

MINUTE ITEM

This Calendar Item No. 51
was approved as Minute Item
No. 51 by the State Lands
Commission by a vote of 3
to 0 at its 3/27/90
meeting.

CALENDAR ITEM

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APPROVAL OF CONSENT BY CITY OF LONG BEACH TO
SECOND AMENDMENT TO LONG BEACH HARBOR TIDELANDS PARCEL
AND PARCEL "A" OIL CONTRACT

The City of Long Beach, acting with the approval of the State Lands Commission, entered into the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract ("Contract"), effective March 1, 1989, with Tidelands Oil Production Company ("TOPKO"), a partnership of Neste Oil Services, Inc. and Chasse Long Beach Production Corporation. As the Contractor under the Contract, TOPKO is responsible for conducting oil field operations on the Long Beach Harbor Tidelands Parcel and Parcel "A" in the Long Beach tidelands.

A First Amendment to the Contract was executed by TOPKO and the City of Long Beach, acting with the Commission's approval, which permitted TOPKO to conduct field operations on Segment II, the uplands areas, of certain fault block units and required TOPKO to allocate the costs attributable to Segment II operations in accordance with applicable unit accounting procedures. Allowing TOPKO to conduct these operations, provided that the costs are allocated properly, will provide greater efficiencies that will reduce costs and thereby increase net profits.

The City and TOPKO are proposing a Second Amendment to the Contract. This Second Amendment would make three changes. First, it would permit TOPKO to perform accounting, engineering and management functions relating to other interests TOPKO holds or will acquire in Southern California, using facilities on, and personnel assigned to, the lands subject to the Contract,

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provided that the costs of performing these functions are allocated to the interests for which they are performed. These functions may be performed by TOPKO only upon prior approval and to the extent authorized in writing by the City Manager. The approval to conduct these functions may be revoked at the discretion of the City on 60 days written notice to TOPKO. Like the granting of permission to TOPKO to conduct Segment II operations, this should result in greater efficiencies that will reduce costs and increase net profits. Second, the Second Amendment provides the City with greater flexibility in administering the sale of the oil that it is permitted to take in kind and sell by competitive bidding. It would reduce the notice period for returning the oil to TOPKO from 60 days to 24 hours. This also will provide the City with greater security by providing a means for the disposition of the oil if its purchaser refuses to accept delivery. Third, the Second Amendment will permit TOPKO to provide a letter of credit as security for faithful performance in lieu of the performance bond currently required by the contract. Letters of credit are now more commonly used as security and, in the unlikely event that the security device has to be used, are easier to levy on than bonds.

The Second Amendment incorporating these three matters has been prepared and is on file in the Commission's office in Long Beach. Under Section 10(b) of Chapter 29, Statutes of 1964, 1st E.S., any amendment to a Long Beach tidelands oil operating contract must receive the consent of the State Lands Commission before it can be made by the City. The staff has reviewed the proposed amendment and has concluded that its execution is in the State's best interest.

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. CONSENT TO THE SECOND AMENDMENT TO THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT.