

MINUTE ITEM

This Calendar Item No. C76 was approved as Minute Item No. 76 by the California State Lands Commission by a vote of 2 to 0 at its 579/96 meeting.

CALENDAR ITEM

C76

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05/09/96

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CONSIDER APPROVAL OF AGREEMENTS THAT IMPLEMENT CHANGES IN TREATING NATURAL GAS PRODUCED FROM THE LONG BEACH UNIT AND THE LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL AND PARCEL "A" WILMINGTON OIL FIELD, LOS ANGELES COUNTY

The City of Long Beach (City) has submitted an Agreement Regarding Natural Gas Treating and Fifth Amendment to Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract to the State Lands Commission (Commission) for its approval pursuant to Section 10 of Chapter 29 of the Statute of 1956, First Extraordinary Session. Section 10 of Chapter 29 requires that the Commission approve all new contracts and all amendments to existing contracts entered into by the City as tidelands trustee for, among other things, the processing of gas from the Long Beach granted tidelands.

Natural gas produced from both the Long Beach Unit and the Long Beach Harbor Tidelands Parcel and Parcel "A" is being treated at the Lomita Gas Plant (Lomita). This plant is inadequate and outdated and must be replaced. The City has proposed that the Lomita plant be removed from service and that two treating facilities, one for Long Beach Unit gas and one for Harbor Tidelands Parcel and Parcel "A" gas, be built as replacement facilities. Therefore, one treating facility for treating Long Beach Unit gas will be built, operated and maintained by THUMS Long Beach Company (THUMS), the agent for the Field Contractor for the Long Beach Unit. Another treating facility will be built, operated and maintained by Tidelands Oil Production Company (TOPKO), the City's contractor under the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract. The construction costs for the THUMS facility will come from the Long Beach Unit. The construction costs for the TOPKO facility will be advanced to TOPKO by the City from the Tidelands Oil Revenue Fund.

The City, Commission staff, THUMS and TOPKO have thoroughly analyzed the economics of this project and have concluded that new facilities with modern processing methods will provide significant cost savings to the Long Beach tidelands oil operations. Separate treating facilities for the Long Beach Unit and for TOPKO will result in greater operating efficiencies and will eliminate the need to transport

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pressurized gas containing toxic hydrogen sulfide from the production location to the Lomita facility. The economic analyses show that improved process efficiencies and the elimination of third party overhead are expected to save over \$6.1 million in the next 20 years.

The new Agreement Regarding Natural Gas Treating will amend the existing Long Beach Unit Treating Agreement with Lomita and the existing Harbor Treating Agreement with Lomita to provide for the idling of the Lomita treating facility for three years to serve as a back-up for the new facilities and for the ultimate disposition of this treating facility. A standby fee of \$480,000 per year will be paid to Lomita for three years and will be shared between the Long Beach Unit (62.5%) and TOPKO (37.5%).

Under the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract, the City undertakes the treating of the gas and bears the entire cost of treating it. TOPKO has the right to use free of charge whatever produced gas it needs for energy in its field operations under the contract. Currently, all treated gas is being returned to TOPKO for use in the field. By the terms of Chapter 29, if additional gas were produced in excess of what is needed in the field by TOPKO, that gas must be delivered to the City for use by its Gas Department and for all revenue generated by the sale of this gas must be paid to the State. Accordingly, TOPKO has no economic incentive either to reduce the costs of treating the gas or to increase gas production. Therefore, a Fifth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract not only will require TOPKO to construct, maintain and operate a treating facility, it will include the costs of processing the gas among those expenses that are reimbursable so that TOPKO will bear its five percent net profits share of these costs, and will permit TOPKO to charge the City, as tidelands trustee, a processing fee equal to five percent of revenue paid by the City's Gas Department to the State for gas produced in excess of the amount needed for field operations and sold to the City.

The Fifth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract also addresses a matter that is not related to the development of new gas treating facilities. It will provide that costs that have been advanced by TOPKO for an economic evaluation of steamflood technology in the field may be recovered by TOPKO after the City is paid at least \$150,000 in net profits in any month. Currently, TOPKO can recover these costs only after the City has been paid at least \$250,000 in any given

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month. This adjustment should ultimately provide a more accurate picture of the profitability of TOPKO's operations.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code Section: Division 6, Parts 1 and 2; Div. 13.
- B. Cal. Code Regs.: Title 3, Div. 3; Title 14, Div. 6.

AB 884:

N/A

OTHER PERTINENT INFORMATION:

- 1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: Public Resources Code Section 21065 and 14 Cal. Code Regs. 15378.

EXHIBITS:

- A. Natural Gas Treating Agreement
- B. Fifth Amendment to Long Beach Harbor Tidelands Parcel and 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. 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. APPROVE THE NATURAL GAS TREATING AGREEMENT AND THE FIFTH AMENDMENT TO LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT ATTACHED AS EXHIBITS "A" AND "B".

AGREEMENT REGARDING NATURAL GAS TREATING

THIS AGREEMENT is made and entered into effective as of the day of _____, 1996, by and between CITY OF LONG BEACH, a municipal corporation, acting in its capacity as Unit Operator, Long Beach Unit, Wilmington Oil Field, Los Angeles County, California, ("City as Operator"), City of Long Beach, a municipal corporation ("City"), Thums Long Beach Company, a Delaware Corporation ("THUMSCO"), as agent for the Field Contractor on behalf of the Long Beach Unit ("LBU"), Tidelands Oil Production Company, a Texas General Partnership ("Tidelands"), and LOMITA GASOLINE COMPANY, a California Corporation, dba LOMITA GASOLINE COMPANY, hereinafter referred to as ("Lomita"), as successor in interest to Petrolane - Lomita Gas Company, a California Corporation.

WITNESSETH:

WHEREAS, the LBU and Tidelands in the future will each process their own gas from the LBU and the Long Beach Harbor Department Tidelands Parcel and Parcel "A" ("Tidelands Parcel"), and

WHEREAS, the LBU and Tidelands are desirous of Lomita remaining available on a standby basis for three (3) years after LBU and Tidelands begin processing their own gas, and

WHEREAS, Lomita is willing to remain on a standby basis for a three (3) year period for a monthly standby fee and thereafter to terminate the existing treating agreements for the LBU and Tidelands Parcel, and

WHEREAS, the LBU desires the ability to use the existing tie-in connections to the Long Beach Gas Department and other facilities such as the ARCO refinery, and Lomita is willing to make those connections available to the LBU and Lomita also will provide an access corridor right-of-way for the LBU and Tidelands gas pipelines to connect to these tie-ins through the Lomita Property (Lomita Site), and

WHEREAS, Tidelands is desirous of blending its Z 1-2 tank farm sweetened waterflood gas into a connection to the LBU's extended JL pipeline at the Lomita Site during surplus gas conditions, and

WHEREAS, Lomita has previously purchased refrigeration units and is willing to sell these units to the LBU in consideration for the LBU's payment of that portion of the original purchase cost not previously paid by the LBU, and

WHEREAS, the City as Operator has, concurrent with the execution of this agreement, delegated in a letter to THUMSCO as Agent for Field Contractor the authority pursuant to the First Amendment of the Contractor's Agreement to treat LBU Wet Gas and to allocate Dry and Wet Gas to the LBU participants, a copy of which is attached as Exhibit "A" and incorporated herein by reference, and

WHEREAS, to accomplish the above objectives of the parties, certain amendments to the Natural Gas Treating Agreement between Lomita and the City as Operator ("LBU Treating Agreement"), a copy of which is attached as Exhibit "B" and incorporated herein by reference, and the Stretford Process Treating Agreement for Removal of Hydrogen Sulfide From Natural Gas between Lomita and the City

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("Harbor Treating Agreement"), a copy of which is attached as Exhibit "C" and incorporated herein by reference, will be necessary.

NOW THEREFORE; in consideration of the mutual covenants and conditions hereinafter contained, it is agreed as follows:

1. The City as Operator and Lomita agree to amend the LBU Treating Agreement as follows:

a. By adding a new Paragraph 30 which shall provide: "Lomita agrees that Producer may suspend its obligations under this Agreement, including without limitation, Producer's obligation to deliver Producer's natural gas to the Lomita Joint Plant Facilities. Producer shall provide Lomita seven (7) days written notice of its intent to suspend its obligations. Producer's right to suspend shall be for a total period of three (3) years from the effective date of said written notice unless the suspension period is otherwise extended or shortened by mutual consent of Lomita and Producer. Producer shall not invoke such notice until it has installed H2S removal and gas conditioning facilities. During the period of suspension, Producer agrees to pay to Lomita each month, no later than the fifteenth (15th) day of the following month, the sum of Twenty-Five Thousand Dollars (\$25,000) as a standby fee in consideration of Lomita's agreement to maintain the Joint Plant Facilities in a standby mode during such period of suspension. During the period of suspension, Lomita shall maintain the Joint Plant Facilities in a standby mode and shall maintain all regulatory permits and approvals in good standing. The standby fee is in lieu of all fees and charges due Lomita under the Agreement. The term "standby mode" is defined as maintaining Joint Plant Facilities in a condition such that Lomita can resume treating of Producer's gas upon three (3) days written notice by Producer. If Lomita resumes the treatment of Producer's gas after such period of suspension, all terms of this Agreement apply, and the payment of the standby fee is terminated unless and until the Producer elects to resume the three (3) year period of suspension upon three (3) days written notice to Lomita. Lomita agrees that during any period of suspension, Producer shall have the right of access to and use of Lomita meters and tie-in connections at Producer's sole cost.

b. By adding a sentence to the end of Paragraph 19 to read: "This Agreement shall automatically terminate at the end of the three (3) year period of suspension, or such extended or shortened period mutually agreed to between Lomita and Producer as provided for under Paragraph 30 of this Agreement."

2. The City and Lomita agree to amend the Harbor Treating Agreement as follows:

a. By adding a new Paragraph 32 which shall provide 453.

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"Lomita agrees that Producer may suspend its obligations under this Agreement including without limitation, Producer's obligation to deliver Producer's natural gas to the Lomita Joint Plant Facilities. Producer shall provide Lomita seven (7) days written notice of its intent to suspend its obligations. Producer's right to suspend shall be for a total period of three (3) years from the effective date of said written notice unless the suspension period is otherwise extended or shortened by mutual consent of Lomita and Producer. During the period of suspension, Producer agrees to pay to Lomita each month no later than the fifteenth (15th) day of the following month the sum of Fifteen Thousand Dollars (\$15,000) as a standby fee in consideration of Lomita's agreement to maintain the Joint Plant Facilities in a standby mode during such period of suspension. During the period of suspension, Lomita shall maintain the Joint Plant Facilities in a standby mode and shall maintain all regulatory permits and approvals in good standing. The standby fee is in lieu of all fees and charges due Lomita under the Agreement. The term "standby mode" is defined as maintaining Joint Plant Facilities in a condition such that Lomita can resume treating of Producer's gas upon three (3) days written notice by Producer. If Lomita resumes the treatment of Producer's gas after such period of suspension, all terms of this Agreement apply, and the payment of the standby fee is terminated unless and until the Producer elects to resume the three (3) year period of suspension upon three (3) days written notice to Lomita. Lomita agrees that during any period of suspension, Producer shall have the right of access to and use of Lomita metering and tie-in connections at Producer's sole cost."

b. By adding a sentence to the end of Paragraph 21 to read: "This Agreement shall automatically terminate at the end of the three (3) year period of suspension, or such extended or shortened period mutually agreed to between Lomita and Producer as provided for under Paragraph 32 of this Agreement."

3. In consideration of the payment of Ten Dollars (\$10) and other valuable consideration, Lomita agrees to identify and grant to the City and City as Operator a six (6) foot right-of-way and easement across the Lomita Site for the purpose of installing, maintaining and operating pipelines and/or metering equipment and any other tie-in connections to the Long Beach Gas Department, and/or other facilities such as the ARCO refinery. Such right-of-way and easement shall be effective upon the date of this Agreement and shall terminate as of the date of the City's final abandonment of all the City's and/or City as Operator's oil and gas operations. Such right-of-way and easement shall be a covenant running with the Lomita Site. A copy of a plat describing the right-of-way and easement is attached as Exhibit "D" and is incorporated herein by reference.

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4. In consideration of the payment of Ten Dollars (\$10) and other valuable consideration, Lomita agrees that the City and City as Operator may use during the term of any suspension under the LBU Treating Agreement and Harbor Treating Agreement, and grants City and City as Operator an option to purchase whatever rights Lomita may have relative to, all tie-in connection equipment and pipelines to the Long Beach Gas Department and/or other facilities such as the ARCO refinery, as more fully described on Exhibit "E" which is attached hereto and incorporated herein by reference. The option to purchase will become effective upon the termination of the LBU Treating Agreement and Harbor Treating Agreement as provided for under Paragraphs 1 and 2 of the Agreement, respectively, and must be exercised no later than sixty (60) days after such effective date. If the City and City as Operator exercises such option, it shall pay Lomita Ten Dollars (\$10) as the purchase price at the time of exercising the option.

5. In consideration of the payment of Ten Dollars (\$10) and other valuable consideration, Lomita agrees to grant to THUMSCO for a period of one year after the date of this Agreement, an option to purchase the refrigeration unit equipment as described in Exhibit F, which is attached hereto and incorporated herein by reference. Lomita shall deliver such refrigeration units to THUMSCO upon thirty (30) days notice from THUMSCO of its intent to exercise the option to purchase, and shall exercise due care in storing of said equipment prior to delivery. If THUMSCO exercises its option, it shall pay Lomita the sum of Twelve Thousand Seven Hundred and Twenty-Nine Dollars and Twenty-Two Cents (\$12,729.22) prior to delivery.

6. THUMSCO agrees that Tidelands may tie its gas pipeline, transporting Z1-2 tank farm natural gas meeting Long Beach Gas Department H2S and total sulfur Specifications ("Tidelands Gas") into the LBU's JL extended pipeline, as shown in Exhibit D, carrying treated gas to the Long Beach Gas Department and/or other facilities such as the ARCO refinery and the Lomita Site. Such tie-in connection shall contain flanging, metering, and monitoring devices as determined by THUMSCO and shall be installed by THUMSCO at Tidelands' expense. Tidelands agrees to give THUMSCO six (6) hours prior notice of each intended use of the tie-in connection; provided, however, Tidelands shall have no right to use the tie-in connections to transport Tidelands' Gas in THUMSCO's pipelines unless a surplus gas condition exists. For purposes of this Agreement, "surplus gas condition" is defined as: When Tidelands is not able to use such gas for its operations due to causes beyond its reasonable control. Tidelands further agrees to cease, upon notice reasonable under the circumstances, use of the tie-in connections for transportation of Tidelands Gas in THUMSCO's pipeline if THUMSCO, after consultation with Tidelands, determines that the condition of Tidelands Gas has caused or contributed to the blended gas stream's failure to meet the specifications of the gas purchasers. THUMSCO and Tidelands agree that THUMSCO will provide the Long Beach Gas Department the gas allocation between LBU and Tidelands gas sales through the JL extended pipeline and sales meters. THUMSCO and Tidelands further agree that Tidelands will reimburse THUMSCO for all costs associated with the allocation of these gas volumes between the LBU and Tidelands.

Tidelands shall be solely responsible for and shall indemnify 453.3

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and hold THUMSCO, the City of Long Beach, the State of California and the Participants of the Long Beach Unit, and their officers, agents and employees, harmless from and against all losses, claims, liabilities, demands, expenses and causes of action of all kinds (including without limitation those for damage to or loss of property of the parties and/or for injury, illness or death of persons who are employees of the parties) that may, in whole or in part, arise out of or in any way be connected with the use of THUMSCO's pipelines (or tie-in connection) hereunder by Tidelands or anyone on behalf of Tidelands, or the sale of Tidelands gas to gas purchasers, whether negligent or not, and whether THUMSCO is actively, passively, or not at all negligent or is held absolutely or strictly liable or to have breached any expressed or implied warranty. The only exceptions to the above undertakings of Tidelands are that (1) THUMSCO shall pay for any damage to or loss of Tidelands' property which is under the sole control of THUMSCO at the time of damage or loss unless arising out of or resulting from any negligence on the part of Tidelands or its subcontractors, and (2) Tidelands' undertakings other than to defend shall not apply to any matter which is determined by final judgment of a court having jurisdiction to have been caused by the sole negligence or willful misconduct of THUMSCO. Except only as expressly set forth above, the insurance required to be carried by Tidelands under this Agreement shall not limit, or be construed to limit, the undertakings of Tidelands hereunder.

At all times during the term of this AGREEMENT, Tidelands shall carry insurance in accordance with the Thums Long Beach Insurance Coverage Requirements Sheet, a copy of which is attached as Exhibit "G" and incorporated herein by reference. All such insurance shall be evidenced by the completion, execution and delivery to THUMSCO of an Insurance Certificate in the form of Exhibit "G."

THUMSCO on behalf of the City of Long Beach, Unit Operator, Long Beach Unit, shall be solely responsible for and shall defend, indemnify and hold Lomita, and Tidelands, and their officers, agents and employees, harmless from and against all losses, claims, liabilities, demands, expenses and causes of action of all kinds (including without limitation those for damage to or loss of property of the parties and/or for injury, illness or death of persons who are employees of the parties) that may, in whole or in part, arise out of or in any way be connected with the use of Lomita's meters or tie-in connections hereunder by THUMSCO or anyone on behalf of THUMSCO, whether negligent or not, and whether Lomita is actively, passively, or not at all negligent or is held absolutely or strictly liable or to have breached any expressed or implied warranty. The only exceptions to the above undertakings of THUMSCO are that (1) Tidelands shall pay for any damage to or loss of THUMSCO's property which is under the sole control of Tidelands and/or Lomita at the time of damage or loss unless arising out of or resulting from any negligence on the part of THUMSCO or its subcontractors, and (2) THUMSCO's undertakings other than to defend shall not apply to any matter which is determined by final judgment of a court having jurisdiction to have been caused by the sole negligence or willful misconduct of Tidelands and/or Lomita. Except only as expressly set forth above, the insurance required to be carried by THUMSCO under this Agreement shall not limit, or be construed to limit, the undertakings of

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THUMSCO hereunder.

At all times during the term of this Agreement, THUMSCO shall carry insurance in accordance with the Tidelands Insurance Coverage Requirements Sheet, a copy of which is attached as Exhibit "H" and incorporated herein by reference. All such insurance shall be evidenced by the completion, execution and delivery to Tidelands of an Insurance Certificate in the form of Exhibit "H."

IN WITNESS WHEREOF, the parties hereto have caused these presents to be duly executed with all the formalities required by law on the respective dates set forth opposite their respective signatures hereof.

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CITY OF LONG BEACH, a municipal corporation

_____, 1996

By _____
City Manager

CITY OF LONG BEACH, a municipal corporation, acting in its capacity as Unit Operator, Long Beach Unit, Wilmington Oil Field, Los Angeles County

_____, 1996

By _____
City Manager

LOMITA GASOLINE COMPANY, a California Corporation, dba LOMITA GASOLINE COMPANY, AS SUCCESSOR IN INTEREST TO PETROLANE - LOMITA GASOLINE COMPANY

_____, 1996

By _____
President

_____, 1996

By _____
Secretary

THUMS LONG BEACH COMPANY as agent for Field Contractor on behalf of LBU, a Delaware Corporation

By _____
President

By _____

TIDELANDS OIL PRODUCTION COMPANY, a Texas General Partnership

By _____

By _____

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FIFTH AMENDMENT TO LONG BEACH HARBOR
TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT

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2
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4 1. PARTIES AND EFFECTIVE DATE. This Fifth Amendment
5 to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil
6 Contract ("Contract") is made and entered into by and between the
7 City of Long Beach, a municipal corporation ("City") and
8 Tidelands Oil Production Company, a Texas general partnership, by
9 its partners, Neste Oil Services, Inc., a Delaware corporation
10 and Chanse Long Beach Production Corporation, a Delaware
11 corporation ("Contractor") pursuant to a minute order adopted by
12 the City Council of the City of Long Beach on _____, 1996.
13 This Fifth Amendment shall be effective _____, 1996.

14 2. RECITALS. This Fifth Amendment is made with
15 reference to the following facts and objectives:

16 (a) The City and the Contractor entered into the
17 Contract effective March 1, 1989 (City Clerk's No. 20568). The
18 Contract provides, among other things, for the Contractor to
19 conduct oil recovery operations on certain tide and submerged
20 lands in the Long Beach tidelands ("the Subject Lands"), under
21 the terms and conditions set forth in the Contract.

22 (b) The City and the Contractor previously entered
23 into four amendments to the Contract. Among those amendments is
24 the Third Amendment, that, among other things, extends the term
25 of the Contract to March 1, 2024, in order to make economically
26 feasible certain long range projects designed to enhance and
27 extend oil production from the Subject Lands, and provides for
28 delayed reimbursement to the Contractor of costs advanced for an

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1 economic evaluation of a state of the art full field steam
2 development project.

3 (c) The Contract provides that the City shall enter
4 into an agreement for the treating, including the removal of
5 hydrogen sulfide and liquid hydrocarbons, of natural gas produced
6 from or allocated to and saved from the Subject Lands (the
7 "Treating Agreement") and that the Contractor shall comply with
8 the terms of the Treating Agreement. Under this arrangement the
9 Contractor has no obligation to treat the gas, has no right or
10 obligation to take any of the treated gas and no right to any
11 compensation for any of the gas or any of the liquid or liquified
12 products removed from the gas. However, the Contractor has the
13 right to use, without charge, as much of the gas as may be
14 required for its operations under the Contract.

15 (d) The current gas treating facilities are inadequate
16 and outdated, and the City and the Contractor wish to provide new
17 facilities, that would be installed, operated and maintained by
18 the Contractor, for treating the gas produced from or allocated
19 to and saved from the Subject Lands and for treating other
20 produced gas.

21 (e) Currently all the produced and treated gas is
22 being returned to Contractor to be used in its operations under
23 the Contract. For this reason, the City and the Contractor wish
24 to provide that the treating of the gas is an expense properly
25 incurred in connection with the Contractor's obligations under
26 the contract so that it will be a reimbursable expense under
27 Section 16 of the Contract. However, should any of the produced
28 and treated gas be taken by the City and not used by the

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1 Contractor in its operations under the Contract, the City wishes
2 to provide the Contractor with an economic incentive to treat
3 this gas even though it receives no economic benefit from this
4 treated gas.

5 (f) The Contractor is permitted reimbursement monthly
6 of moneys advanced by it for the economic evaluation of the
7 proposed steamflood project only after at least \$250,000 in net
8 profits is paid in any given month to the City. The parties wish
9 to accelerate the time for providing that reimbursement.

10 3. AMENDMENT TO CONTRACT.

11 A. Subdivisions (ii), (jj) and (kk) are added to Section 1
12 of the Contract as follows:

13 "(ii) GAS PROCESSING EXPENSE shall mean the sum of
14 the expenses, including field supervision, for furnishing,
15 installing, operating, maintaining and abandoning Gas Processing
16 Facilities at a location on the Subject Lands authorized by the
17 City.

18 "(jj) GAS PROCESSING FACILITIES shall mean the
19 components downstream of the point of separation of gas from
20 other produced fluids to the point at which the gas is available
21 for fuel or sale.

22 "(kk) GAS PROCESSING OPERATIONS shall mean the
23 removal of hydrogen sulfide and other contaminants, dehydration,
24 liquid hydrocarbon recovery, pumping, compression, safety
25 equipment, metering and odorizing produced gas."

26 B. Subsection 2.5, 2.6 and 2.7 are added to Section 2 of
27 the Contract to read as follows:

28 "2.5. When directed by the City, the Contractor shall

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1 construct on the Subject Lands, at a location determined by the
2 City, Gas Processing Facilities for conducting Gas Processing
3 Operations for natural gas produced from or allocated to and
4 saved from the Subject Lands, and for other produced natural gas
5 whenever and to the extent authorized by the City. Actual
6 capital construction costs for the Gas Processing Facilities
7 attributable to the City as tidelands trustee shall be paid by
8 the City from the Tidelands Oil Revenue Fund, shall not
9 constitute Gas Processing Expense and shall not exceed \$2.64
10 million. However, the \$2.64 million may be increased by up to
11 \$352,000, with the consent of the Executive Officer of the State
12 Lands Commission, if needed for construction of a pipeline to
13 deliver gas to the City's gas department. Gas Processing Expense
14 for natural gas produced from or allocated to and saved from the
15 Subject Lands shall be a reimbursable expense under this
16 agreement. Gas Processing Expense for other produced natural gas
17 shall be charged to the producer or producers of that gas, and
18 this Gas Processing Expense shall be paid to the City by the
19 Contractor in the same manner as payments from oil sales under
20 Section 21 of this agreement. Actual capital construction costs
21 for the Gas Processing Facilities attributable to other gas
22 producers and paid directly by these producers are not
23 recoverable as Gas Processing Expense.

24 "2.6. All liquid and liquified hydrocarbons recovered
25 at the Gas Processing Facilities shall be injected into the crude
26 oil shipping line of the producer of the natural gas from which
27 they were recovered.

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1 "2.7. The City, as tidelands trustee, shall pay to the
2 Contractor a processing fee for whatever processed gas is
3 delivered to the City for use by its Gas Department and is not
4 used by the Contractor for operations under this agreement. The
5 processing fee shall be equal to five percent (5%) of the amount
6 paid by the City's Gas Department to the State of California for
7 such gas.

8 C. Subsection 4.2 of the Contract, which was added by the
9 Third Amendment, is amended to read as follows:

10 "4.2. The term of this agreement shall be extended to
11 May 1, 2001, if the Contractor does the following:

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

18 "(1) Reservoir engineering evaluation of current and
19 past reservoir response to thermal stimulation.

20 "(2) Projection of anticipated production response for
21 those areas not presently undergoing steamflood or other
22 thermal stimulation from a state of the art steamflood and,
23 at the option of the City and the Contractor, other thermal
24 enhanced recovery project.

25 "(3) Comprehensive evaluation of environmental
26 sensitivity to thermal enhanced oil recovery projects in the
27 Los Angeles and Long Beach areas.

28 "(4) Economic evaluation using

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accepted economic	
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1 procedures.

2 "Contractor will advance the costs of the evaluation.
3 The costs will be reimbursed to Contractor each month from sums
4 remaining after the City is paid at least \$150,000 from oil
5 sales, as provided in Section 21 of this agreement, thereby
6 guaranteeing the City at least \$150,000 in any month before any
7 reimbursement is allowed. If monthly payments to the City from
8 oil sales do not exceed \$150,000 in any month, the Contractor
9 will be reimbursed in the next month in which monthly payments to
10 the City from oil sales exceed \$150,000 and thereafter in all
11 months that monthly payments to the City from oil sales exceed
12 \$150,000 until Contractor is reimbursed fully for the costs of
13 the evaluation.

14 "(b) Contractor will initiate in the Subject Lands, a
15 state of the art full field steamflood development or other
16 thermal enhanced oil recovery project with similar potential for
17 oil and gas resource recovery (the "Project"), not later than
18 April 1, 1999. Initiation of this Project will be determined by
19 the following:

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

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

CALENDAR PAGE

453.12

MINUTE PAGE

001209

Jo. Calhoun
City Atty. of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
(310) 570-2200

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"(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."

R. Calhoun
City Attorney of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
(310) 570-2200

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4. FORCE AND EFFECT. Except as specifically amended by this Fifth Amendment, all terms and conditions of this 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

_____, 1996

By _____
City Manager

"CITY"

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

NESTE OIL SERVICES, INC., a Delaware corporation

_____, 1996

By _____
Title:

CHANSE LONG BEACH PRODUCTION CORPORATION, a Delaware corporation

_____, 1996

By _____
Title:

"CONTRACTOR"

CALENDAR PAGE	453.14
MINUTE PAGE	001211

John R. Calhoun
City Attorney
333 West Ocean Boulevard
Long Beach, California 90802-4664
(310) 570-2200

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The foregoing Fifth Amendment to Long Beach Harbor
Tidelands Parcel and Parcel "A" Oil Contract is approved as to
form this _____ day of _____, 1996.

JOHN R. CALHOUN, City Attorney

By _____
Deputy

The foregoing Fifth Amendment to Long Beach Harbor
Tidelands Parcel and Parcel "A" Oil Contract was approved by the
State Lands Commission at its meeting of _____, 1996.

Executed this _____ day of _____, 1996.

Executive Officer

RAA/lb
5/7/96
FIFTH.CON

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CALENDAR PAGE	453.15
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1 Neste Oil Holding (USA), Inc. and Chanse Energy
2 Corporation, in executing this Fifth Amendment to the Long Beach
3 Harbor Tidelands Parcel and Parcel "A" Oil Contract (the "Oil
4 Contract"), do so for the purpose of reaffirming their respective
5 guarantees of the performance by Tidelands Oil Production Company
6 under the Contract as amended.
7
8
9

10 DATED: _____
11

12 NESTE OIL HOLDING (USA) INC.
13
14
15 _____
16 Name: _____
17 Title: _____
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CHANSE ENERGY CORPORATION

Name: _____
Title: _____

Jr
City At _____ of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
(310) 570-2200

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