

MINUTE ITEM 60
This Calendar Item No. 60
was approved as Minute Item
No. 60 by the State Lands
Commission by a vote of 3
to 0 at its 8/10/88
meeting.

A 57

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CALENDAR ITEM

60

08/10/88

W 15063

R. Ludlow

CONSIDERATION OF A MEMORANDUM OF UNDERSTANDING
BETWEEN THE STATE OF CALIFORNIA, THE CITY OF LONG BEACH,
AND THE TOWNLOT OIL COMPANIES FACILITATING THE
RESOLUTION OF DISPUTED LONG BEACH UNIT EQUITY FACTORS

PARTIES: State Lands Commission,
City of Long Beach,
Atlantic Richfield Company,
Chevron, USA, Inc.,
Phillips Petroleum Company,
Armstrong Petroleum Company,

Chapter 138, Statutes of 1964, 1st E.S., provides for the State's participation in the development and production of hydrocarbons from the eastern extension of the Wilmington Oil Field in Long Beach. The development and production is a unitized operation governed by agreements which were approved by the State Lands Commission. The unitized operation, known as the Long Beach Unit, involves three major areas: Tract 1 (the largest area by far) which consists of tide and submerged lands granted in trust to the City of Long Beach, but from which the State, as provided by Chapter 138, receives all the oil revenues except a relatively small, fixed amount which is paid to the City; Tract 2, which consists of tide and submerged lands in which the minerals are owned in fee by the State; and the Townlot Area, the onshore area of downtown Long Beach. Most of the Townlot Area is under lease to three major oil

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(ADDED 8/9/88 pgs. 423-423.3)

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companies, with Atlantic Richfield, Chevron and Phillips holding 90% of the Townlot interests. The City of Long Beach and the Long Beach Unified School District, also hold portions of the Townlot Area from which they receive shares of unit production.

The State has the largest stake in the Unit, since it receives almost all the revenue from the two offshore tracts which contain over 90% of the recoverable oil. The production and corresponding expense allocations between the three main areas are determined according to an agreed upon complex engineering formula (the equity formula) contained in the contract governing the unit operation (the "Unit Agreement").

Pursuant to the terms of this contract, the allocation of hydrocarbons and costs between the three main areas are to be updated as more geological and engineering data become available and as development and production from the unit progress. This is necessary in order to ensure that each area actually receives credit for its contributions to the Unit. The allocations between the three main areas are made by an Equity Committee, comprised of professional petroleum engineers. Final area assignment must be made by April 1, 1990.

Because of the importance to the State of the equity calculation, the Legislature inserted in Chapter 138, a provision giving the State control over equity determinations, which are then subject to arbitration, and require all changes in the formula to be implemented retroactively to the beginning of unit operations. The Unit contracts were written to conform to this statutory directive.

Engineers for the State, the Townlot Oil companies, and the City of Long Beach believe that a number of significant engineering issues must be resolved before the deadline for final area assignments is reached in April of 1990. In considering these issues, it is inevitable that disagreements will arise between the parties. In the past, these disputes have been resolved with expensive and time consuming litigation and arbitration. In order to facilitate resolution of as many of the problem areas as possible without resort to arbitration or litigation, the staff is recommending that the Commission enter into a Memorandum of Understanding (MOU) with the City and Townlot Oil companies. The MOU contains a procedure to quickly identify areas of agreement and make it easier for the settlement of disagreements. This MOU will not amend or

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conflict with the Long Beach Unit agreement, but will be complementary to it.

The essential terms of the MOU are:

- A. The MOU is not a binding agreement. Any party, at any time, for any reason, may drop out of the resolution process.
- B. A "Review Committee" shall be established, which will include high level management of each of the parties. This committee shall attempt to resolve conflicts between the parties regarding equity formula factors. This committee shall have two subcommittees: An "Engineering Subcommittee" and a "Legal Subcommittee".
- C. The engineering subcommittee shall be charged with the task of identifying those engineering issues the parties can agree upon and narrowing areas of disagreement as much as possible.
- D. The legal subcommittee will seek to resolve legal issues which may arise and formulate a possible arbitration stipulation which conforms to the requirements of Exhibit "D" to the Unit agreement, but streamlines the arbitration process.
- E. If agreement is reached on an issue, then any party may seek immediate implementation using normal equity procedures. If there is no resolution of an equity issue, then any party may seek to take the issue to the equity committee and subsequent arbitration.

In order to facilitate open discussion of the issues, the parties will also execute a "Non-admission Agreement". The purpose of this agreement is to ensure that no statement made by a party during the negotiations shall be used as an admission against that party nor be deemed a waiver of that party's rights in any subsequent proceedings.

AB 884: N/A.

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 THE

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ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND
14 CAL. ADM. CODE 15378.

2. AUTHORIZE THE EXECUTIVE OFFICER OR THE ASSISTANT EXECUTIVE OFFICER TO EXECUTE THE "MEMORANDUM OF UNDERSTANDING" AND THE "NON-ADMISSION AGREEMENT", WITH THE CITY OF LONG BEACH AND THE TOWNLOT OIL COMPANIES, IN SUBSTANTIALLY THE FORM ON FILE WITH THE COMMISSION. THE EXECUTIVE OFFICER AND STAFF OF THE COMMISSION ARE DIRECTED TO TAKE ALL STEPS NECESSARY TO IMPLEMENT THEIR PROVISIONS.

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