

MINUTE ITEM
This Calendar Item No. C51
was submitted for information
only, no action thereon
being necessary.

Minute Item
C51

02/17/05
W 40831
R. Richardson
D. Mercier

CALIFORNIA STATE LANDS COMMISSION
(INFORMATIONAL)

**INFORMATIONAL
CALENDAR ITEM
C51**

A 54

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**STAFF REPORT ON THE STATUS OF THE FINANCIAL AUDIT OF
THE LONG BEACH UNIT POWER PLANT
LONG BEACH UNIT, WILMINGTON OIL FIELD
LOS ANGELES COUNTY**

APPLICANT:

California State Lands Commission
100 Howe Avenue, Suite 100 South
Sacramento, CA 95825-8202

BACKGROUND:

In September 2001, the THUMS Long Beach Company (THUMS) began construction of the Long Beach Unit (LBU) electric power generation plant as a means of supplying electric power to the LBU. The costs incurred in the construction were borne by Occidental Petroleum, and would be repaid to Oxy through unit revenues over a ten-year period, per a power plant lease agreement between the LBU and Oxy. The power plant was completed and became operational in December 2002.

The City of Long Beach and the staff at the California State Lands Commission participated in a joint audit of engineering and construction costs incurred for the electric power plant constructed under the auspices of THUMS. The audit was divided into three areas: 1) Operating economics/break even analysis, 2) Engineering/Design, and 3) Construction.

An operating cost model has been developed that is used to determine optimal conditions under which to operate the power plant. This operating model was studied as part of the audit. Areas of concern that the audit addressed were:

1. Inclusion of direct labor costs in plant operations,

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2. Revision of operating and maintenance costs used in the model to exclude start up construction costs,
3. Establish guidelines as to an acceptable operating loss when operating the plant.

Invoices for engineering/design services provided by Duke Engineering and Framatome Engineering were examined. Costs were cited for (1) Additional markup for subcontractors identified as employees, (2) Computer software purchases, (3) Payment of invoices without backup, (4) Payment of labor rates in excess of contracted amounts, (5) Payment of employee job interview travel costs. Costs recovered: \$4,165.

Invoices for construction costs incurred by The Industrial Company (TIC) were examined. Costs were cited for (1) Office supplies, small tools and miscellaneous items billed directly, but disallowed in the contract. (2) Insufficiently documented services provided by Occidental Energy Ventures Corp. (OEV) invoiced to THUMS. (3) Direct labor charges invoiced for employee training (welder certification). (4) Direct labor charges invoiced for drug testing (contract specifically states drug testing costs to be incurred by the contractor). (5) Double billing for direct labor charges. (6) Work site security, which was part of the negotiated fixed-fee, was directly invoiced to the project. Costs recovered: \$70,506.

THUMS entered a contract with OEV for the financing of the power plant. The total amount of funding provided by OEV was \$52.8 million. OEV financed this 10-year loan at eight percent (8%) interest in October 2001. A major obstacle for the City and State in either paying the power plant off early and/or refinancing was a prepayment penalty of about eleven percent (11%). It has been proposed and all parties, OEV, THUMS, City of Long Beach and the California State Lands Commission, agreed to significantly reduce the prepayment penalty and pay off the loan by mid 2007. On November 10, 2004, the lease was renegotiated and terms of the new lease will save the City and the State \$890,000 and \$3.9 million respectively over the next eight years.

PERMIT STREAMLINING ACT DEADLINE:

N/A