

MINUTE ITEM

This Calendar Item No. 30
was approved as Minute Item
No. 30 by the State Lands
Commission by a vote of 3
0 at its 1/27/83
meeting.

CALENDAR ITEM

1/27/83
Willard
W 17006

30

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 1960, 1st E.S. and Article 11 of the Contractor's Agreement for the Long Beach Unit, Wilmington oil field provide for the sell off of up to 12½ percent 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 percent share. At present, all 12½ percent of the oil is being sold off under contracts that are due to expire on September 1, 1983. Due to the lead time required to put a sell off into operation, certain procedures must be undertaken at this time.

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 current contracts on March 5, 1981. 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 September 1, 1983 and offered in 4 separate contracts.

One contract would be for 7 percent of the oil allocated to Tract 1, two contracts would be for 2 percent each of such oil and a fourth contract would be for 1½ percent of such oil. This would include all 12½ percent of the oil allocated to Tract 1 which is available for sale. The amount of oil to be sold under the 7 percent contract will be about 3,500 B/D, the amount under the 2 percent contracts will be about 1,000 B/D each and the amount under the 1½ percent contract will be about 750 B/D.

REVISED 1/27/83

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Under the terms of the Contractor's Agreement, the oil must 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 contract must then be approved by the Commission. If approved, a period of at least 180 days must elapse between the execution of the contracts and their effective date. However, the Field Contractor is willing to waive this 180-day requirement provided that a decision as to whether the sell off will be made or the oil will revert to the Field Contractor is made by the end of April.

The pricing provision of the contract must be approved by the Commission. The staff recommends that the Commission adopt as its requirement for a pricing provision a bonus per barrel for the bid factor plus either 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. The pricing provisions 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 Contractor's 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).

It is recommended that the minimum acceptable bid for each contract be established at \$0.15 per barrel over the base price as described above.

AB 884: N/A.

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CALENDAR ITEM NO. 30 (CONT'D)

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 PERCENT 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 CONTRACTS WITH THE PRICING PROVISIONS SET FORTH ABOVE.