

CALENDAR ITEM

26.

7/78
Thompson

APPROVAL OF SPECIFICATIONS AND FORMS FOR THE
NOTICE INVITING BIDS, THE BID AND THE CRUDE OIL
SALES CONTRACT FOR SALE OF 8 PERCENT OF THE CRUDE
OIL, LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL,
CITY OF LONG BEACH, LOS ANGELES COUNTY

The City of Long Beach, in cooperation with the Commission's staff, has prepared the notice inviting bids, bid form and crude oil sales contract to be used for the contemplated sell-off of 8% of the oil allocated to the Long Beach Harbor Department Tidelands Parcel in the City of Long Beach, which oil the city may take in kind pursuant to Section 18.2 of the Drilling and Operating Contract (Long Beach Harbor Department Tidelands Parcel).

Powerine Oil Company is presently purchasing the subject 8% portion of the crude oil from the Long Beach Harbor Department Tidelands Parcel under a contract with the City of Long Beach whose term ended on July 1, 1975. Powerine's purchases under that contract have continued by virtue of the Department of Energy's domestic crude oil supplier/purchaser rule. Powerine has not paid the contract bonus since October 1, 1976. Legal action is in progress to collect the bonus. The crude oil supplier/purchaser relationship under the existing contract between the city and Powerine may 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 the subject oil will constitute an offer to pay a price higher than that currently being paid by Powerine.

The statutory authority for Commission approval of these specifications and forms is set forth in Section 10(a) of Chapter 29, Statutes of 1956, First Extraordinary Session. That section provides, in pertinent part, that all specification and forms for the purpose of inviting bids in connection with the disposition of oil derived from the Long Beach tidelands shall be approved by the State Lands Commission prior to publication of notice to bidders.

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

52, 57, 58

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1. Amount:

The sell-off will be offered in one contract for the 8% portion presently being sold to Powerine. Currently, this amount is 1,100 barrels of oil per day and is approximately 92% lower tier and 8% upper tier.

2. Price of Oil (Bid Factor):

For all oil subject to federal price controls, purchaser shall pay the maximum price permitted by law. Purchaser shall account for all oil not subject to price controls on the basis of its value as computed under the crude oil valuation provisions of Section 18.3 of the Drilling and Operating Contract (Long Beach Harbor Department Tidelands Parcel). 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. Bids shall take the form of a commitment to pay the specified sell-off contract price.

3. Term:

The initial term of the sell-off contract shall commence on the first day of the month following the month in which the present purchaser of the 8% portion of the oil from the Long Beach Harbor Department Tidelands Parcel is offered and refuses to meet the offer of the successful bidder. That commencement date should be September 1, 1978. The term shall end on June 1, 1979, which is the date when mandatory price controls on first sales of domestic crude oil are to expire. The contract will be renewable for 3 additional fixed time periods upon the mutual assent of the purchaser, City and Commission given at least 30 days prior to the expiration date of the then existing term. The last date through which the contract may be renewed is September 30, 1981, which is the date to which the President may at his option extend price controls on crude oil. Even though the requirement of mutual assent for extension may not be satisfied, the contract may have to remain in existence beyond its initial term if the present supplier/purchaser rule of the Department of Energy remains in effect.

4. Cash Deposit:

Each bidder shall submit with this bid as evidence of good faith a deposit in the form of a certified or cashier's check in the amount of \$24,000.

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5. Surety:

A letter of credit from a California bank is required of the purchaser in the amount of \$400,000.

6. Insurance:

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

7. Delivery:

All oil shall be taken from Wilmington Oil Field delivery points, as approved by the City, for the Fault Block II Unit, the Fault Block III Unit, the Fault Block IV Unit or the Fault Block V Ranger Zone Unit. 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:

The successful bidder for the sell-off oil shall be the responsible bidder making a commitment to pay the price specified in the sell-off contract. In the event that 2 or more responsible bidders make identical commitments to pay the contract price, the successful bidder for the sell-off oil shall be determined by lot from among all those responsible bidders making such identical commitments.

Powerine Oil Company, the present purchaser, will be given 15 days in which to meet the offer of the successful bidder. If Powerine elects to meet this offer, that is, to pay ceiling price on price controlled oil until June 1, 1979, and pay the LBOD contract price for uncontrolled oil during this period, the 8% portion of the crude oil must continue to be delivered to Powerine by virtue of the crude oil supplier/purchaser rule of the Department of Energy.

9. Responsibility:

Each bidder shall submit evidence of his ability to take the 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.

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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 in the State Lands Commission office.

Bids received will be analyzed by the City of Long Beach and the Commission's staff and will be presented to the Commission for approval before acceptance. It is expected that oil will be sold under the proposed sell-off contract commencing approximately September 1, 1978.

IT IS RECOMMENDED THAT THE COMMISSION, PURSUANT TO SECTION 10(a), CHAPTER 29, STATUTES OF 1956, 1ST E.S., APPROVE THE SPECIFICATIONS AND FORMS FOR THE NOTICE INVITING BIDS, THE BID AND THE CRUDE OIL SALES CONTRACT FOR THE SALE OF 8% OF THE CRUDE OIL FROM THE LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL, CITY OF LONG BEACH, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.