

MINUTE ITEM
This Calendar Item No. 40
was approved as Minute Item
No. 40 by the State Lands
Commission by a vote of 3
to 0 at its 9/14/88
meeting.

CALENDAR ITEM

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APPROVAL OF FORMS AND SPECIFICATIONS
FOR INVITING BIDS FOR GAS TREATMENT
AGREEMENT (LONG BEACH HARBOR
TIDELANDS PARCEL, PARCEL "A"
AND UPLANDS)

Natural gas is produced along with oil from the Long Beach Tideland Parcels under the various contracts for tidelands oil and gas development. Over the years the amount of tidelands gas production has decreased, especially in the old part of the field which includes the Long Beach Harbor Tidelands Parcel and Parcel "A". However, gas production still remains substantial. The production of natural gas is a necessary part of the production of oil. Oil cannot be produced without producing the associated gas.

Under the terms of the Long Beach tidelands oil contracts, the operators have the right to use as much of the dry gas as is necessary for field operations and the duty to convey all dry gas not so used to the City of Long Beach ("City"). The Long Beach Gas Department is required by the tidelands trust statutes to take all tidelands dry gas which it can economically utilize and pay to the State a price equivalent to its reasonable wholesale market value.

In order for the produced natural gas to be used for lease fuel or sold, it must be treated. Treating includes the removal of water, toxic substances such as hydrogen sulfide, and natural gas liquids, which are sold separately with the revenue from such sale being paid to the City and forwarded to the State as tidelands oil revenue. A gas treating agreement for the gas produced from or allocated to the Long Beach Harbor Tidelands Parcel and Parcel "A" is currently in place, but is due to expire on March 1, 1989, when the drilling and operating contracts for these parcels expire. The treating agreement is with Petrolane-Lomita Gasoline Company ("Petrolane"), the only processing company with gathering lines in the field.

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Petrolane also treats the gas produced from the Long Beach Unit under a separate treating agreement.

A new arrangement for treating the gas from the Long Beach Harbor Tidelands Parcel and Parcel "A" must be made for the operations that will be conducted under the proposed Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract that is currently being offered for bid and is to go into effect March 1, 1989. Accordingly, a new gas treating agreement must be offered for bid. Although only one company, Petrolane, is in a position to treat the gas because it is the only company with a gathering system in the field, Section 10(a) of Chapter 29, Statutes of 1956, First Extraordinary Session, requires that the contract be awarded upon competitive bidding.

The City has prepared the specifications and forms for the purpose of inviting bids on a contract for the treatment or processing of natural gas from the Long Beach Harbor Tidelands Parcel, Parcel "A" and certain uplands properties. The forms consists of the notice inviting bids, the bid form and the agreement, copies of which are on file at the Commission's office in Long Beach. The staff has reviewed the specifications and forms and finds them satisfactory. The significant provisions of the treating agreement include:

1. A term from March 1, 1989 to the termination of the Long Beach Unit,
2. A requirement that the treater gather, compress and dehydrate the gas, remove and deliver the liquid petroleum gas products, remove and dispose of hydrogen sulfide and other impurities and deliver and return all saleable, treated dry gas,
3. Treater does not purchase the gas but City can require treater to purchase the gas liquids,
4. Treater receives a treating fee equal to a percent (the bid amount) of the net value of all treated gas and gas liquids, plus reimbursement of operations and maintenance costs, and
5. At the end of the agreement the treater is to remove all facilities or at City's option, City may purchase the facilities.

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Pursuant to Section 10(a) of Chapter 29, Statutes of 1956, First Extraordinary Session, all specifications and forms for inviting bids for contracts for the processing of tidelands gas must be approved by the Commission prior to publication of the notice to bidders. In addition, this statutory provision states that no contract for the processing of tidelands gas shall be made and entered into by the City unless approved by the Commission. Accordingly, after the bidding process has taken place, Commission will be presented with the results of the bidding and asked to approve the award.

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE, PURSUANT TO SECTION 10(a) OF CHAPTER 29, STATUTES OF 1956, FIRST EXTRAORDINARY SESSION, THE SPECIFICATIONS AND FORMS FOR INVITING BIDS ON THE GAS TREATING AGREEMENT (LONG BEACH HARBOR TIDELANDS PARCEL, PARCEL "A" AND UPLANDS).