

MINUTE ITEM

47

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Hager

APPROVAL OF CONSENT BY CITY OF LONG BEACH
TO ASSIGNMENT OF A FIVE PERCENT (5%) NONOPERATING
CONTRACTOR'S INTEREST IN THE CONTRACTORS' AGREEMENT,
TRACT 1, LONG BEACH UNIT, FROM CHEVRON U.S.A., INC.
TO SAHUARO PETROLEUM AND ASPHALT COMPANY

At the request of Commissioner Jim Tucker, Calendar Item 47 was
postponed until the next calendar.

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TO ASSIGNMENT OF A FIVE PERCENT (5%)
NONOPERATING CONTRACTOR'S INTEREST IN THE
CONTRACTORS' AGREEMENT, TRACT 1, LONG BEACH UNIT,
FROM CHEVRON U.S.A., INC., TO
SAHUARO PETROLEUM AND ASPHALT COMPANY

Chevron U.S.A., Inc. holds a five percent nonoperating contractor's interest in the Contractors' Agreement for Tract 1 of the Long Beach Unit in the Long Beach tidelands. Chevron is proposing to assign this interest to Sahuaro Petroleum and Asphalt Company and must receive the consent of the City Manager of Long Beach acting with the approval of the Commission for the assignment to be effective.

Chevron's nonoperating interest is one of three nonoperating interests in Tract 1. The operating interest, known as the field contractor's interest, is held by the THUMS group of companies. All interests are net profits interests. The obligations of a holder of a nonoperating interest include paying its share of unit expenses, taking its share of unit oil, and paying net profits to the City of Long Beach. The holder of this five percent nonoperating contractor's interest would be responsible for paying five percent (5%) of Tract 1's 86% share of unit expenses and taking five percent (5%) of Tract 1's 86% share of unit oil. Because the original bid for this interest was 100% of net profits payable to the City, the interest holder must pay all of the net profits to the City. Nonetheless, the holder of this interest possesses a valuable asset, a dependable supply of crude oil at an advantageous location near Los Angeles Basin.

Sahuaro, a wholly owned subsidiary of Edgington Oil Company, appears to be able to meet the two important requirements for holding a nonoperating contractor's interest, an ability to take and dispose of the oil and an ability to meet the financial obligations. Edgington, which has a refinery in Long Beach,

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has been a long-time purchaser of oil in the Long Beach area. The City and the State have had numerous satisfactory crude sales transactions with Edgington. Edgington is a major supplier of asphalt in Southern California, and Sahuaro is a major supplier of asphalt in central Arizona. It would appear that the oil from this Tract 1 interest would be refined by Edgington in its Long Beach refinery for use in its manufacture of asphalt. Thus, Sahuaro would appear to have a continuing ability to take and dispose of the oil.

In order to assure that Sahuaro would have the ability to meet its financial responsibilities as the holder of this nonoperating interest, the City's Department of Oil Properties and the staff requested that Edgington, Sahuaro's parent, provide an unconditional guarantee of Sahuaro's performance under the Contractors' Agreement. Edgington has agreed. Therefore, the City may look to both Sahuaro and Edgington for performance. As additional protection against loss in the event of a default, the Department of Oil Properties and the staff asked Sahuaro to agree to a change in Article 30 of the Contractors' Agreement, reducing from twenty days to ten days the period following notice of default after which the City may terminate Sahuaro's rights under the contract. Sahuaro agreed to this change.

Based on their review of Sahuaro's and Edgington's financial records and Sahuaro's and Edgington's agreement to the requests for a guarantee by Edgington and a change in the default provision, the Department of Oil Properties and the staff believe that Sahuaro will be able to meet the financial responsibilities of the holder of this nonoperating contractor's interest. The Department of Oil Properties and the staff are also satisfied with Sahuaro's ability to take and dispose of the oil. Therefore, the Department of Oil Properties and the staff have concluded that Sahuaro has the ability to fulfill its responsibilities under the Contractors' Agreement if the assignment is approved.

The Department of Oil Properties and the staff are recommending that Sahuaro initially be required to provide the \$750,000 performance bond required by Article 32 of the Contractors' Agreement. Under Article 32, the actual cost of the bond, up to one percent (1%) per year of the principal amount, may be charged to net profits. Therefore, the bond cost will be borne by the City and the State since the City's net profits share is 100%. The Commission may wish to request the City to waive the

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bond requirement, which the City may do with the approval of the State, if Sahuaro establishes a record of satisfactory performance.

Under Article 25 of the Contractors' Agreement, an assignment of an interest, in order to be effective, must receive the consent of the City Manager acting with the approval of the State. Since the City's consent must be with the Commission's approval, the Commission must take the initial action. However, the Department of Oil Properties has recommended that the City Manager consent to the assignment on the conditions outlined above.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's 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 the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Code Regs. 15378.

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 THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. APPROVE THE CONSENT TO BE GIVEN BY THE LONG BEACH CITY MANAGER TO THE ASSIGNMENT BY CHEVRON U.S.A., INC. TO SAHUARO PETROLEUM AND ASPHALT COMPANY OF CHEVRON'S FIVE PERCENT (5%) NONOPERATING CONTRACTOR'S INTEREST IN THE CONTRACTORS' AGREEMENT FOR TRACT 1 OF THE LONG BEACH UNIT. THE CONSENT IS TO BE CONDITIONED ON (1) EDGINGTON OIL COMPANY PROVIDING AN UNCONDITIONAL GUARANTEE OF SAHUARO'S PERFORMANCE AND (2) SAHUARO AGREEING TO A REDUCTION IN THE NOTICE OF DEFAULT PERIOD FROM TWENTY TO TEN DAYS.