

MINUTE ITEM

This Calendar Item No. C39 was approved as Minute Item No. 39 by the California State Lands Commission by a vote of 3 to 0 at its 1-29-99 meeting.

CALENDAR ITEM

C39

A 57, 58

S 29

01/29/99
W 12016
W 12002
J. Planck

CONSIDER REDUCTION OF THE LETTER OF CREDIT FROM FOUR MILLION DOLLARS TO TWO MILLION DOLLARS REQUIRED TO GUARANTEE PERFORMANCE BY THE CONTRACTOR OF THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

APPLICANT:

City of Long Beach
Department of Oil Properties
Attn.: Mr. Dennis M. Sullivan, Director
211 East Ocean Boulevard, Suite 500
Long Beach, California 90802

AREA, LAND TYPE, AND LOCATION:

Long Beach Harbor Tidelands Parcel and Parcel "A" within the Wilmington Oil Field, Los Angeles County.

BACKGROUND:

The City of Long Beach (City) has requested that the Commission approve their proposal to lower the amount of the letter of credit required to be posted by Tidelands Oil Production Company (the Contractor) under the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract (Contract). The Contract was amended in 1990 to allow the contractor to use a letter of credit, or a performance bond, in the amount of Four Million Dollars. The amendment also provided that the City could review and alter the amount required of the Contractor to guarantee performance under the Contract every five years based on market conditions. The City has performed that review and determined that a reduction of the obligation to Two Million Dollars is justified at this time in light of the market conditions. This is the first such review and alteration of the obligation since the Contract was amended. However, because of current market conditions, this contract has been further amended to change the review period from every five years to every two years.

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CALENDAR ITEM NO. C39 (CONT'D)

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section: Division 6, Parts 1 and 2; Division 13
- B. California Code of Regulations: Title 13, Division 3; Title 14, Division 6.

OTHER PERTINENT INFORMATION

- 1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 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 the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15378.

EXHIBITS:

- A. Letter Requesting Approval to Reduce the Letter of Credit
- B. Second Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract (1990)

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

CALENDAR ITEM NO. **C39** (CONT'D)

AUTHORIZATION:

1. APPROVE THE REQUEST BY THE CITY OF LONG BEACH FOR REDUCTION OF THE LETTER OF CREDIT REQUIRED OF THE CONTRACTOR IN THE AMOUNT OF FOUR MILLION DOLLARS TO TWO MILLION DOLLARS, PURSUANT TO THE SECOND AMENDMENT OF THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

2. APPROVE AMENDMENT OF SECTION 25 OF THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT TO PROVIDE THAT THE CITY OF LONG BEACH CAN REVIEW AND ALTER THE AMOUNT OF THE SECURITY REQUIRED OF THE CONTRACTOR TO GUARANTEE PERFORMANCE UNDER THE CONTRACT EVERY TWO YEARS BASED ON MARKET CONDITIONS AND WITH APPROVAL OF THE CALIFORNIA STATE LANDS COMMISSION.



Exhibit A
CITY OF LONG BEACH

W 12016

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (310) 570-3900 • FAX 570-3922

December 31, 1998

Mr. Paul B. Mount II, P.E.
Chief, Mineral Resources Management Division
California State Lands Commission
200 Oceangate, 12th Floor
Long Beach, CA 90802-4331

SUBJECT: LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT

Dear Mr. Mount:

In 1989, the Contractor provided a performance bond in compliance with Section 28 of the subject Contract. Under the Second Amendment approved in 1990, the Contractor furnished a letter of credit in place of the bond in the amount of \$4,000,000.

The City has reviewed its exposure under the Contract based on current market conditions and determined that a letter of credit in the amount of \$2,000,000 is adequate. The Contractor's expenses have declined to about \$1,500,000 per month due to reduced operations within the Contract area. Oil Revenues have totaled between \$1,200,000 and \$1,400,000 per month. Under the worst scenario, the City might be exposed to two months of expenditures offset by one month of revenues or about \$1,800,000.

We are requesting approval of the State Lands Commission of the reduction of the Contractor's letter of credit to \$2,000,000.

Sincerely,

Dennis M. Sullivan
Director

DMS:RJR

LEG: 616.003

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EXHIBIT B W 12016
SECOND AMENDMENT TO LONG BEACH HARBOR

TIDELANDS PARCEL AND PARCEL "A"

OIL CONTRACT

20596

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5 1. PARTIES AND EFFECTIVE DATE. This Second Amendment
6 to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil
7 Contract ("Contract") is made and entered into by and between
8 the City of Long Beach, a municipal corporation ("City") and
9 Tidelands Oil Production Company, a Texas general partnership,
10 by its general partners, Nosta Oil Services, Inc., a Texas
11 corporation and Chasse Long Beach Production Corporation, a
12 Delaware corporation ("Contractor"), pursuant to a minute order
13 adopted by the City Council of the City of Long Beach on
14 APRIL 3, 1990. This Second Amendment is to be
15 effective April 20, 1990.

16 2. RECITALS. This Second Amendment to the Contract
17 is made with reference to the following facts and objectives:

18 (a) The City and the Contractor entered into the
19 Contract effective March 1, 1989 (City Clerk's No.
20 20596). The Contract provides, among other things,
21 for the Contractor to conduct drilling, repressuring
22 and oil recovery operations on certain tide and
23 submerged lands in the Long Beach tidelands referred
24 to as the Subject Lands and described in Exhibit "A-1"
25 and depicted in Exhibit "A-2" and Exhibit "A-3" of the
26 Contract. The Subject Lands include unitized parcels
27 designated as Unit Segment I in the Fault Block II
28 Unit, the Fault Block III Unit, the Fault Block IV

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Unit and the Fault Block V Ranger Zone Unit, as well as various non-unitized parcels, including Parcel "A".

(b) Under the Unit Agreements and Unit Operating Agreements, to which the unitized formations underlying the Subject Lands are subject, the City is designated as Unit Operator for Unit Segment I of each unit. As Unit Operator, the City is charged with the responsibility for developing and operating Unit Segment I in each of the four units. The City has engaged the Contractor to assist it in carrying out its responsibilities as Unit Operator for Unit Segment I.

(c) The City and Contractor entered into a First Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract ("First Amendment") on March 1, 1989. The First Amendment provides, among other things, that notwithstanding the limitations in subsection 13.2 and Section 15 of the Contract, the Contractor, when directed by the City Manager, may, under certain circumstances and upon the proper allocation of costs, use certain personnel and property in the performance of operations on Unit Segment II of the Fault Block IV Unit and Fault Block V Ranger Zone Unit.

(d) Contractor has interests in certain other oil properties in the Southern California area which require the performance of certain accounting, engineering and management functions by contractor.

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Contractor contemplates acquiring interests in other oil and gas operations in Southern California which may require performance of certain accounting, engineering and management functions by Contractor.

(e) It is recognized by the City and the Contractor that having the Contractor perform certain accounting, engineering and management functions with respect to interests in certain other oil properties, will result in a savings to the City under the Contract if the Contractor uses portions of the Subject Lands, facilities on the Subject Lands and personnel of the Contractor assigned to the Subject Lands in connection with its performance of those functions and properly allocates the costs among the various interests or properties. Therefore, the City is willing to consent to an Amendment to the Contract to permit the Contractor to use, as authorized and directed by the City Manager in writing, certain of the Subject Lands, certain facilities on the Subject Lands and certain of Contractor's personnel assigned to the Subject Lands in connection with the performance of accounting, engineering and management functions with respect to certain other Southern California properties on certain terms and conditions.

(f) The City wishes to have greater flexibility in returning to the Contractor oil that it has taken in kind. The Contractor wishes to be able to receive oil taken in kind that the City wishes to return

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without undue delay. Therefore, both parties desire to shorten the notice period that must precede the return of oil taken in kind by the City.

(g) Because of changing financial conditions, the City wishes to provide the Contractor with flexibility in meeting the requirements of faithful performance (Section 28) under this Contract. Therefore, the parties desire to allow the Contractor to provide either a performance bond or a letter of credit as a guarantee of performance.

3. AMENDMENTS TO CONTRACT.

(a) Section 2 of the Contract is amended by adding a new subsection 2.4 reading as follows:

"2.4 Notwithstanding the limitations in subsection 13.2 and Section 15, the Contractor, when directed and to the extent authorized in writing by the City Manager, may use the Subject Lands, Rental Property, City Property and Unit Property and the field office used by the Contractor in the performance of its obligations on the Subject Lands in connection with the performance of operations relating to Contractor's other oil properties in the Southern California area. The Contractor, when directed and to the extent authorized in writing by the City Manager, may also use any of the contractor's personnel in the

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performance of the operations relating to Contractor's other oil properties in the Southern California area. The City Manager's authorization may impose conditions including but not limited to changes in insurance and in the faithful performance bond or letter of credit. In the event that such lands, property or personnel are used in connection with any operations relating to the Contractor's other properties, the Contractor shall charge under this agreement only the proportionate share of the costs (as those costs are determined in accordance with Exhibit "B", the Accounting Procedure) attributable to the performance of operations on and for the Subject Lands. The proportionate share of the costs attributable to operations relating to the Contractor's other properties in the Southern California area shall be charged to those other properties, and the records of these charges shall be available for inspection by the City at all reasonable times.

"The conduct of operations relating to the Contractor's other properties in the Southern California area by the Contractor

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shall not be in conflict with nor shall have an adverse effect on the operations required to be performed by the Contractor on the Subject Lands. The City may, without cause and at any time, modify the extent of approval given by this subsection 2.4 to conduct operations relating to the Contractor's other properties in the Southern California area and may, on sixty (60) days' written notice, revoke the approval to conduct operations relating to the Contractor's other properties in the Southern California area. The Contractor shall comply fully with the cost allocation procedures provided by this agreement, including Exhibit "B", and with whatever conditions are imposed by the City Manager. The Contractor shall provide and at all times maintain a policy of insurance or an endorsement to other policies of insurance required to be furnished under this agreement that indemnifies and insures the City, the State of California, and their officers, agents, employees and volunteers, to the same extent and in the same manner as provided in Section 26. The policy or endorsement shall be furnished at the Contractor's own expense, and the costs of

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such policy or endorsement shall be a nonreimbursable expense under this agreement and shall not be an item of unit expense under any of the Unit Agreements. The policy or endorsement shall be submitted to the City for approval as to form by the City Attorney and approval as to sufficiency by the City Manager."

(b) Subsection 18.2 of the Contract is amended to read as follows:

"18.2. The City reserves the right, exercisable upon ninety (90) days' written notice to the Contractor, to take in kind any percentage up to and including twenty percent (20%) of the oil referred to in subdivisions (a) and (b) of subsection 18.1. When taken in kind by the City, such oil shall be valued in the manner provided in subsection 18.3, such value shall be used in computing Net Profits and the proceeds from the valuation of such oil shall be made available to the Contractor for disbursements under subsection 21.4. Whenever the City exercises its right to take such oil in kind, it may return such oil to the Contractor upon at least twenty-four (24) hours' written notice to the Contractor."

1 (c) Section 28 of the Contract is amended to
2 read as follows:

3 "Section 28. PERFORMANCE BOND OR LETTER
4 OF CREDIT. Concurrently with its execution
5 of this agreement, the Contractor shall
6 furnish and shall keep in full force and
7 effect at all times during the term of this
8 agreement one of the following:

9 "(1) A good and sufficient bond or
10 bonds in the aggregate principal sum of Four
11 Million Dollars (\$4,000,000.00), executed by
12 the Contractor, as principal, and a
13 corporation or corporations authorized to
14 engage in surety business in the State of
15 California, as surety. The bond or bonds
16 must be approved as to the surety and as to
17 sufficiency by the City Manager and as to
18 form by the City Attorney. The bond or
19 bonds shall be conditioned for the faithful
20 performance by the Contractor of all the
21 terms, covenants and conditions of this
22 agreement. The obligations and liabilities
23 of the surety shall be continuing
24 obligations and liabilities. However, the
25 surety may terminate liability by giving at
26 least sixty (60) days' written notice to the
27 City and to the Contractor, but only for
28 events, acts, omissions and defaults

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1 occurring after the expiration of the sixty
2 (60) day period. If the surety serves
3 notice of termination of liability as
4 provided above, the Contractor shall furnish
5 to the City, prior to the expiration of the
6 sixty (60) day period, a substitute bond or
7 bonds in the same principal sum and on the
8 same terms and conditions as the previous
9 bond or bonds. Every five (5) years during
10 the term of this agreement, the City, in its
11 discretion and with the approval of the
12 State Lands Commission, may review and alter
13 the amount of the bond based on current
14 market conditions;" or

15 "(2) An instrument or instruments of
16 credit from one or more financial
17 institutions subject to regulation by the
18 state or federal government in the aggregate
19 principal sum of Four Million Dollars
20 (\$4,000,000.00). The instrument or
21 instruments must be acceptable to the City
22 and approved as to the financial institution
23 and as to sufficiency by the City Manager
24 and as to form by the City Attorney. The
25 instrument or instruments shall pledge that
26 the principal sum is available and
27 guaranteed for payment, and that all or any
28 part thereof shall be paid to the City on

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order to insure the performance of all of the terms, covenants, and conditions imposed on the Contractor by this agreement."

"The financial institution or institutions may terminate liability by giving at least sixty (60) days' written notice to the City and to the Contractor. The Contractor shall furnish to the City, prior to the expiration of the sixty (60) day period, a substitute instrument or instruments of credit or a good and sufficient bond or bonds in the same principal sum and on the same terms and conditions. If the substitute is not furnished before the last business day of the sixty (60) day period, the City may levy on the full amount of the letter of credit that is due to expire. Every five (5) years during the term of this agreement, the City, in its discretion, and with the approval of the State Lands Commission, may review and alter the amount of the instrument of credit based on current market conditions."

4. FORCE AND EFFECT. Except as specifically amended herein, all terms and conditions of the Contract, as amended, shall remain in full force and effect.

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1 Executed with all the formalities required by law on
2 the dates set forth opposite the signatures.

3 CITY OF LONG BEACH, a municipal
4 corporation, as Tidelands
5 Trustee and Unit Operator
6 of Unit Segment I,
7 Fault Block II Unit,
8 Fault Block III Unit,
9 Fault Block IV Unit and
10 Fault Block V Ranger Zone Unit

11 April 19, 1990

12 *James C. Hankla*
13 JAMES C. HANKLA, City Manager
14 "CITY"

15 TIDELANDS OIL PRODUCTION
16 COMPANY, a Texas general
17 partnership, by its general
18 partners

19 NESTE OIL SERVICES, INC., a
20 Texas corporation

21 4-11, 1990

22 BY *G.B. McIlhenny*
23 Partner

24 CHANSE LONG BEACH PRODUCTION
25 CORPORATION, a Delaware
26 corporation

27 April 6, 1990

28 BY *Robert Kay*
29 Partner

30 "CONTRACTOR"

31 //

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CALENDAR PAGE 000205

MINUTE PAGE 004987

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The foregoing Second Amendment to Long Beach Harbor
Tidelands Parcel and Parcel "A" Oil Contract is approved as to
form this 18 day of April, 1990.

JOHN R. CALHOUN, City Attorney

By [Signature]
Deputy

John R. Calhoun
City Attorney of Long Beach
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Long Beach, California 90802
Telephone (714) 594-6201

WEE:tah
1/29/90; Rev. 03/28/90
LBHBR2ND.AMD

CALENDAR PAGE 000206
MINUTE PAGE 004988

COMPANION

Texas

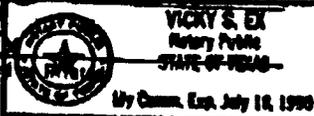
STATE OF ~~CALIFORNIA~~ }
COUNTY OF ~~LOS ANGELES~~ } SS.

On Harris April 11, 1990 before me, the undersigned, a Notary Public in and for said State, personally appeared G. B. McKenna and

() personally known to me or () proved to me on the basis of satisfactory evidence to be the person(s) who executed the within instrument as _____ President and Secretary on behalf of the corporation therein named and acknowledged to me that the corporation executed it.

WITNESS my hand and official seal.

Signature: [Handwritten Signature]
Vicky S. F.
Name (Type)



L-10 (8-89)

(This area for official notarial seal)

(Partnership)

New York

STATE OF ~~CALIFORNIA~~ }
COUNTY OF ~~LOS ANGELES~~ } SS.

On April 6, 1990 before me, the undersigned, a Notary Public in and for said State, personally appeared Kai S. Chang and

(X) personally known to me or () proved to me on the basis of satisfactory evidence to be the person(s) that executed this instrument, on behalf of the partnership and acknowledged to me that the partnership executed it.

WITNESS my hand and official seal.

Signature: [Handwritten Signature]
Alberta Munson
Name (Type and Print)

L-8 (8-89) Notary: Alberta Munson, New York
Comm. Exp. June 30, 1991

(This area for official notarial seal)

CITY OF LONG BEACH

APPROVAL OF ASSIGNMENT OF TIDELANDS OIL CONTRACT

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At its meeting on November 1, 1988, the Long Beach City Council approved the assignment by Neste Holding (U.S.A.), Inc. and Chasse Energy Corporation (Assignors) to Neste Oil Services, Inc. and Chasse Long Beach Production Corporation, respectively, in their capacities as general partners in Tidelands Oil Production Company, a Texas general partnership (Assignee) of one hundred percent (100%) of Assignors' interest in the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract (Contract), and at its meeting on December 13, 1988, the State Lands Commission gave its approval to the same assignment. Following the assignment, the partnership shall be the Contractor under the Contract, with Neste Oil Services, Inc. and Chasse Long Beach Production Corporation jointly and severally liable for the performance of the Contract.

The approval of both the City Council and the State Lands Commission is on the conditions that all terms of the Contract remain the same and that Assignors remain fully liable under the Contract, any conditions in the assignment agreement to the contrary notwithstanding.

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Telephone 434-2100

1 This approval and the assignment shall take effect on
2 the date the Contract is awarded by the City to Assignors.
3

4 CITY OF LONG BEACH, a municipal
5 corporation

6 March 27, 1989

7 BY James C. Hankla
8 JAMES C. HANKLA, City Manager

9
10 STATE OF CALIFORNIA, STATE LANDS
11 COMMISSION

12 3-23-89, 1989

13 BY Claire T. DEDRICK
14 CLAYRE T. DEDRICK, Executive
15 Officer

16 The foregoing Approval of Assignment of Tidelands Oil
17 Contract is hereby approved as to form this 8 day of
18 March, 1989.

19 JOHN R. CALHOUN, City Attorney

20 BY John R. Calhoun
21 Deputy

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Tel: (562) 595-1000

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CALENDAR PAGE 000209

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