

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 4/26/89
meeting.

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CALENDAR ITEM

28

04/26/89
W 12036
W 12037
W 12038
Tanner

APPROVAL OF THE AWARD OF THE FIRST 10% SEGMENT,
CRUDE OIL SALES CONTRACT, AND REJECTION OF THE
BID FOR THE SECOND TEN-PERCENT (10%) SEGMENT LONG BEACH HARBOR
TIDELANDS PARCEL AND PARCEL "A",
BY THE CITY OF LONG BEACH

Background

At its meeting on November 29, 1988, the Commission approved the specifications and forms for the sale by the City of Long Beach pursuant to competitive bidding of crude oil produced from and allocated to the Long Beach Harbor Tidelands Parcel and Parcel "A" under the new operating contract which began on March 1, 1989. The City's share of crude oil from these parcels is 20% of the oil produced and allocated, approximately 1,800 barrels per day of between 170 - 190 API gravity crude oil. The City offered this oil for sale in two equal segments.

On February 1, 1989, the City of Long Beach held bid openings for the contracts. The results of the bidding are shown on Exhibit "A". Action on the award of these contracts by the Long Beach City Council was on March 14, 1989.

Section 10(a) of Chapter 29, Statutes of 1956, First E.S., requires State Lands Commission approval of any disposition of oil derived from the Long Beach Tidelands.

Staff recommends the acceptance of Edgington Oil Company's bid, for the first 10% segment, Crude Oil Sales Contract, Long Beach Harbor Tidelands Parcel and Parcel "A", of \$0.22 per barrel above the Base Price. The Base Price is defined as the highest price posted for oil of like gravity and quality on the day of delivery in the Wilmington, Long Beach (Signal Hill), Huntington Beach and Inglewood Oil Fields, among the postings

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of Chevron, U.S.A., Inc., Mobil Oil Corporation and Union Oil Company of California. The contract will be for a term of 18 months commencing on June 1, 1989 and ending on December 1, 1990.

Staff recommends the rejection of Edgington Oil Company's bid of \$0.09 per barrel above the Base Price for the second ten-percent (10%) segment, Crude Oil Sales Contract, Long Beach Harbor Tidelands Parcel and Parcel "A". This segment of oil should be returned to the City's operating contractor, Neste Holding (U.S.A.)/ Chasse Energy Corporation, operating under the name Tidelands Oil Production Company (TOPKO).

In evaluating the bids, the comparison for the eighteen months must be made between the sell-off base price plus bonus, and the future price TOPKO would pay, which is the average of the Wilmington Field postings plus adjustment up or down depending upon the future price TOPKO would receive for the oil when sold. Under TOPKO's contract, the payment to the City is increased or decreased by 50% of the difference between what TOPKO sells or exchanges the oil for and the net profit value.

Currently, the sell-off Base Price is \$0.20 - \$0.30 per barrel higher than the TOPKO contract price. Based on that differential, staff recommends acceptance of the bonus of \$0.22 for the first 10% segment. Approval of that bid guarantees a fixed bonus during the eighteen months of the contract. Based on the current price spread between the sell-off Base Price and the TOPKO contract price, the \$0.22 per barrel sell-off bonus would be equal to TOPKO selling the oil for an \$0.80 to \$0.90 per barrel bonus and sharing 50% of it with the City as required by its contract.

As an offset hedge, staff recommends rejection of the \$0.09 per barrel bonus bid. The Contractor will then sell that oil until the City gives the required 90-day notice to take it in kind. The Base Price on future sell-off oil will be the same as the net profit value base price to facilitate analysis. The second 50% segment can be taken in kind whenever market conditions indicate that the sell-off oil might attract a bonus greater than 50% of the difference between the average of the Wilmington Field postings and the price at which TOPKO could dispose of the oil.

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OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 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 14 Cal. Code Regs. 15378.

AB 884: N/A.

EXHIBIT: A. Results of Bidding.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. APPROVE THE AWARD BY THE CITY OF LONG BEACH OF THE FIRST 10% SEGMENT, CRUDE OIL SALES CONTRACT, LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" TO EDGINGTON OIL COMPANY FOR THE PERIOD JUNE 1, 1989 TO DECEMBER 1, 1990.
3. REJECT EDGINGTON OIL COMPANY'S BID FOR THE SECOND TEN-PERCENT (10%) SEGMENT, CRUDE OIL SALES CONTRACT, LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A".

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EXHIBIT "A"

Bid Opening for Crude Oil Sales Contracts, Long Beach
Harbor Department Tidelands Parcel and Parcel "A"

Wilmington Oil Field

February 1, 1989

10:00 a.m.

First Segment

(900 B/D of 17° - 19° API Gravity Crude Oil)

<u>Bidder</u>	<u>Bonus Bid</u> <u>(Per Barrel, Above Base Price)</u>
1. Edgington Oil Company	\$0.22

Second Segment

(900 B/D 17° - 19° API Gravity Crude Oil

1. Edgington Oil Company	<u>Bonus Bid</u> \$0.09
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