

MINUTE ITEM

This Calendar Item No. 28
was approved as Minute Item
No. 28 by the State Lands
Commission by a vote of 3
to 0 at its 4/24/86
meeting.

CALENDAR ITEM

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APPROVAL OF SPECIFICATIONS AND FORMS FOR INVITING BIDS
FOR CRUDE OIL FROM LONG BEACH TIDELANDS TRACT 20,
FAULT BLOCK IV UNIT AND TRACT 92,
FAULT BLOCK V RANGER ZONE UNIT

The City of Long Beach entered into an Amended Drilling and Operating Contract effective May 18, 1961, with Great American Oil Company of Texas for the production of hydrocarbons from two small tracts in the Long Beach tidelands which are located in the Harbor District. Both tracts are committed to unit operations, each in a different fault block unit in the Wilmington oil field. One tract is Tract 20 of the Fault Block IV Unit, and the other is Tract 92 of the Block Fault V Ranger Zone Unit. Exxon Company, USA, as successor in interest to Great American Oil Company of Texas, was the City's contractor. The contract ran a term of 24 years and 11 months, expiring on April 18, 1986.

The City had earlier determined that it would not seek to reoffer the contract but upon its expiration would obtain the working interest in the two tracts and sell the oil by competitive bidding. Due to the depressed condition of the crude oil market, the City is not now going to be able immediately to reverse its previous determination and attempt to offer a drilling and operating contract. The terms of the City Charter prevent a long-term extension of the tidelands oil contracts, thus precluding an extension of the current arrangement with Exxon. Therefore, the City will have to assume working interest owner status and pay its share of unit expenditures and market the crude oil allocated to these tracts. The crude to be marketed from both tracts amounts to about 80 barrels per day.

The City has prepared a Notice Inviting Bids for Crude Oil Sales Contract, Bid for Crude Oil Sales Contract and Crude Oil

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Sales Contract, Tract 20, Fault Block IV Unit and Tract 92, Fault Block V Ranger Zone Unit. Copies of these forms have been submitted by the City to the State Lands Commission's office in Long Beach where they are on file. These forms will be used by the City in the sale by competitive bidding of the oil from both tracts under a single contract. The biddable factor will be a bonus over 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, Inc., Mobil Oil Corporation, Union Oil Company of California and Texaco Refining & Marketing, Inc. the contract will be awarded to the bidder determined by the City to be responsible which makes the highest per barrel bonus bid. The term of the contract will be for one year from June 1, 1986 to June 1, 1987. The purchaser under the contract will be required to provide as security a letter of credit in the amount of \$50,000.

Under Section 10(a) of Chapter 29, Statutes of 1956, 1st E.S., the specifications and forms for the purpose of inviting bids for the sale of Long Beach tidelands crude oil must be approved by the State Lands Commission prior to publication of the notice to bidders. The City plans to hold the bid opening on May 14, 1986. After opening the bids and determining the highest responsible bidder, the City will return to the State Lands Commission seeking approval of the award of the contract as provided in Section 10(a) of Chapter 29.

Since the competitive bid contract will begin on June 1, 1986, and the disposition of the crude oil from these two tracts will become the City's responsibility on April 18, 1986, when the drilling and operating contract with Exxon ends, the City will have to dispose of the crude oil for a period of approximately six weeks on an emergency basis. This means selling it for the best price it can obtain in the spot market.

IT IS RECOMMENDED THAT THE COMMISSION:

1. APPROVE THE SPECIFICATIONS AND FORMS REFERENCED ABOVE FOR INVITING BIDS FOR CRUDE OIL FROM TRACT 20, FAULT BLOCK IV UNIT AND TRACT 92, FAULT BLOCK V RANGER ZONE UNIT LOCATED IN THE LONG BEACH TIDELANDS.