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CALENDAR ITEM

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APPROVAL OF FOR CONSOLIDATION
OF LBOD AND PARCEL "A" OPERATIONS

Powerine Oil Company and Edgington Oil Company hold equal interests in the Parcel "A" Oil Contract in the prior development area of the Wilmington oil field in the Long Beach tidelands. Powerine is the operator under the contract and, as such, is responsible for all field operations. The remaining and significantly larger portion of the prior development area under contract for oil and gas development and production is the Long Beach Harbor Department Tidelands Parcel. The contractor under the Drilling and Operating Contract (Long Beach Harbor Department Tidelands Parcel) is a group of several oil companies, and the operator is the Long Beach Oil Development Company (LBOD), a corporation organized specifically to perform this function.

The contracts for both Parcel "A" and the LBOD parcel are net profits arrangements. Under both contracts, the City of Long Beach receives 91 percent of the net profits. These net profits represent tidelands oil revenue which, after certain permitted deductions is payable to the State as remaining oil revenue under Section 4(e) of Chapter 138, Statutes of 1964, 1st E.S.

In the interest of creating costs savings that will inure to the City and State as well as to the contractors, it has been proposed that the field operations for both Parcel "A" and the LBOD parcel be performed by a single field operator. This involves neither consolidation of the drilling and operating contracts nor unitization of the lands. The arrangement merely provides for a single operator responsible for conducting field operations on both parcels.

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Powerine and LBOD have entered into an agreement pursuant to which LBOD would perform, for Powerine, engineering, clerical, supervisory, field operations, accounting and other required operational functions for Parcel "A". Powerine would continue to remain responsible for taking and paying for the oil and making payment for contractually required expenditures. As consideration for LBOD assuming these operational functions, Powerine will pay LBOD a yearly fee of \$50,000. An amendment to the Parcel "A" Oil Contract will make this fee a reimbursable expense so that 91 percent of it will be borne by the City and State. The City estimates that the consolidation of operations with LBOD as the single field operator in the prior development area will yield an annual savings of about \$1,000,000.

The Long Beach City Council has approved the agreement between Powerine and LBOD for assumption by LBOD of field operating functions for Parcel "A" and an amendment to the Parcel "A" Oil Contract making the \$50,000 yearly service fee a reimbursable expense. The staff has reviewed the City's estimate of cost savings, the agreement and the amendment. It has concluded that the estimate of savings is valid and that the consolidation, if approved and put into operation, will be in the best interests of the State.

Section 10(a) of Chapter 29, Statutes of 1977, 1st E.S. requires that all contracts relating to the development of oil and gas in the Long Beach tidelands shall be of no effect unless approved by the State Lands Commission.

EXHIBIT: A. Amendment to Parcel "A" Oil Contract.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
2. APPROVE THE AGREEMENT BETWEEN POWERINE AND LBOD FOR THE EMPLOYMENT OF LBOD BY POWERINE AS AN INDEPENDENT CONTRACTOR TO PERFORM SPECIFIED OPERATIONAL FUNCTIONS FOR PARCEL "A" IN THE LONG BEACH TIDELANDS AND THE AMENDMENT TO THE PARCEL "A" OIL CONTRACT MAKING THE \$50,000 YEARLY SERVICE FEE A REIMBURSABLE EXPENSE.

EXHIBIT "A"

AMENDMENT TO PARCEL "A" OIL CONTRACT

This Amendment is dated this _____ day of _____, 18__, by and between the CITY OF LONG BEACH, a municipal corporation (hereinafter referred to as "City"), and by POWERINE OIL COMPANY, a California corporation, ROTHSCHILD OIL COMPANY, a general partnership, and EDGINGTON OIL COMPANY, a California corporation, (hereinafter collectively referred to as "Contractor") and is made with reference to the following facts:

A. On April 18, 1972, the parties hereto entered into a drilling and operating contract for the development and operation of Parcel "A" until February 28, 1989.

B. The Parcel "A" Contract provides that the cost of performance of field operations by Contractor is a reimbursable expense.

C. Long Beach Oil Development Company (LBOD) is a drilling and operating contractor of City and is currently engaged in oil producing operations from properties adjacent to Parcel "A".

D. The parties believe that oil producing operations being carried on by LBOD on adjacent properties and by Contractor on Parcel "A" can more efficiently be carried out by one operator.

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E. Contractor contemplates entering into an operating contract with LBOD, wherein LBOD will carry on oil producing operations on Parcel "A" and charge Contractor a service fee therefor.

F. The parties hereto desire to amend the Contract so as to provide that the cost of field operations performed by LBOD, including a service fee, will also be a reimbursable expense.

NOW, THEREFORE, the parties hereto agree as follows:

1. Paragraph 15 of the Parcel "A" Oil Contract, REIMBURSABLE EXPENSES, shall be amended to read as follows:

15. REIMBURSABLE EXPENSES. Contractor will be reimbursed in the manner provided in Section 12 hereof for all expenses (including taxes) incurred in connection with the performance of the contractor's obligations under and incurred in accordance with the provisions of this Contract, including a service fee not to exceed Fifty Thousand Dollars (\$50,000.00) per annum for performance of field operations paid by Contractor to Long Beach Oil Development Company, except for those expenses expressly made nonreimbursable by Section 16 hereof. Such reimbursement will be made out of the value of the oil as

determined in Section 11 hereof.

2. All other terms and conditions of the Parcel "A" Contract shall remain in full force and effect as expressly amended herein.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to Contract of the Parcel "A" Oil Contract to be effective as of the date that this Amendment is fully executed by all parties set forth below.

CITY OF LONG BEACH, a municipal
corporation

_____, 198__ By: _____
City Manager

POWERINE OIL COMPANY, a California
corporation

_____, 198__ By: _____
President

_____, 198__ By: _____
Secretary

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ROTHSCHILD OIL COMPANY, a general
partnership

_____, 198__ By: _____
Partner

EDGINGTON OIL COMPANY, a California
corporation

_____, 198__ By: _____
President

_____, 198__ By: _____
Secretary

The foregoing Parcel "A" Contract is hereby approved as to
form this ____ day of _____, 18__.

JOHN R. CALHOUN, City Attorney

By: _____
Deputy

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