MINUTE ITEM

This Calendar Item No. 38
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CALENDAR ITEM

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NOTIFICATION TO CITY OF LONG BEACH
TO DIRECT FIELD CONTRACTOR TO SELL-OFF CRUDE OIL
FROM TRACT NO. 1 OF THE LONG BEACH UNIT

Section 3(e) of Chapter 138, Statutes of 1964, 1st E.S. and Article 11 of the Contractors' Agreement for the Long Beach Unit, Wilmington Oil Field, provide for the sell-off of up to 12 1/2 percent of the crude oil allocated to Tract No. 1 of the Long Beach Unit, all of which is to come from the Field Contractors 80 percent share. The present 12 1/2 percent of Tract 1 oil available for sell-off was sold under two contracts, one for seven percent of the oil and one for five and one-half percent, and were due to expire on September 1, 1986. Pacific Refining Company was awarded the (seven percent segment [4,200 B/D]) at a bid bonus of $2.206 per barrel above the base price. Pacific Refining has defaulted under the contract and the oil is currently being taken by the Field Contractor as provided in the contract. Edgington Oil Company is purchasing the five and one-half percent segment (3,300 B/D) and paying the City a bid bonus of $1.883 per barrel above the base price. Because of the nine month lead time required to put this sell-off into operation, certain procedures must be undertaken at this time. The State Lands Commission must notify the City of Long Beach to direct the Field Contractor to offer the oil for competitive bid.

Because bid bonuses do not always reflect the true bonus that the City of Long Beach will receive for this crude oil, no minimum bonus bid is recommended with the understanding that all bids may be rejected if they are unacceptable. The bid bonus applies to a base price, the highest posted price for like crude by Chevron, Mobil, Union or Arco in the Wilmington, Long Beach (Signal Hill) Huntington Beach and Inglewood Oil Fields, that normally exceeds the price used for calculating net profit payments, the average of prices posted in the above oil fields; thus, it is quite possible that a negative bid

(CALENDAR PAGE NUMBERS 147-147.3 ADDED 11/20/85) bonus could result in an actual bonus that would exceed the previously established minimum bonus of $0.35 a barrel that applied to the average of the posted prices.

This notice cannot be given more than once in any 12 month period. It was last given for the current contracts on October 25, 1984. In giving its notice, the Commission must provide for a fixed term for the sell-off and specify the amounts of oil to be put out for bid. The necessary specifications are set forth in Exhibit "A" to this Calendar Item.

Recently, the City of Long Beach received a negative bid bonus of $0.728 a barrel for a segment of the Townlot royalty oil, but based on the value of this oil, this bid bonus was still $0.07 per barrel above the price of the oil the City otherwise would have received without the sell-off.

Under the terms of the Contractors' Agreement, the oil must be offered for competitive bidding by the Field Contractor not more than 60 days after the notice from the Commission. If approved, a period of at least 180 days must elapse between the execution of the contracts and their effective date.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

   Authority: P.R.C. 21065 and Cal. Adm. Code 15378.

AB 884: N/A.

EXHIBIT: A. Specifications for Proposed Sell-off of Crude Oil.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.

CALENDAR ITEM NO. 38 (CONT'D)

2. ACTING PURSUANT TO SECTION 3(e) OF CHAPTER 138, STATUTES OF 1964, 1ST E.S. DIRECT THE EXECUTIVE OFFICER TO NOTIFY THE CITY OF LONG BEACH TO DIRECT THE FIELD CONTRACTOR TO OFFER FOR SALE BY COMPETITIVE PUBLIC BID 12 1/2 PERCENT OF THE OIL ALLOCATED TO TRACT NO. 1 OF THE LONG BEACH UNIT IN THE MANNER AND IN THE AMOUNTS AND FOR THE TERM SET FORTH IN EXHIBIT "A" AND PURSUANT TO CONTRACTS WITH THE PRICING PROVISION SET FORTH IN EXHIBIT "A".

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EXHIBIT "A"

SIGNIFICANT SPECIFICATIONS FOR PROPOSED SELL-OFF OF CRUDE OIL FROM TRACT NO. 1 OF THE LONG BEACH UNIT

1. CRUDE OIL AMOUNT:

The crude oil which is available for sale is 12 1/2 percent of the oil allocated to Tract No. 1. The oil will be offered in two contracts:

A. One contract covering seven percent of the oil allocated to Tract No. 1. This will be approximately 4,200 barrels per day of 17.7° API gravity crude oil.

B. One contract covering five and one-half percent of the oil allocated to Tract No. 1. This will be approximately 3,300 barrels per day of 17.7° API gravity crude oil.

2. CRUDE OIL PRICE:

The purchaser shall pay for the oil a bonus price per barrel, which is the bid factor, plus a base price equal to the highest price posted for like crude oil on the day of delivery in the Wilmington, Long Beach (Signal Hill), Huntington Beach and Inglewood Oil Fields among the postings of Chevron, Mobil, Union and ARCO. The pricing provision should state that the price shall be computed to the closest tenth of a cent per barrel. The provision also should contain the statement that if at any time the price based on the highest posting in the four fields plus the bid bonus is lower than the amount per barrel at which the Field Contractor accounts for like oil under Article 9(b) of the Contractors' Agreement, then and only then, the price to be paid by the sell-off purchaser shall be the amount per barrel provided by Article 9(b). This situation may arise because the contract provides for a later review of average posted prices used to value the oil for net profit purposes on a current monthly basis.

3. CONTRACT TERM:

The contracts will be for a term of 18 months commencing September 1, 1986.