDS OR TO REJECT ALL BIDS FOR THE TRACT NO. 2 AGREEMENT.

Attachment

Calendar Item 41 (3 pages)

SUPPLEMENTAL CALENDAR ITEM

41.

PROPOSED NET PROFITS AGREEMENT, ALAMITOS BEACH PARK TIDE AND SUBMERGED LANDS, TRACT NO. 2, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY, CALIFORNIA - W.O. 5200.510.

By resolution dated May 27, 1965, the Commission:

1. Approved in principle the offer for the development of oil and gas from the Alamitos Beach Park Lands, utilizing a net profits contract with a specified minimum of 16-2/3 percent of the allocated gross production and with provisions for advance payments, as determined by the staff and the State's consultants;
2. Authorized the Executive Officer to prepare notice inviting bids, bid form, and the Tract No. 2 Contractors' Agreement covering the Alamitos Beach Park Lands, Long Beach Unit, Wilmington Oil Field, Los Angeles County;
3. Directed the Executive Officer to submit the documents in their proposed final form for approval by the State Lands Commission.

Accordingly, the office of the Attorney General and the staff of the State Lands Commission, pursuant to Chapter 138, Statutes of 1964, First Extraordinary Session, have prepared a Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, Los Angeles County, California, covering the offshore portion of the Alamitos Beach Park Lands (in the form of Exhibit "A" hereto). They have also prepared a Notice of Intention to offer said lands for bid and Proposal to enter into said Tract No. 2 Agreement (in the form of Exhibits "B" and "C", hereto, respectively). The successful bidder will become the Working Interest Owner in Tract No. 2, will assume development and production costs attributable to said Tract under the Long Beach Unit, and will be entitled to production allocated to said Tract, subject to the State's right to vote the Working Interest in Tract No. 2 and take in kind up to 12-1/2 percent of the oil allocated to said Tract.

The Contractor under the Tract No. 2 Agreement will pay to the State 96.25 percent of the Net Profits Attributable to the Contractor under said Agreement or 16-2/3 percent of the Total Value of Oil and Gas Allocated to the Contract Lands (other than oil taken in kind by the State), whichever amount shall be greater. The Agreement will be awarded to the qualified bidder who offers, in addition to the aforesaid payment, a production payment or overriding royalty consisting of the highest offered Bid Percentage of the Total Value of Oil and Gas Allocated to the Contract Lands during the "production payment period", which period will commence on January 1, 1967, and terminate when six million barrels of oil shall have been thereafter allocated to Tract No. 2. This production payment or overriding royalty is subject to a limitation in the form of a "variable dedication clause" designed to assure that said payment or royalty does not put the Contractor in an operating loss position for any accounting period, taking into consideration costs of operation but not costs due to development.

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The Contractor shall have the exclusive right and obligation to take all oil and gas allocated to the Contract Lands, other than that taken in kind by the State. All oil and gas allocated shall be accounted for and payment made to the State at a price computed to the closest tenth of a cent per barrel using the highest of four pricing standards, as detailed in the Tract No. 2 Agreement, which standards are substantially identical to those set forth in the Contractors' Agreement covering Tract No. 1 of the Long Beach Unit.

The Contractor will be required to commit the Contract Lands to the Long Beach Unit within fifteen (15) days of award of said Agreement by the State, and the term of said Agreement shall commence on the date when the Contract Lands have been so committed and will terminate on March 31, 2000, unless sooner terminated under the following conditions:

After final tract assignments and adjustments, the Contractor upon 120 days' notice may terminate this Agreement if either of the following situations exist:

- (a) There has been a period of 12 consecutive months during which there have been no net profit payable to the State by such Contractor; or
- (b) There has been a month in which there have been no net profits payable to the State by such Contractor, and such Contractor has advanced expenses of \$100,000.00 ~~or more~~ during a period when no further Net Profits Attributable to the Contractor are payable to the State.

The Contractor shall furnish the State with a faithful performance bond in the amount of \$1,250,000.00, subject to reduction or elimination at the discretion of the State Lands Commission.

The Commission's staff and its consultants, after careful study, have concluded that a net profits agreement under the aforesaid terms and conditions will enable the State to achieve the maximum possible oil and gas revenues from the Alamitos Beach Park Lands.

Bids for the Tract No. 2 Agreement are to be opened on December 9, 1965, and if the highest bid is acceptable to the Commission, it may authorize issuance of the Agreement to the successful bidder any time between March 8 and March 15, 1966, both inclusive.

IT IS RECOMMENDED:

1. THAT THE STATE LANDS COMMISSION DETERMINE, IN ACCORDANCE WITH THE PROVISIONS OF SECTION 3(j) OF CHAPTER 138, STATUTES OF 1964, FIRST EXTRAORDINARY SESSION, THAT IT IS IN THE BEST INTERESTS OF THE STATE TO OFFER THE OFFSHORE PORTION OF THE ALAMITOS BEACH PARK LANDS FOR BID UNDER A NET PROFITS AGREEMENT FOR THE PRODUCTION OF OIL, GAS AND OTHER HYDROCARBONS, AND TO AWARD SAID NET PROFITS AGREEMENT TO THE HIGHEST RESPONSIBLE BIDDER UPON THE TERMS AND CONDITIONS SET FORTH IN THE TRACT NO. 2 AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS

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ANGELES COUNTY, CALIFORNIA (EXHIBIT "A"), AND IN THE PROPOSAL TO ENTER INTO SAID AGREEMENT (EXHIBIT "C"), ON FILE IN THE OFFICE OF THE STATE LANDS COMMISSION AND BY REFERENCE MADE A PART HEREOF;

2. THAT THE STATE LANDS COMMISSION AUTHORIZE AND DIRECT THE EXECUTIVE OFFICER TO OFFER FOR BID, PURSUANT TO SAID CHAPTER 138, THE SAID TRACT NO. 2 AGREEMENT IN ACCORDANCE WITH THE TERMS AND CONDITIONS SET FORTH IN THE SAID PROPOSAL;
3. THAT THE STATE LANDS COMMISSION AUTHORIZE AND DIRECT THE EXECUTIVE OFFICER TO CAUSE TO BE PUBLISHED THE NOTICE OF INTENTION IN THE FORM OF EXHIBIT "B", ON FILE IN THE OFFICE OF THE STATE LANDS COMMISSION AND BY REFERENCE MADE A PART HEREOF. SAID NOTICE SHALL BE PUBLISHED IN A NEWSPAPER OF GENERAL CIRCULATION IN LOS ANGELES COUNTY. IF THE NOTICE IS PUBLISHED IN A WEEKLY NEWSPAPER, IT SHALL APPEAR THEREIN ON AT LEAST TWO DIFFERENT DAYS OF PUBLICATION AND IF IN A NEWSPAPER PUBLISHED OFTENER, THERE SHALL BE AT LEAST FIVE DAYS FROM THE FIRST TO THE LAST DAY OF PUBLICATION, BOTH DAYS INCLUDED;
4. THAT THE STATE LANDS COMMISSION RESERVE THE RIGHT, IN ITS DISCRETION, AT ANY STAGE OF THE PROCEEDINGS, TO WITHDRAW THE OFFER TO RECEIVE BIDS OR TO REJECT ALL BIDS FOR THE TRACT NO. 2 AGREEMENT.