

MINUTE ITEM

This Calendar Item No. 63
was approved as Minute Item
No. 63 by the State Lands
Commission by a vote of 3
to 0 at its 3/27/90
meeting.

CALENDAR ITEM

63

A 57

S 29

03/27/90
W 15063
R. Ludlow

CONSIDERATION OF AN AGREEMENT TO SUPPORT
THE IMPLEMENTATION OF FINAL EQUITY
FACTORS IN THE LONG BEACH UNIT

PARTIES: State Lands Commission
Atlantic Richfield Company
Chevron, U.S.A.
City of Long Beach

The Long Beach Unit is the major source of oil and gas revenue for the State. It involves three main areas: Tract 1, (the largest by far) which consists of tide and submerged lands granted in trust to the City of Long Beach but from which the State receives almost all of the oil and gas revenues; Tract 2, which consists of tide and submerged lands in which the minerals are owned 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 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 small shares of unit production.

The Unit Agreement provides for the allocation of hydrocarbons and costs between the three main areas pursuant to a very complex engineering formula. These allocations are referred to as "Equities". The Equities are redetermined periodically during development of the unit as more geological and engineering data become available. Each change in Equity is retroactive to the beginning of Unit production. Changes in Equity are determined by an Equity Committee composed of registered petroleum engineers representing each of the unit participants. Final Equities must be assigned by April 1, 1990.

For more than ten years proposed changes in equity have been the subject of dispute and controversy between the Unit participants. In that time there have been three lawsuits and two arbitrations. In late 1988 the Equity Committee members and their technical consultants (representing the State, ARCO, Chevron and the City of Long Beach) began negotiations in the hope of agreeing upon final equities by the April 1, 1990 deadline without resorting to further arbitration or litigation. A tentative agreement has been reached on the engineering approach, technical procedures and data to be utilized in a final equity solution. The agreement complies in all respects with the law and the unit documents, and will leave equities essentially where they are today (9.77% for the Townlot Area, 90.23% for the State). The final equities are expected to be implemented by a vote of the Equity Committee on March 28, 1990:

As part of this process the Commission is being asked to approve an agreement between the State Lands Commission, the City of Long Beach, ARCO and Chevron to support and defend the final equities. The essential terms of this agreement are:

1. No party to the agreement will challenge the validity of the final equities.
2. In the event a third party challenges the final equities, then the parties to the agreement will defend such equities.
3. If the final equities are successfully challenged by a third party, then amongst the signatories to the agreement, the final equities shall still be implemented and binding.
4. The cost to defend and support the final equities shall be shared 50 percent by the Townlot Parties and 50 percent by the State.

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 CODE REGS 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL CODE REGS 15378.
2. AUTHORIZE THE EXECUTIVE OFFICER OR THE ASSISTANT EXECUTIVE OFFICER TO EXECUTE THE AGREEMENT TO DEFEND AND SUPPORT THE IMPLEMENTATIONS OF FINAL EQUITY FACTORS IN THE LONG BEACH UNIT, IN SUBSTANTIALLY THE FORM ON FILE WITH THE COMMISSION.