

MINUTE ITEM

This Calendar Item No. 30
was approved as Minute Item
No. 30 by the State Lands
Commission by a vote of 2
to 0 at its 9/29/77 CALENDAR ITEM
meeting.

30.

9/77
Thompson

APPROVAL OF NOTICES INVITING BIDS
BID FORMS AND CRUDE OIL
SALES CONTRACTS FOR SALE OF OIL

The City of Long Beach has requested Commission approval of Notices Inviting Bids, Bid Forms and Crude Oil Sales contracts to be used for the contemplated sell-off of 12½% of the oil produced or attributable to both the Long Beach Harbor Department Tidelands Parcel and the City of Long Beach Parcel A.

The offering of these sell-off contracts is intended to increase tideland oil revenue and provide a crude oil supply to small, independent refiners.

Section 18.2 of the Drilling and Operating Contract (Long Beach Harbor Department Tidelands Parcel), dated March 21, 1964, reserves the right to the City of Long Beach to take in kind up to 12½% of the crude oil received by the contractor under that contract.

Section 11.2 of the Parcel A Oil Contract, dated January 27, 1972, also reserves the right to the City of Long Beach to take in kind up to 12½% of the crude oil produced from Parcel A.

The statutory authority for Commission approval of these proposed sell-off contracts is set forth in Section 10(a) of Chapter 29, Statutes of 1956, First Extraordinary Session. It provides, in part, that future contracts or other agreements between the City of Long Beach and any other person, firm, corporation or association, relating to taking or removing or disposition of oil derived from the long Beach tidelands shall be of no effect unless and until approved by the State Lands Commission. This statute further provides that all specifications and forms for the purpose of inviting bids in connection therewith shall be approved by the State Lands Commission prior to publication of notices to bidders.

Present Oil sell-off contracts for these parcels were approved by the Commission in December 1972. These contracts were written to expire in 1975, but were extended by the crude oil supplier-purchaser rule promulgated by the FEA.

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The present entitlement program treats California low gravity crude oil unjustly. Prices paid in the Wilmington Field for lower tier crude oil have been 60 cents per barrel below the FEA ceiling prices since October 1, 1976, and there is every indication that the nine cents per barrel increase in the ceiling price, effective during the September-November 1977 period, will not be reflected in posted prices. Additionally, there is the distinct possibility that, for the first time since upper tier prices were established, ceiling prices will not be paid commencing September 1, 1977.

Effective February 1974, the FEA required that bonus prices could no longer be paid above ceiling prices. As the posted prices that were paid were identical to ceiling prices, bonus payments therefore could not be made. When the FEA raised ceiling prices 60 cents per barrel on October 1, 1976, and posted prices remained unchanged, the differential between ceiling and posted prices made it possible to invoice lawfully for the bonus payments.

The present contract bonuses are 32.70 cents per barrel for the 8% increment of LBHD Tidelands Parcel, 26.51 cents per barrel for the 4½% increment, and 26.51 cents per barrel for the 12½% portion of Parcel A. The purchaser of the 8% increment of LBHD Tidelands Parcel has not paid this bonus since October 1, 1976, and legal action is currently in progress to collect the bonus.

The proposed plan would determine whether a higher bonus price can be obtained. The extended crude oil supplier-purchaser relationships can be terminated if a bona fide offer is made by another party at a higher lawful price than is currently being paid, and if the present purchaser declines to meet the higher offer. If the present purchaser declines, the new offer may be accepted by the City. Bids received pursuant to this proposed offer to sell oil would satisfy this requirement.

The approximate initial daily volumes of crude oil that will continue to be taken in kind and sold by the City under new contracts are 1,800 barrels from the Long Beach Harbor Department Tidelands Parcel and 550 barrels from Parcel A.

The significant specifications set forth in the sell-off bid forms are as follows:

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1. Amount:

The sell-off from the Long Beach Harbor Department Tidelands Parcel will be offered in two separate contracts of 8% and 4½%. Sell-off will be offered in one contract for 12½% of the oil from Parcel A. Currently, these amounts are 1,150, 650 and 550 barrels of oil per day, respectively.

2. Prices of Oil (Bid Factor):

For all oil subject to federal price controls, purchaser shall pay the maximum price permitted by law, less _____ (bid amount to be inserted here) per barrel, but in no event less than the highest price currently paid to the City or the City's Contractors for the corresponding tier of crude oil in the Wilmington Field, for oil of like gravity on the day of delivery, by any purchaser who has during each of the previous calendar months purchased an average of at least 1,000 barrels a day in the Wilmington Field.

For all oil not subject to price controls, Purchaser shall pay the highest price currently paid to the City or the City's contractor in the Wilmington Field for oil of like gravity on the day of delivery by any purchaser who has during each of the previous twelve calendar months purchased an average of at least 1,000 barrels of crude oil a day in the Wilmington Field.

The price for all oil shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel.

3. Term:

The initial Long Beach Harbor Department Tidelands Parcel 8% increment contract is planned to terminate June 1, 1979, with expiration of mandatory price controls on first sales of crude oil, but will be extendable for fixed periods by mutual agreement through September 30, 1981, the period of optional price control extension by Presidential decree. Each of the other contracts, when issued, will contain the same initial termination date and extension provisions.

4. Cash Deposit:

Each bidder shall submit a certified or cashier's check with his bid as a deposit, as evidence of good faith in the following amounts:

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Long Beach Harbor Department Tidelands Parcel:

8% contract - \$24,000
4½% contract - \$13,000

Parcel A 12½% contract - \$11,000

5. Surety:

Letters of Credit from a California bank are required of each purchaser in the following amounts:

Long Beach Harbor Department Tidelands Parcel:

8% contract = \$500,000
4½% contract - \$300,000

Parcel A 12½% contract - \$250,000

6. Insurance:

Each purchaser shall maintain or procure personal liability insurance of at least \$500,000 per person, \$1,000,000 for more than one person, and property damage insurance of at least \$1,000,000.

7. Delivery:

All oil shall be taken from one or more of the following Wilmington Oil Field delivery points, as approved by the City:

a. Long Beach Harbor Department Tidelands Parcel:

Either the Fault Block II Unit, the Fault Block III Unit, the Fault Block IV Unit or the Fault Block V Ranger Zone Unit shipping facilities.

b. Parcel A: The Parcel A deliver point.

c. The purchaser shall provide his own delivery equipment, subject to approval by the City, and at no expense to the City.

8. Selection of Successful Bidders:

Successful bidders shall be those responsible bidders offering the highest price for each portion of sell-off oil. The present purchaser of the 8% portion of Long Beach Harbor

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Department Tideland Parcel, who is Powerine Oil Company, will be given the opportunity to match the highest bid. This right of First refusal is mandatory under the supplier-purchaser provisions of FEA regulations.

9. Responsibility:

Each bidder shall submit evidence of his ability to take crude oil and shall also file a financial statement. The findings of the City Manager of Long Beach and the State Lands Commission as to these factors will be final.

10. Rejection of Bids:

The right to reject any and all bids will be reserved by the City of Long Beach and the State Lands Commission. The bid notices are on file with the State Lands Division.

Bids received will be analyzed by the City of Long Beach and the Division and will be presented to the Commission for approval before acceptance. It is expected that for the 8% portion of the LBHD Tidelands Parcel, bids will be solicited in the near future and oil will be sold under the proposed sell-off contract commencing January 1, 1978. Solicitations of bids for the two remaining portions will be appropriately timed.

IT IS RECOMMENDED THAT THE COMMISSION, PURSUANT TO SECTION 10(a), CHAPTER 29, STATUTES OF 1956, 1ST E.S., APPROVE THE NOTICES INVITING BIDS, BID FORMS AND CRUDE OIL SALES CONTRACTS FOR THE SALE OF OIL FROM THE LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL AND CITY OF LONG BEACH PARCEL A, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.