MINUTE ITEM

This Calendar Item No. 40
was approved as Minute Item
No. 40 by the State Lands
Commission by a vote of 3
to 0 at its 3-5-81
meeting.

MINUTE ITEM

3/5/81
Thompson

40. NOTIFICATION TO CITY OF LONG BEACH TO DIRECT FIELD CONTRACTOR TO SELL OFF CRUDE OIL FROM TRACT 1 OF THE LONG BEACH UNIT

During consideration of Calendar Item 40 attached, Mr. Robert Buchanan, representing the THUMS consortium, appeared.

Mr. Buchanan's objections are set forth below:

1. The pricing clause was outside the terms of the Contractor's Agreement.

2. Division of the sell-off into 12 separate contracts instead of the usual 3 created administrative, as well as physical delivery problems.

3. The proposed action was premature because the language in the contract states that notice will not go out until an active contract is not in existence covering any part of the oil.

It was pointed out that by dividing the sell-off into 12 contracts, it would allow greater opportunity for bidding.

Upon motion duly made and carried, the resolution as presented in Calendar Item 40 was approved by a vote of 3-0.

Attachment:
Calendar Item 40

A 57, 58
S 27, 31

CALENDAR ITEM

2/81
Thompson

40

NOTIFICATION TO CITY OF LONG BEACH
TO DIRECT FIELD CONTRACTOR TO SELL OFF
CRUDE OIL FROM TRACT 1
OF THE LONG BEACH UNIT

Section 3(e) of Chapter 138, Statutes of 1964, 1st E.S. and Article 11 of the Contractors' Agreement for the Long Beach Unit, Wilmington oil field provide for the sell off of up to 12½% of the crude oil allocated to Tract 1 of the Long Beach Unit, all of which is to come from the Field Contractor's 80% share. At present, all 12½% of the oil is being sold off under contracts that are due to expire on February 28, 1982. Due to the lead time required to put a sell off into operation, the process for a new sell off to begin on March 1, 1982, if it is to be undertaken, should begin now.

Under section 3(e) of Chapter 138, the initial step in undertaking a sell off is for the State Lands Commission to notify the City of Long Beach to direct the Field Contractor to offer the oil for competitive bid. This notice cannot be given more than once in any 12-month period. It was last given for the present sell off at the Commission's meeting on January 24, 1980. In giving its notice, the Commission must provide for a fixed term for the sell off and specify the amounts of oil to be put out for bid. The staff is recommending that the sell off be for a term of 18 months beginning March 1, 1982 and be offered in 12 separate contracts, 11 of which would be for one percent of the crude oil and the twelfth for one and one-half percent of the crude oil. These contracts would include all 12½% of the oil available for sell off. The amount of oil to be sold under each of the eleven one percent contracts should be approximately 500 barrels per day and the amount under the one and one-half percent contract should be approximately 750 barrels per day.

The oil shall be offered for competitive bidding by the Field Contractor not more than 60 days after the notice from the Commission. The awarding of the contracts and the terms of the contracts shall be subject to the approval of the Commission. If approved, a period of at least 180 days must elapse between the execution of the contracts and their effective date.

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The pricing provision of the contract and the bidding sequence for the twelve contracts are of considerable importance. Because the Commission has the power of approval or rejection of the sell off contracts, it should make known its requirements for these crucial matters at this time. The staff recommends that the Commission adopt as its requirement for a pricing provision one that calls for payment of the higher of (1) the highest of the prices posted for like crude oil in the Wilmington oil field among the postings of Chevron, Mobil, Union and ARCO or (2) the arithmetical average of the prices posted for like crude oil in the Wilmington, Long Beach (Signal Hill), Huntington Beach and Inglewood oil fields by Chevron, Mobil, Union and ARCO, plus a bonus per barrel that is the bid factor The pricing provision should state that the price shall be computed to the closest tenth of a degree of API gravity and the closest tenth of a cent per barrel. The provision also should contain the statement that if at any time the price based on the highest Wilmington posting plus a bonus or the four field average posting plus a bonus is lower than the amount per barrel at which the Field Contractor accounts for like oil under Article 9(b) of the Contractors' Agreement, then and only then, the price to be paid by the sell off purchaser shall be the amount per barrel provided by Article 9(b). The staff also recommends that the Commission adopt as a requirement for the sell off that the bidding be scheduled sequentially at half-day intervals over a period of six normal business days, with the one and one-half percent contract scheduled on the final day.

IT IS RECOMMENDED THAT THE COMMISSION, ACTING PURSUANT TO SECTION 3(e) OF CHAPTER 138, STATUTES OF 1964, 1st E.S., DIRECT THE EXECUTIVE OFFICER TO NOTIFY THE CITY OF LONG BEACH TO DIRECT THE FIELD CONTRACTOR TO OFFER FOR SALE BY COMPETITIVE BID 12½% OF THE OIL ALLOCATED TO TRACT 1 OF THE LONG BEACH UNIT IN THE MANNER AND IN THE AMOUNTS AND FOR THE TERM SET FORTH ABOVE AND PURSUANT TO A CONTRACT WITH THE PRICING PROVISIONS SET FORTH ABOVE.