

MINUTE ITEM

This Calendar Item No. C67
was approved as Minute Item
No. 67 by the State Lands
Commission by a vote of 3
to 0 at its 3/8/94
meeting

CALENDAR ITEM

C67

A 57, 58
S 29

03/08/94
W 12002
Willard
R. Ludlow

CONSIDERATION OF EXTENSION OF THE LONG BEACH HARBOR
TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT

PARTIES:

City of Long Beach
Tidelands Oil Production Company
Neste Oil Services
Chance Long Beach Production Corporation

BACKGROUND

Oil and gas production operations in the portion of the Long Beach tidelands outside the areas committed to the Long Beach Unit are located in the Long Beach Harbor District and on Parcel "A". The oil operation in this area was consolidated on March 1, 1989, with the approval of the State Lands Commission (SLC), under a contract between the City of Long Beach and Tidelands Oil Production Company ("TOPKO"). Pursuant to this contract the City, as trustee for the state, receives 95% of the net profits. This contract expires on April 1, 2000.

TOPKO is a partnership of Neste Oil Services, Inc. and Chance Long Beach Production Corporation. Neste Oil Services, Inc. is a wholly owned subsidiary of Neste Holding (USA), Inc., which in turn is a wholly owned subsidiary of Neste Oy, the national oil company of Finland. Neste Oy is the second largest business entity in Scandinavia and has annual revenues exceeding \$7 billion. Chance Long Beach Production Corporation is a wholly owned subsidiary of Chance Energy Corporation which in turn is a wholly owned subsidiary of Chance Petroleum Corporation, a small independent oil and gas company with modest resources. Chance has supplied operational expertise to the partnership while Neste has provided financial strength and oil marketing skills. Both Neste Holding (USA), Inc. and Chance Energy Corporation have guaranteed the contract. The contract is also backed by a \$4 million letter of credit.

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TOPKO employs approximately 250 people in high paying jobs and has an operating budget in excess of \$50 million. It uses numerous local suppliers and independent contractors and generates significant municipal, county and state tax revenues. It is fair to say that the TOPKO operation is an important asset to the Long Beach community. In addition, since its inception in March of 1989, profits from the TOPKO contract are in excess of \$14 million and one of the contracts main objectives, the abandonment of hundreds of idle wells in an environmentally sound manner, has been achieved.

The oil field covered by the contract has been under production for over 50 years and is approaching depletion. The existing waterflood operation is costly and has been experiencing a decline rate of approximately 10%. Given declining production, high costs and dismal oil prices, it is unlikely that the existing waterflood operation will significantly contribute to well abandonments in the future, and net profits to the State, nor recover what may prove to be a very important remaining oil resource.

In order to preserve the economic viability of the resource TOPKO and the City of Long Beach have proposed implementation of a steamflood. A steamflood may have the potential of dramatically increasing the rate of production with an ultimate recovery of an additional 100 million barrels of oil or more. However, implementation of a steamflood will be very costly. TOPKO has estimated this cost at approximately \$100 million. To implement a steamflood and recover the investment will require more time than remains on the present contract, which expires on April 1, 2000.

In order to facilitate implementation of a steamflood, if appropriate, the Legislature enacted Chapter 1163, Statutes of 1991. This statute would allow the City of Long Beach, with the approval of the SLC, to extend the TOPKO contract so that the total term of the contract from inception to termination does not exceed 35 years. Pursuant to this legislative authority, SLC staff, the City of Long Beach and TOPKO have negotiated the terms and conditions of a potential contract extension for the Commission's consideration.

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THE EXTENSION AGREEMENT

The extension agreement contemplates that TOPKO, under the direction of the City, will initiate a comprehensive evaluation of the application of state of the art steamflood technology within 45 days of approval of the extension. This study will examine the technical and economic feasibility of a steamflood along with other enhanced thermal oil recovery technology. It will also include an evaluation of potential environmental effects including subsidence. It is contemplated that the study will take approximately 18 months. TOPKO will advance the costs of the study and be limited in recovering them, from sums remaining from oil sales after first paying to the City \$250,000 in net profits in any given month.

Upon completion of the study, but not later than January 31, 1996, TOPKO will submit to the city for consideration and approval a full field steamflood development plan or other thermal enhanced recovery project with similar potential for oil and gas resource recovery (the Project). If the city approves the Project, TOPKO must apply for all required permits by April 1, 1998 and must have committed to construction of the Project by April 1, 1999. TOPKO is then required to have in operation, by May 1, 2001, a field application of the Project.

If TOPKO is able to meet the forgoing requirements the contract will remain in full force and effect so long as TOPKO proceeds and continues with the Project, but in no event beyond March 1, 2024. If for any reason TOPKO is unable to have a Project application in operation by May 1, 2001, or is unable to proceed with full field development, the City upon a request from TOPKO, and with the approval of the SLC, may still keep the contract in full force and effect.

All costs incurred by TOPKO related to the implementation and operation of the Project, with the exception of the evaluation study, shall be recovered by TOPKO solely from the sale of oil produced from the Project.

Neste Holding (USA), Inc. and Chance Energy Corporation will continue as guarantors of the contract.

AB 884:
N/A

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OTHER PERTINENT INFORMATION

1. As part of the Project implementation process, the City of Long Beach and the SLC will enter into a Memorandum of Understanding or letter agreement providing that SLC staff will have an opportunity to review TOPKO's development plan prior to its approval by the City. If the SLC staff recommends changes to the plan which are not accepted by the City, the City will set forth in writing its reasons for rejecting staff's recommendations.

The City of Long Beach approved the contract extension at its City Council meeting on March 1, 1994.

2. The proposed extension agreement complies with the provisions of Chapter 1163, Statutes of 1991.

EXHIBITS:

- A. Third Amendment to Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract.
- B. Reaffirmation of Guarantee

IN ORDER TO EXTEND THE CONTRACT THE COMMISSION SHOULD:

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 PUBLIC RESOURCES CODE SECTION 21065 AND 14 CAL. CODE REGS. 15378.
2. FIND THAT THE EXTENSION AGREEMENT "THIRD AMENDMENT TO LONG BEACH HARBOR TIDELANDS AND PARCEL "A" OIL CONTRACT", CONFORMS TO THE REQUIREMENTS OF CHAPTER 1163 STATUTES OF 1991.
3. APPROVE THE EXTENSION OF THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT ON THE CONDITION THAT:
 - A) THE THIRD AMENDMENT TO LONG BEACH HARBOR TIDELANDS AND PARCEL "A" OIL CONTRACT IS EXECUTED AND ACKNOWLEDGED IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS EXHIBIT "A".
 - B) NESTE HOLDING (USA), INC. AND CHANCE ENERGY CORPORATION GUARANTEE, IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS EXHIBIT "B", THE TERMS AND CONDITIONS OF THE CONTRACT AS AMENDED BY THE THIRD AMENDMENT.

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4. AUTHORIZE THE EXECUTION ALL DOCUMENTS NECESSARY TO IMPLEMENT THE CONTRACT EXTENSION INCLUDING A LETTER AGREEMENT OR MEMORANDUM OF UNDERSTANDING FOR REVIEW OF THE PROJECT PLAN.

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EXHIBIT "A"

THIRD AMENDMENT TO LONG BEACH HARBOR

TIDELANDS PARCEL AND PARCEL "A"

OIL CONTRACT

1. PARTIES AND EFFECTIVE DATE. This Third Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract ("Contract") is made and entered into by and between the City of Long Beach, a municipal corporation ("City") and Tidelands Oil Production Company, a Texas general partnership, by its partners, Neste Oil Services, Inc., a Texas corporation and Chanse Long Beach Production Corporation, a Delaware corporation ("Contractor") pursuant to a minute order adopted by the City Council of the City of Long Beach on _____, 1994. This Third Amendment shall be effective _____ 1994.

2. RECITALS. This Third Amendment to the Contract is made with reference to the following facts and objectives:

(a) The City and the Contractor entered into the Contract effective March 1, 1989 (City Clerk's No. 20596). The Contract provides, among other things, for the Contractor to conduct drilling, repressuring and oil recovery operations on certain tide and submerged lands in the Long Beach tidelands ("the Subject Lands") upon the terms and conditions as contained in the Contract.

(b) Effective March 1, 1989, the City and Contractor entered into a First Amendment to the Contract ("First Amendment").

The First Amendment provides, among other things, that

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notwithstanding the limitations in subsection 13.2 and Section 15 of the Contract, the Contractor, when directed by the City Manager, may, under certain circumstances and upon the proper allocation of costs, use certain personnel and property in the performance of operations on Unit Segment II of the Fault Block IV Unit and Fault Block V Ranger Zone Unit.

(c) Effective April 20, 1990, the City and Contractor entered into a Second Amendment to the Contract which related to Contractor's other oil properties in the Southern California area and the proper accounting of costs for the use of personnel thereon; the flexibility in meeting the requirements of a faithful performance bond or letter or credit by Contractor.

(d) In the 1991 Regular Session, the California Legislature enacted Chapter 1163, (AB 2249), whereby the City was authorized to extend the Contract, with the approval of the State Lands Commission, so that the total term of the Contract, from inception to termination, does not exceed 35 years. The purpose of this legislation, among other things, was to make economically feasible the implementation of a steamflood and cogeneration for the Long Beach Harbor tidelands.

3. AMENDMENT TO CONTRACT.

A. The existing provision of Section 4 of the Contract (Term-Termination) shall be designated as subsection 4.1.

B. A new subsection 4.2 is added reading as follows:

"4.2 The term of this Contract shall be extended to May 1, 2001, if the Contractor does the following:

(a) Within forty five (45) days after signing the Third Amendment Contractor will begin and within eighteen (18) months complete a comprehensive evaluation of the application of state of the art, steamflood technology, and at the option of the Contractor and the City, thermal enhanced oil recovery technology, to the Subject Lands, including but not limited to:

(1) Reservoir engineering evaluation of current and past reservoir response to steamflood or other thermal stimulation.

(2) Projection of anticipated production response for those areas not presently undergoing steamflood or other thermal stimulation from a state of the art steamflood and, at the option of the city and the contractor, other thermal enhanced recovery project.

(3) Economic evaluation using accepted economic procedures.

(4) Comprehensive evaluation of environmental sensitivity to a steamflood or other thermal enhanced oil recovery projects in the Los Angeles and Long Beach areas.

Contractor will advance the costs of the evaluation. The costs will be reimbursed to Contractor each month from sums remaining after the City is paid at least \$250,000 from oil sales, as provided in Section 21 of the Contract, thereby guaranteeing the City at least \$250,000 in any month before any reimbursement is allowed. If monthly payments to the City from oil sales do not exceed \$250,000 in any month, the Contractor will be

reimbursed in the next month in which monthly payments to the City from oil sales exceed \$250,000 and thereafter in all months that monthly payments to the City from oil sales exceed \$250,000 until Contractor is reimbursed fully for the costs of the evaluation.

(b) Contractor will initiate in the Subject Lands, a state of the art full field Steamflood Development or other thermal enhanced recovery project with similar potential for oil and gas resource recovery (herein after the Project), not later than April 1, 1999. Initiation of this project will be determined by the following:

(1) Not later than January 31, 1996, Contractor shall submit to the City for approval a Development Plan for the Project . All costs incurred by the City to comply with the California Environmental Quality Act shall be reimbursed to the City by the Contractor.

(2) Upon approval of the Development Plan for the Project by the City, and not less than one (1) year prior to April 1, 1999, Contractor will apply for all federal, state and local permits required to implement the Project.

(3) Not later than April 1, 1999, Contractor will commit in writing to construction of the Project in accordance with the plan approved by the City and issue purchase orders for equipment required for the Project, such as pipe, casing, pumping units, tanks and facilities.

B. A new subsection 4.3 is added reading as follows:

"4.3 ON or before May 1, 2001, Contractor will have in

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operation a field application of the Project. If the Project is a steamflood, the application shall consist of a minimum of one steamflood pattern.

(a) Thereafter, the contract shall remain in full force and effect so long as the Contractor proceeds and continues with the Project consistent with the plan approved by the City, but in no event shall the contract extend beyond March 1, 2024.

(b) All costs expended by Contractor related to the implementation of the Project which are reimbursable under Section 21 of the Contract, with the exception of those costs related to the evaluation set forth in Section 3B(a) hereof, shall be reimbursed to Contractor solely from oil sales attributed to the Project. Contractor shall not be reimbursed from oil sales for any costs recovered by Contractor from persons or entities who are not parties to the Contract. Contractors records shall segregate Project related production and costs in a manner agreed upon by the city and the State Lands Commission. All engineering and consultant costs incurred by the Contractor to prepare the Project development plan, obtain all necessary permits and comply with the California Environmental Quality Act, including those costs reimbursed to the City, are "costs related to the implementation of the Project.

C. A new subsection 4.4 is added reading as follows:

"4.4 If the Contractor is unable to have a Project application in operation by May 1, 2001 or is unable to proceed with the Project, the City , upon a request from the Contractor,

and with the approval of the State Lands Commission, may keep the contract in full force and effect for an additional period, up to and including March 1, 2024.

4. FORCE AND EFFECT. Except as specifically amended herein, all terms and conditions of the Contract, as amended, shall remain in full force and effect.

Executed with all the formalities required by law on the dates set forth opposite the signatures.

CITY OF LONG BEACH, a municipal corporation, as Tidelands Trustee and Unit Operator of Unit Segment I, Fault Block II Unit, Fault Block III Unit, Fault Block IV Unit and Fault Block V Ranger Zone Unit

_____, 1994

By _____
City Manager

"CITY"

TIDELANDS OIL PRODUCTION COMPANY, a Texas Partnership, by its general partners

NESTE OIL SERVICES, INC., a Texas Corporation

_____, 1994

By _____
Partner

CHANSE LONG BEACH PRODUCTION CORPORATION, a Delaware corporation

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_____, 1994 By _____
Partner

"CONTRACTOR"

The foregoing Third Amendment to Long Beach Harbor
Tidelands Parcel and Parcel "A" Oil Contract is approved as to form
this ____ day of _____, 1994.

JOHN R. CALHOUN, City Attorney

By _____
Deputy

The foregoing Third Amendment To the Long Beach Harbor
Tidelands Parcel and Parcel "A" Oil Contract was approved by the
State Lands Commission at its meeting of March 8, 1994.

Executed this _____ day of _____ 1994.

Charles Warren

Executive Officer

EXHIBIT "B"

Neste Holding (USA), Inc. and Chanse Energy Corporation, in executing this Third Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract (the "Oil Contract"), do so for the purpose of reaffirming their respective guarantees of the performance by Tidelands Oil Production Company under the Contract as amended.

DATED: _____

DATED: _____

NESTE HOLDING (USA) INC.

CHANSE ENERGY CORPORATION

Name: _____

Name: _____

Title: _____

Title: _____