

**Minute Item  
85**

04/20/00  
W 17003  
PRC 3455  
W 17000.1  
G. Scott

**ARCO LONG BEACH INC., AND ATLANTIC RICHFIELD COMPANY  
(ASSIGNORS) AND OCCIDENTAL PETROLEUM CORPORATION  
(ASSIGNEE)**

**Commissioners listened to presentation and approved 3-0**

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MINUTE ITEM  
This Calendar Item No. 85  
was approved as Minute Item  
No. 85 by the State Lands  
Commission by a vote of 3  
to 0 at its 7-20-00  
meeting.

CALENDAR ITEM

**85**

A 54

04/20/00

W 17003

PRC 3455

S 27

W 17000.1

G. Scott

**CONSIDER APPROVAL TO THE CONSENT BY THE CITY OF LONG BEACH  
TO THE ASSIGNMENT OF THE CONTRACTORS' AGREEMENT,  
AND CONSIDER CONSENT TO THE ASSIGNMENT OF THE TRACT NO. 2  
AGREEMENT AND THE OPTIMIZED WATERFLOOD AGREEMENT,  
LONG BEACH UNIT, WILMINGTON OIL FIELD,  
LOS ANGELES COUNTY**

**ASSIGNORS:**

ARCO Long Beach, Inc.  
Attn: Fred Boepple  
111 W Ocean Blvd., Suite 800  
Long Beach, CA 90802

Atlantic Richfield Company  
Attn: John Marston  
333 S Hope St.  
Los Angeles, CA 90071

**ASSIGNEE:**

Occidental Petroleum Corp  
Attn: General Counsel  
10889 Wilshire Blvd.  
Los Angeles, CA 90024

**AREA, LAND TYPE, AND LOCATION**

The Long Beach tidelands include a large portion of the Wilmington oil field, a major oil field in the United States. The East Wilmington portion of this field includes tidelands granted in trust to the City of Long Beach, a small parcel in which the State retained the mineral interest and an uplands area consisting of much of downtown Long Beach. These areas are combined into the Long Beach Unit for unitized oil production operations, with the City tidelands area

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being Tract 1, the State tidelands parcel being Tract 2 and the uplands area being the Townlot.

**BACKGROUND**

Chapter 138, Statutes of 1964, First Extraordinary Session, authorized oil development on the tidelands area of the East Wilmington field and the contracts pursuant to which that development would be undertaken. This legislation contemplated that the oil production operations would be conducted as a unitized arrangement where the tidelands and the uplands would be developed together from offshore installations. The City of Long Beach would be the Unit Operator responsible for conducting the oil production operations and assuring the production would not cause subsidence. The City was authorized to enter into a contract for Tract 1 of the Long Beach Unit (Contractors' Agreement) for the purpose of securing a contractor to carry out the City's operational responsibilities, to fund development and to purchase and pay for the oil allocated to Tract 1. The State was authorized to enter into a contract for Tract 2 (Tract No. 2 Agreement) with a contractor that would have no operational duties but would be obligated to fund development and take and pay for the oil allocated to Tract 2. ARCO Long Beach, Inc. (ALBI), a wholly owned subsidiary of ARCO, is the current holder of all contractual interests for both Tracts 1 and 2.

In 1991, Atlantic Richfield Company (ARCO), ALBI, the City and the State entered into the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit. Under this program, ARCO and ALBI agreed to commit their expertise and a substantial sum of money toward securing a significant increase in the oil production from the Long Beach Unit in return for a greater share of the net profits from any enhanced production.

On November 15, 1999, ARCO and Occidental Petroleum Corporation (OXY) entered into a Stock Purchase Agreement pursuant to which OXY purchased all of ARCO's stock in ALBI, making ALBI a wholly owned subsidiary of OXY. ARCO, ALBI and OXY seek the consent of the City to this transaction insofar as it affects the rights and obligations of the contractors under the Contractors' Agreement, and the City seeks the Commission's approval of its consent. ARCO, ALBI and OXY seek the consent of the Commission to this transaction insofar as it affects the rights and obligations of the contractor under the Tract No. 2 Agreement. ARCO, ALBI and OXY also seek the Commission's consent to this stock sale under the terms of the Optimized Waterflood Agreement.

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ARCO is the guarantor of ALBI's performance under the Contractors' Agreement, the Tract No. 2 Agreement, the Unit Agreement and the Unit Operating Agreement for the Long Beach Unit and the Optimized Waterflood Agreement. OXY has agreed in the Stock Purchase Agreement to assume ARCO's guarantor responsibilities under these agreements. ARCO seeks the Commission's approval of the City's conditional release as guarantor under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement and its consent to a conditional release from its responsibilities as guarantor under the Tract No. 2 Agreement, the Unit Agreement and the Unit Operating Agreement and the Optimized Waterflood Agreement.

Commission staff is recommending that the Commission approve the City's consent to the transfer of ALBI's stock from ARCO to OXY and consent to that transfer on prescribed terms and conditions. Commission staff is also recommending that the Commission defer its approval of the City's release of ARCO as guarantor and defer its own release of ARCO as guarantor until automatic shutdown valves are installed on the primary offshore pipelines in the Long Beach Unit and a financial audit and safety audit are conducted and the issues raised in those audits are resolved. It is estimated that this process will take about one year. At that time the Commission would have an additional 120 days to evaluate OXY's performance of its contractual obligations and determine whether OXY has the financial capability or demonstrated the operational capability to hold the Long Beach Unit contractual interests, without the guarantee of ARCO. Within this 120-day period the Commission may act, at a public meeting, to halt the release of ARCO's guarantee. If the Commission does not act, ARCO's guarantee will be automatically released at the end of the 120 days.

OXY is a large independent oil and gas exploration and production and chemical manufacturing company based in Los Angeles. OXY's operations are both domestic and international. The company's worldwide production is 295,000 barrels of oil per day and 725 million cubic feet of gas per day. OXY has oil and gas production operations in nine foreign countries and active exploration projects in eight. OXY has production operations in six states and in the Gulf of Mexico.

OXY is a Fortune 500 company with assets of over \$14 Billion dollars. OXY has a stable debt rating, with outstanding debt continuing to be rated as investment grade. OXY's December 31, 1999, financial strength indicators are: a debt/equity ratio of 125 percent (125%), a coverage ratio expressed as *times*

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*interest earned* of 1.13; and total cash of \$214 Million. The company has 8,701 employees worldwide; most of which work in the United States. In 1999, OXY generated \$448 million of net income from oil, gas and chemical revenues of \$7.6 billion.

California operations accounted for 60 percent (60%) of OXY's domestic oil production in 1999, much of which comes from the Elk Hills Field. Purchased in 1998, Elk Hills made OXY one of the largest oil and gas producers in California, and OXY has recently become the largest oil and gas producer in Texas. OXY's safety record is consistently above the industry average. OXY has received national recognition for its safety record and environmental stewardship.

Commission staff and the City of Long Beach staff jointly conducted abbreviated safety, financial and regulatory compliance audits of ALBI, and safety and financial performance assessments of OXY to determine the sufficiency of both parties with regards to the transfer of ownership. The findings of these audits are summarized in Exhibit A, attached.

**OPERATIVE CONTRACT PROVISIONS AND STATUTORY REFERENCES:**

- A. Article 25 of the Contractors' Agreement permits a contractor to assign its interest in the contract only after obtaining the written consent of and subject to any terms and conditions prescribed by the Long Beach City Manager, acting with the approval of the California State Lands Commission.
- B. Article 19 of the Tract No. 2 Agreement permits the contractor to assign its interest in the contract only after obtaining the written consent of and subject to any terms and conditions prescribed by the California State Lands Commission.
- C. Article 7.07 of the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit permits ARCO and ALBI to assign their rights and obligations under Article 2 of the Agreement (the provisions dealing with the implementation and continuing conduct of the optimized waterflood program) only after securing the written consent of the California State Lands Commission.
- D. Public Resources Code section 6804.

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**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.

2. The City of Long Beach has consented to the transfer to OXY of ARCO's stock in ALBI insofar as it affects the Field Contractor and Nonoperating Contractor interests under the Contractors' Agreement and to a possible future release of ARCO from its guarantor obligations under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement under terms and conditions prescribed by the City Manager and subject to the approval of the Commission.

**EXHIBITS:**

- A. Report of Findings of Abbreviated Audits and Assessments for ARCO Long Beach, Inc., and Occidental Petroleum Corporation.
- B. Assignment Consent Agreement Among the City, ARCO, ALBI and OXY.
- C. Assignment Consent Agreement and Consent to Assignment Among the State, ARCO, ALBI and OXY.

**PERMIT STREAMLINING ACT DEADLINE:**

N/A

**RECOMMENDED ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA FINDING:**

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.

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**AUTHORIZATION:**

1. APPROVE THE CONSENT BY THE CITY OF LONG BEACH TO THE TRANSFER OF 100% OF ARCO'S STOCK IN ALBI TO OXY INSOFAR AS IT AFFECTS TRANSFER OF THE RIGHTS AND OBLIGATIONS OF ALBI AS HOLDER OF THE FIELD CONTRACTOR AND NONOPERATING CONTRACTOR INTERESTS UNDER THE CONTRACTORS' AGREEMENT, THE UNIT AGREEMENT AND THE UNIT OPERATING AGREEMENT AND TO THE FUTURE RELEASE OF ARCO AS GUARANTOR OF ALBI'S PERFORMANCE UNDER THE CONTRACTORS' AGREEMENT ON TERMS AND CONDITIONS SUBSTANTIALLY IN THE FORM SET FORTH IN THE ASSIGNMENT CONSENT AGREEMENT AMONG THE CITY, ARCO, ALBI AND OXY (EXHIBIT B, ATTACHED).
  
2. CONSENT TO THE TRANSFER OF 100% OF ARCO'S STOCK IN ALBI TO OXY INSOFAR AS IT AFFECTS THE TRANSFER OF THE RIGHTS AND OBLIGATIONS OF ALBI AS HOLDER OF THE NONOPERATING CONTRACTOR INTEREST UNDER THE TRACT NO. 2 AGREEMENT, THE UNIT AGREEMENT AND THE UNIT OPERATING AGREEMENT AND PURSUANT TO ARTICLE 7.07 OF THE OPTIMIZED WATERFLOOD AGREEMENT AND TO THE FUTURE RELEASE OF ARCO AS GUARANTOR OF ALBI'S PERFORMANCE UNDER THE TRACT NO. 2 AGREEMENT AND THE OPTIMIZED WATERFLOOD AGREEMENT ON THE TERMS AND CONDITIONS SUBSTANTIALLY IN THE FORM SET FORTH IN THE ASSIGNMENT CONSENT AGREEMENT AND CONSENT TO ASSIGNMENT AMONG THE STATE, ARCO, ALBI AND OXY (EXHIBIT C, ATTACHED).
  
3. AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE ON THE COMMISSION'S BEHALF THE ASSIGNMENT CONSENT AGREEMENT AND CONSENT TO ASSIGNMENT.

**EXHIBIT A****MEMORANDUM**

To: Paul B. Mount  
Chief, Mineral Resources Management Department

Date: April 17, 2000

File: W 17003  
PRC 3455  
W 17000.1

From: Greg Scott  
Supervising Mineral Resources Engineer

Subject: **Findings of Abbreviated Audits and Assessments for ALBI and Occidental Petroleum Corporation**

The MRM staff has, in an effort to evaluate ARCO's announced sale of the Thums and ALBI to Occidental Corp., participated jointly with the DOP staff of the City of Long Beach, in a series of audits. The purpose of the audits is to determine the safety, regulatory and financial compliance status of Thums and Occidental Petroleum Corporation's (OXY) ability to assume ownership of Thums and ALBI.

At the onset of this effort, it was agreed by the parties that a series of audits and assessments of ALBI and OXY was necessary. These audits, though abbreviated in scope because of time limitations, were focused on the more critical and significant elements of safety, environmental compliance and financial performance, to enable us to effectively determine the sufficiency of both parties with regard to the transfer. Assessments were made of OXY's track record and corporate strength to judge their capability in taking on the operating and financial responsibilities of the Long Beach Unit. These audits and assessments consisted of the following:

1. An abbreviated financial audit of Thums Long Beach Company, conducted by the Long Beach City Auditors office.
2. An abbreviated financial evaluation on the capability of Occidental Petroleum Corporation, conducted by the Long Beach City Auditor's office.
3. An abbreviated safety audit of Thums LBU islands and onshore facilities, conducted by the MRM staff of the California State Lands Commission (CSLC).
4. An abbreviated regulatory compliance audit of Thums, conducted by the MRM staff of the CSLC.
5. An evaluation of OXY's corporate safety record, conducted by the staff of the CSLC.
6. An evaluation of OXY's corporate environmental record, conducted by the staff of the CSLC.

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The above audits and assessments have been completed, and the findings of each are discussed below.

1. **FINANCIAL TRANSFER AUDIT OF THUMS LONG BEACH COMPANY**

The City auditor retained the consulting firm of Edward White & Co., LLP who issued an Agreed Upon Procedures Report. The firm applied agreed upon procedures to confirm that those expenses under the following agreements were billed properly: (1) The Contractor's Agreement, (2) The Tract II Contractor's Agreement, (3) The Unit Agreement, (4) The Unit Operating Agreement, (5) The 1994 Agreement with Arco, (6) The Optimized Waterflood Agreement.

Sixteen accounting categories were reviewed. Twelve categories were found to have expense transactions in agreement to procedures. Exceptions were found in four of the categories. 1) In the category of State Audit reports, an unresolved issue of what types of expenses should be excluded from the administrative and overhead calculation in accordance with the Unit Operating Agreement. This issue will require further interpretation by the office of the City Attorney. 2) In the category of Optimized Waterflood Program reports, a \$1.8 million error was found having to do with the allocation of abandonment expenses. A subsequent correction was made crediting the State for that amount. Also, several unrelated adjustments resulted in a negative correction to the State's Net Base profit of \$287,000. It is anticipated that this correction will be recovered during the current fiscal year. 3) In the category of Administrative Overhead, it was found that amounts paid for the OSPR fee should have been excluded from total unit expenses when calculating administrative overhead. It has been recommended by Edward White and Co. that Thums correct this by reducing its administrative overpayment accordingly (\$222,658), for the fiscal year 2000. Finally, 4) in the category of Fixed Assets, a misclassification error was found which is considered isolated and non-critical, and has been corrected. It is anticipated that all of the exceptions found will be corrected within the next few months.

2. **FINANCIAL CAPABILITY OF OCCIDENTAL PETROLEUM**

The City Auditor obtained and reviewed OXY's 10-K reports filed with the Securities and Exchange Commission for 1998 and 1999, 8-K reports filed for 1996-1999, 10-Q report through September 30, 1999, and debt and equity ratings made by various rating agencies. The City Auditor found OXY to be financially sufficient, with over \$14 billion in assets, a 1999 net income of \$448 million, a stable debt rating, and a coherent business strategy resulting in increased proven oil reserves from selected acquisition. OXY has used proceeds from a favorable legal settlement and from the recent sale of a Canadian chemical asset to pay down their long term debt. As a result of this, OXY's Debt/Equity ratio has dropped from 160% in 1998 to 125% in 1999. OXY currently ranks in the top ten U.S. oil and gas companies in the categories of total assets, total revenues, and net income. Selected financial statistics from OXY's 1999 Annual Report are shown below:

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Net sales and Operating Revenues	\$ 7,610 Million
Net Income	\$ 448 Million
Total Assets	\$ 14,125 Million
Long Term Debt	\$ 4,368 Million
Stockholders Equity	\$ 3,523 Million
Total Cash	\$ 214 Million
Debt/Equity Ratio (Percent)	125%

Based on the results of the transfer audit and the financial evaluation of OXY, the City Auditor found nothing that would cause the City not to recommend approval of the transaction. Because the transfer audit was limited in scope, and certain exceptions were found, it is recommended that a full financial audit of Thums be performed during the next 12 months covering the current and previous fiscal years activity. That audit will examine all expenses of the Long Beach Unit and identify any accounting variances that may have occurred during that time period. The City of Long Beach concurs with this recommendation and will consider the firm of Edward White and Co. to conduct that audit with participation of the SLC audit staff.

3. **SAFETY AUDIT OF LONG BEACH UNIT**

**A) Hazard Analysis**

The CSLC staff took the lead in directing a safety audit of the Long Beach Unit to evaluate its overall safety. At the request of the California State Lands Commission, the City of Long Beach contracted out Paragon Engineering Services from February 3 through March 3, 2000 to conduct a process safety hazard analysis (PHA) of the Thums Long Beach Company facilities. The scope of Paragon's work included evaluating the design and installation of the production and processing system equipment, piping, and associated electrical systems at Pier J (sites J one through J six), the Broadway and Mitchell (B&M) site, and Islands Grissom, White, and Freeman.

Paragon services, based on using their in-house hazard analysis checklist program, identified items that did not comply with industry codes, standards, or generally acceptable engineering principles. Once each item was identified Paragon assigned it a priority number one (the highest potential for significant adverse impact – addressed immediately) through four (no action recommended). In total, four priority ones, three hundred and thirty eight priority twos, two hundred and sixty nine priority threes, and one hundred and sixty one priority fours were identified. Of the seven hundred and seventy seven two items identified, based on further analysis by Thums/CSLC/DOP staff, about one hundred and twenty five items required either action or further investigation. Thums has corrected all the action required number one priority items and have completed and/or are working on completing all of the number two priority items.

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Because this audit was time limited, intended to address the higher priority items, staff recommends a full field comprehensive audit be performed by MRM staff beginning In July 2000. This recommendation has been discussed with the City DOP staff who concurs with this course of action.

### **B) The Safety Assessment of Management Systems (SAMS)**

The Safety Assessment of Management Systems (SAMS) is a tool that assesses a company's Human and Organizational Factors (HOF). The SAMS questions are confidential until October 2000. In order to get a good response from the operators being interviewed the SAMS reports are kept confidential. The SAMS tool was developed during a two-year project sponsored by government agencies and oil companies from the United States, Canada, and the United Kingdom. The project coordinators were Paragon Engineering Services Company of Houston, Texas and the University of California Berkeley. Operators continually upgrade their physical systems to reduce the risk of oil spills. However, research indicates 80-85% of process accidents are caused by Human and Organizational Error (HOE). SAMS was developed to assess HOF, enabling companies to reduce HOE and thereby increase safety and reduce the risk of oil spills.

The Thums SAMS assessment began on February 14, 2000. The assessment team consisted of four CSLC employees that examined the management & organizational issues, hazards analysis, management of change, operating procedures, training and selection, mechanical integrity program, emergency response, investigation and audit program and safe work practices aspects of the Thums operation. Assessors interviewed a range of personnel from private contractors and operators working at the facility to the field operations manager. The assessment provides considerable insight into operations HOF. The SAMS tool identifies organizational strengths as well as areas needing improvement.

On April 7, 2000 the SAMS team provided CSLC management a copy of their report. On Friday April 14<sup>th</sup> the SAMS team presented the report to Thums and the Department of Oil Properties management. The preliminary SAMS audit findings indicate that the Thums organization has strengths in all of the audit categories and is operating in a safe manner. The team also found, within these categories, areas for improvement and the State and Department of Oil Property staff will work together with Thums to make improvements during the more comprehensive safety audit starting July 2000.

#### **4. ENVIRONMENTAL AND REGULATORY COMPLIANCE AUDIT**

This audit consisted of a permit matrix divided into three parts consisting of Federal, State and Local regulatory agencies and lists any permits or regulatory requirements that may be involved for oil and gas operations at the Long Beach Unit. This audit included reviews of the files at Thums office and site visits to the Islands, Pier J, and the Drilling Yard to conduct a visual inspection of permitted

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equipment and to search for additional documentation of compliance. This permit matrix has been reviewed and commented on by both Thums and the City of Long Beach.

The Environmental and Regulatory Compliance audit shows that Thums has maintained and renewed permits as needed to conduct oil and gas operations as contractor for the LBU. Thums has been diligent in fixing/repairing all items found from audits conducted by several of the above agencies to remain in compliance. The SLC has concluded this audit and determined that based upon information submitted by Thums that they have satisfactory complied with all environmental and regulatory compliance issues.

Prior to staff engagement of the regulatory compliance audit, we were notified that the U.S. DOT was conducting their bi-annual audit of the Thums pipelines. We, therefore, did not include pipeline compliance in our audit. The findings of the DOT audit have not been officially released by DOT but are expected soon.

5. **OXY SAFETY PERFORMANCE**

The CSLC staff evaluated OXY's safety record as it compares to the industry average for crude petroleum and natural gas companies in the domestic United States. Staff also evaluated OXY USA safety record as it compares to Thums in three commonly measured safety benchmark areas – Injury and Illness Rate, Frequency rate, and Severity Rate. OXY USA is Occidental Petroleum Corporation's domestic oil and gas operating company, and its safety statistics are a more appropriate performance indicator for comparison to Thums company. The OXY and Thums safety statistics comparisons were made for company employees, and for company employees plus contractors.

Staff found that OXY Corp's. safety record has been consistently superior to the national industry average as reported by the U.S. Department of Labor, Bureau of Labor Statistics. The key U.S. safety indicator, OSHA Injury and Illness Rate (IIR) for the years 1996, 1997, and 1998 was 1.5, 2.0, and 1.6 respectively for domestic oil and gas companies. A lower IIR reflects a better safety record. OXY's IIR has been consistently below 1.0 for those same three years, at 0.85, 0.73, and 0.68 respectively. (1999 OSHA national statistics are not yet available.) In comparison to Thums for the years 1998 and 1999, staff found OXY exceeded Thums Safety record in nearly every safety benchmark area evaluated. OXY USA's 1999 OSHA incidence rate is 0.70 as compared to 1.38 for Thums. OXY USA was also superior to Thums in Recordable Rate, and Severity Rate performance for both years. OXY's 1999 Frequency Rate was the only safety statistic compared that was inferior to Thums.

Based on OXY's safety performance and their ability to consistently maintain better averages than company peers, staff concludes OXY to be well qualified to

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take over the Long Beach Unit operation. It is our expectation that OXY can apply their safework practices to make LBU an even safer operation.

6. **OXY ENVIRONMENTAL RECORD**

Staff conducted an evaluation of OXY's environmental record and their history of environmental incidences in an attempt to compare their performance to company peers. Records are not generally kept for benchmarking environmental performance, so a comparison against peer companies was not made. Staff did evaluate OXY's environmental performance on its own merit however, in the area of offshore oil spills, onshore oil spills (notably Elk Hills), chemical releases, waste generation and external recognition.

Staff found that in the area of oil spills from offshore structures, OXY has experienced a total of two barrels spilled in the Gulf Coast area in the last three years from 25 offshore platforms that produced over 6 million barrels during that time period.

OXY's record for oil spills at Elk Hills is also notable. Since taking over from Bechtel in 1998, OXY has been able to reduce the number of spills in 1999 by 56%, and the volume of barrels released by 44%. OXY's domestic U.S. spill record in 1999 has also comparable, where they experienced a 50% reduction from their 1998 performance. OXY's chemical releases have consistently declined during the 5 years from 1993 through 1997 (most recent report year). The same trend is found in OXY's waste generation from manufacturing processes.

OXY is continually recognized by external organizations for environmental stewardship. In 1998, OXY was recognized by the California Division of Oil, Gas and Geothermal Resources for environmental and visual enhancements made to their Kern Front Field. That same year OXY received a Texas Environmental Excellence Award for innovations at one of its chemical plants. OXY also received the Emerald Cross Award for environmental and safety commitments internationally. The MMS has also recognized OXY as one of the top performers in environmental and safety excellence.

Staff concludes that OXY has demonstrated a strong commitment to environmental protection, and it is our expectation they will bring that same level of stewardship with them to the Long Beach Unit.

**CONCLUSIONS**

The above discussion for the financial, safety, and regulatory audits are summaries of more detailed reports which have been prepared separately and, though not attached to this memo, are available for review.

are summaries of	CALENDAR PAGE 0000640
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Paul Mount  
April 17, 2000  
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The staff has found that each of the above-abbreviated audits and assessments were completed satisfactorily. Any variances or deficiencies found have either been corrected or an agreed course of action has been planned to resolve any outstanding issues. The staff concludes that OXY is, at the present time, sufficiently capable financially and operationally to assume the duties and responsibilities as contractor for the Long Beach Unit, and recommends the transaction be approved by the Commission.

cc: P. Thayer, CSLC Executive Officer  
A. Hager, Attorney General's Office  
D. Sullivan, City of Long Beach DOP  
R. Ludlow  
A. Willard

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**ASSIGNMENT CONSENT AGREEMENT**

This Assignment Consent Agreement is entered into by and among Atlantic Richfield Company, a Delaware corporation (ARCO), ARCO Long Beach, Inc., a Delaware corporation (ALBI), Occidental Petroleum Corporation, a Delaware corporation (Oxy) and the City of Long Beach, a municipal corporation (City).

This Assignment Consent Agreement is made with reference to the following facts:

A. Effective April 1, 1965, the City entered into the Contractors' Agreement, Long Beach Unit, Wilmington Oil Field (Contractors' Agreement) with a Field Contractor and several Nonoperating Contractors providing for the development and operation of Tract 1 of the Long Beach Unit. ALBI is the holder of the Field Contractor's interest and all Nonoperating Contractor interests. ALBI is also a Participant as to Tract 1 under the Unit Agreement for the Long Beach Unit (Unit Agreement) and under the Unit Operating Agreement for the Long Beach Unit (Unit Operating Agreement) by virtue of the provisions of Article 2 of the Contractors' Agreement. ARCO is the guarantor of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement.

B. Effective November 5, 1991, the City, ARCO, ALBI and the State of California, by and through the California State Lands Commission (State), entered into the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit (Optimized Waterflood Agreement) pursuant to which ARCO and ALBI agreed to commit their expertise and a substantial sum of money to secure an increase in the oil production from the Long Beach Unit in return for a greater share of the net profits from any enhanced production. ARCO is the guarantor of ALBI's performance under the Optimized Waterflood Agreement.

C. THUMS Long Beach Company, a Delaware corporation (THUMS), is the agent for the Field Contractor under the Contractors' Agreement and, as such, carries out the operational responsibilities of the Field Contractor. THUMS is a wholly owned subsidiary of ALBI.

D. On November 15, 1999, ARCO and Oxy entered into a Stock Purchase Agreement in which ARCO agreed to sell and Oxy agreed to buy all of ARCO's stock in ALBI and all of ARCO's outstanding rights and obligations under the Optimized Waterflood Agreement (the Stock Transaction). As a result of the Stock Transaction, ALBI will become a wholly owned subsidiary of Oxy. THUMS will continue to be a wholly owned subsidiary of ALBI. Also under the Stock Purchase Agreement, Oxy has agreed to be the guarantor or responsible party under the Contractors' Agreement, the Unit Agreement, the Unit Operating Agreement and the Optimized Waterflood Agreement.

E. ARCO, ALBI and Oxy have requested that the City consent to the Stock Transaction insofar as it affects the rights and obligations of the Field Contractor and Nonoperating Contractors under the Contractors' Agreement.

F. ARCO has requested that the City release ARCO from all of its responsibilities as guarantor of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement.

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G. Article 25 of the Contractors' Agreement permits any contractor to assign or otherwise dispose of its interest in the Contractors' Agreement only after obtaining the written consent of and subject to any terms and conditions prescribed by the Long Beach City Manager, acting with the approval of the State.

H. The City has negotiated with ARCO, ALBI and Oxy the terms and conditions upon which the Long Beach City Manager will consent to the Stock Transaction and release ARCO from its guarantee of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement. Those terms and conditions are set forth below. The State has given its approval to those terms and conditions.

Based on these factual recitals, the City, ARCO, ALBI and Oxy agree as follows:

1. The City is willing to consent and does consent to the Stock Transaction insofar as it affects the transfer of the ownership of ALBI from ARCO to Oxy (including the rights and obligations of ALBI as the holder of the Field Contractor and the Nonoperating Contractor interests under the Contractors' Agreement and the rights and obligations of ARCO under the Contractors' Agreement and the Optimized Waterflood Agreement) on the following terms and conditions:

a. All provisions of the Contractors' Agreement and the Optimized Waterflood Agreement and all amendments to the Contractors' Agreement and the Optimized Waterflood Agreement shall remain fully in force and in effect.

b. ALBI reaffirms all of its obligations under the Contractors' Agreement and the Optimized Waterflood Agreement, anything in any other agreements to which ARCO, ALBI and/or Oxy may be a party to the contrary notwithstanding.

c. Within sixty (60) days after the effective date of this Assignment Consent Agreement, ALBI, the City and the State shall vote for, approve of or consent to a Long Beach Unit Determination or Approval After Submission to the Participants (as defined in the Unit Agreement) for the installation of automatic shutdown valves on all four primary offshore oil lines, a total of eight valves. The installation shall be completed by July 1, 2001; provided, however, that this time may be extended so long as the installation process has proceeded and continues to proceed diligently. The cost of installing these valves shall be charged as Unit Expense to the Participants in the Long Beach Unit. This cost shall be a Base Cost, as defined in Article 1.02(f) of the Optimized Waterflood Agreement, and shall be accounted for as such under the terms of the Optimized Waterflood Agreement.

d. Within sixty (60) days after the effective date of this Assignment Consent Agreement, ALBI, the City and the State shall vote for, approve of or consent to a Long Beach Unit Determination or Approval After Submission to the Participants (as defined in the Unit Agreement) for a complete financial audit of Long Beach Unit operations which shall be performed jointly by the City and the State. The audit shall cover fiscal years 1998/1999 and 1999/2000. The audit shall be completed by July 1, 2001; provided, however, that this time may be extended so long as the audit process has proceeded and continues to proceed diligently. The cost of the audit shall be charged as Unit Expense to the Participants in the Long Beach Unit.

e. A full field safety audit of the Long Beach Unit shall be completed by the State's staff and its consultants; provided that Oxy shall have the right to approve such

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consultants, such approval not to be unreasonably withheld. The audit shall be completed by July 1, 2001; provided, however, that this time may be extended so long as the audit process has proceeded and continues to proceed diligently. The costs for this audit that are incurred by the State's staff and its consultants shall be reimbursed to the State by Oxy in an amount not to exceed \$500,000.

f. By giving its consent to the assignments of these interests, the City does not approve or give its consent to any of the provisions of the Stock Purchase Agreement between ARCO and Oxy or to the provisions of any other agreement by and among all or some of ARCO, ALBI and Oxy pertaining to these assignments.

g. Oxy fully guarantees and assumes full responsibility for the performance of all the obligations of ALBI as the Field Contractor and all Nonoperating Contractors under the Contractors' Agreement and all the obligations of ALBI as a Participant under the Unit Agreement and the Unit Operating Agreement, and agrees to be responsible for all of the obligations adhering to those interests, anything in any other agreements to which ARCO, ALBI and/or Oxy may be a party to the contrary notwithstanding.

2. ARCO shall not be released from its guarantees of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement until the following conditions have been fulfilled:

a. The automatic shutdown valves are installed, as required by paragraph 1c above, to the satisfaction of the City and the State.

b. All issues raised in the financial audit of the Long Beach Unit, required by paragraph 1d above, are resolved to the satisfaction of the City, the State, ARCO, ALBI and Oxy or have been submitted to and resolved fully by binding arbitration.

c. All issues raised in the field safety audit of the Long Beach Unit, required by paragraph 1e above, are resolved to the satisfaction of the City, the State, ARCO, ALBI and Oxy or have been submitted to and resolved fully by binding arbitration.

d. Within thirty (30) days of the satisfactory completion or resolution of the three conditions precedent, as provided in subparagraphs 2a, 2b and 2c above, the City and the State shall provide written notice of such satisfactory completion or resolution to ALBI and ARCO.

e. On a date that is one hundred twenty (120) days following the date when all of the conditions in subparagraphs a, b and c of this paragraph 2 have been fulfilled, ARCO shall be released prospectively from its guarantor obligations under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement, unless on or before that date, the Long Beach City Council or the California State Lands Commission, at a regularly scheduled meeting where a hearing is required to be given and evidence is required to be taken, finds that Oxy does not have the financial capability or has not demonstrated the operational capability or expertise to fulfill the responsibilities of the Field Contractor and Nonoperating Contractors under the Contractors' Agreement without the continuing guarantee of ARCO. ARCO, ALBI and /or Oxy may challenge the City Council's and the Commission's findings by filing in the Los Angeles County Superior Court, Central District, a petition for writ of mandate under section 1094.5 of the California Code of Civil Procedure or its successor provision, within thirty (30) days of the decision of the City Council or the Commission, whichever is later.

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3. This Assignment Consent Agreement shall be governed by the laws of the State of California.

4. This Assignment Consent Agreement may be executed in counterpart copies, and each executed counterpart copy shall have the same force and effect as an original and shall be enforceable to the same extent as if all parties had executed the same document.

5. This Assignment Consent Agreement shall be effective May 1, 2000.

CORPORATION,

OCCIDENTAL PETROLEUM

a Delaware corporation

\_\_\_\_\_, 2000

by \_\_\_\_\_

ATLANTIC RICHFIELD COMPANY,  
a Delaware corporation.

\_\_\_\_\_, 2000

by \_\_\_\_\_

ARCO LONG BEACH, INC.,  
a Delaware corporation

\_\_\_\_\_, 2000

by \_\_\_\_\_

CITY OF LONG BEACH,  
a municipal corporation

\_\_\_\_\_, 2000

by \_\_\_\_\_

City Manager

The foregoing Assignment Consent Agreement is approved as to form this \_\_\_\_\_ day of \_\_\_\_\_, 2000.

ROBERT E. SHANNON, City Attorney

by \_\_\_\_\_

RICHARD A. ALESSO, Deputy

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**ASSIGNMENT CONSENT AGREEMENT  
AND CONSENT TO ASSIGNMENT**

This Assignment Consent Agreement and Consent to Assignment is entered into by and among Atlantic Richfield Company, a Delaware corporation (ARCO), ARCO Long Beach, Inc., a Delaware corporation and wholly owned subsidiary of ARCO (ALBI), Occidental Petroleum Corporation, a Delaware corporation (Oxy) and the State of California, by and through the California State Lands Commission (State).

This Assignment Consent Agreement and Consent to Assignment is made with reference to the following facts:

A. Effective April 1, 1965, the City of Long Beach (City) entered into the Contractors' Agreement, Long Beach Unit, Wilmington Oil Field (Contractors' Agreement) with a Field Contractor and several Nonoperating Contractors providing for the development and operation of Tract 1 of the Long Beach Unit. ALBI is the holder of the Field Contractor's interest and all Nonoperating Contractor interests. ALBI is also a Participant as to Tract 1 under the Unit Agreement for the Long Beach Unit (Unit Agreement) and under the Unit Operating Agreement for the Long Beach Unit (Unit Operating Agreement) by virtue of the provisions of Article 2 of the Contractors' Agreement. ARCO is the guarantor of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement.

B. Effective April 1, 1966, the State entered into the Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field (Tract 2 Agreement) with a nonoperating Contractor (Tract 2 Nonoperating Contractor) for the development of Tract 2 of the Long Beach Unit. ALBI is the holder of this Nonoperating Contractor interest. ALBI is also the Participant as to Tract 2 under the Unit Agreement and the Unit Operating Agreement by virtue of the provisions of Article 2 of the Tract 2 Agreement. ARCO is the guarantor of ALBI's performance under the Tract 2 Agreement, the Unit Agreement and the Unit Operating Agreement.

C. Effective November 5, 1991, the City, the State, ARCO and ALBI entered into the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit (Optimized Waterflood Agreement) pursuant to which ARCO and ALBI agreed to commit their expertise and a substantial sum of money to secure an increase in the oil production from the Long Beach Unit in return for a greater share of the net profits from any enhanced production. ARCO is the guarantor of ALBI's performance under the Optimized Waterflood Agreement.

D. THUMS Long Beach Company, a Delaware corporation (THUMS), is the agent for the Field Contractor under the Contractors' Agreement and, as such, carries out the operational responsibilities of the Field Contractor. THUMS is a wholly owned subsidiary of ALBI.

E. On November 15, 1999, ARCO and Oxy entered into a Stock Purchase Agreement in which ARCO agreed to sell and Oxy agreed to buy all of ARCO's stock in ALBI and all of ARCO's outstanding rights and obligations under the Optimized Waterflood Agreement (the Stock Transaction). As a result of the Stock Transaction, ALBI will become a wholly owned subsidiary of Oxy. THUMS will continue to be a wholly owned subsidiary of ALBI. Also under the Stock Purchase Agreement, Oxy has agreed to be the guarantor or responsible party under the Contractors' Agreement, the Unit Agreement, the Unit Operating Agreement, the Tract 2 Agreement and the Optimized Waterflood Agreement.

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F. ARCO, ALBI and Oxy have requested that the City consent to the Stock Transaction insofar as it affects the rights and obligations of the Field Contractor and Nonoperating Contractors under the Contractors' Agreement and that the State consent to the Stock Transaction insofar as it affects the rights and obligations of the Contractor under the Tract 2 Agreement. In addition, ARCO and ALBI are seeking the consent of the State under section 7.07 of the Optimized Waterflood Program to the Stock Transaction in that it is a sale by an ARCO Party of the stock of a wholly owned subsidiary of an ARCO Party.

G. ARCO has requested that the City release ARCO from all of its responsibilities as guarantor of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement and that the State release ARCO from all of its responsibilities as guarantor of ALBI's performance under the Tract 2 Agreement, the Unit Agreement, the Unit Operating Agreement and the Optimized Waterflood Agreement.

H. Article 25 of the Contractors' Agreement permits any contractor to assign or otherwise dispose of its interest in the Contractors' Agreement only after obtaining the written consent of and subject to any terms and conditions prescribed by the Long Beach City Manager, acting with the approval of the State.

I. Article 19 of the Tract 2 Agreement permits the contractor to assign or otherwise dispose of its interest in the Tract 2 Agreement only after obtaining the written consent of and subject to any terms and conditions prescribed by the State.

J. Article 7.07 of the Optimized Waterflood Agreement permits ARCO and ALBI to assign their rights and obligations under Article 2 of the Optimized Waterflood Agreement (the provisions dealing with the implementation and continuing conduct of the optimized waterflood program) only after securing the written consent of the State.

K. The City has negotiated with ARCO, ALBI and Oxy the terms and conditions upon which the Long Beach City Manager will consent to the Stock Transaction and release ARCO from its guarantee of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement. Those terms and conditions are set forth in the proposed Assignment Consent Agreement among the City, ARCO, ALBI and Oxy attached as Exhibit A.

L. The State has negotiated with ARCO, ALBI and Oxy the terms and conditions upon which it will consent to the Stock Transaction and release ARCO from its guarantee of ALBI's performance under the Tract 2 Agreement, the Unit Agreement, the Unit Operating Agreement and the Optimized Waterflood Agreement. Those terms and conditions are set forth below.

Based on these factual recitals, the State, ARCO, ALBI and Oxy agree as follows:

1. The State is willing to give and does give its approval to the Long Beach City Manager's consent to the Stock Transaction insofar as it affects the transfer of the ownership of ALBI from ARCO to Oxy (including the rights and obligations of ALBI as the holder of the Field Contractor and the Nonoperating Contractor interests under the Contractors' Agreement and the rights and obligations of ARCO under the Contractors' Agreement and the Optimized Waterflood Agreement), and to the future release of ARCO's guarantee of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement on the terms and conditions set forth in the Assignment Consent Agreement attached as Exhibit A.

2. The State is willing to consent and does consent to the Stock Transaction insofar as it affects the transfer of the ownership of ALBI from ARCO to Oxy (including the rights and obligations of ALBI as the holder of the Tract 2 Nonoperating Contractor interest under the Tract 2 Agreement and pursuant to Article 7.07 of the Optimized Waterflood Agreement and the rights and obligations of ARCO under the Tract 2 Agreement and the Optimized Waterflood Agreement) on the following terms and conditions:

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a. All provisions of the Contractors' Agreement, the Tract 2 Agreement and the Optimized Waterflood Agreement and all amendments to the Contractors' Agreement, the Tract 2 Agreement and the Optimized Waterflood Agreement shall remain fully in force and in effect.

b. ALBI reaffirms all of its obligations under the Contractors' Agreement, the Tract 2 Agreement and the Optimized Waterflood Agreement, anything in any other agreements to which ARCO, ALBI and /or Oxy may be a party to the contrary notwithstanding.

c. Within sixty (60) days after the effective date of this Assignment Consent Agreement and Consent to Assignment, ALBI, the City and the State shall vote for, approve of or consent to a Long Beach Unit Determination or Approval After Submission to the Participants (as defined in the Unit Agreement) for the installation of automatic shutdown valves on all four primary offshore oil lines, a total of eight valves. The installation shall be completed by July 1, 2001; provided, however, that this time may be extended so long as the installation process has proceeded and continues to proceed diligently. The cost of installing these valves shall be charged as Unit Expense to the Participants in the Long Beach Unit. This cost shall be a Base Cost, as defined in Article 1.02(f) of the Optimized Waterflood Agreement, and shall be accounted for as such under the terms of the Optimized Waterflood Agreement.

d. Within sixty (60) days after the effective date of this Assignment Consent Agreement and Consent to Assignment, ALBI, the City and the State shall vote for, approve of or consent to a Long Beach Unit Determination or Approval After Submission to the Participants (as defined in the Unit Agreement) for a complete financial audit of Long Beach Unit operations which shall be performed jointly by the City and the State. The audit shall cover fiscal years 1998/1999 and 1999/2000. The audit shall be completed by July 1, 2001; provided, however, that this time may be extended so long as the audit process has proceeded and continues to proceed diligently. The cost of the audit shall be charged as Unit Expense to the Participants in the Long Beach Unit.

e. A full field safety audit of the Long Beach Unit shall be conducted by the State's staff and its consultants; provided that Oxy shall have the right to approve such consultants, such approval not to be unreasonably withheld. The audit shall be completed by July 1, 2001; provided, however, that this time may be extended so long as the audit process has proceeded and continues to proceed diligently. The costs for this audit that are incurred by the State's staff and its consultants shall be reimbursed to the State by Oxy in an amount not to exceed \$500,000.

f. By giving its consent to the assignments of these interests, the State does not approve or give its consent to any of the provisions of the Stock Purchase Agreement between ARCO and Oxy or to the provisions of any other agreement by and among all or some of ARCO, ALBI and Oxy pertaining to these assignments.

g. Oxy fully guarantees and assumes full responsibility for the performance of all the obligations of ALBI as the Tract 2 Nonoperating Contractor under the Tract 2 Agreement, all the obligations of ALBI as a Participant under the Unit Agreement and the Unit Operating Agreement and all the obligations of ARCO and ALBI under Article 2 of the Optimized Waterflood Agreement, and agrees to be responsible for all of the obligations adhering to these interests, anything in any other agreements to which ARCO ALBI and/or Oxy may be a party to the contrary notwithstanding.

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3. ARCO shall not be released from its guarantees of ALBI's performance under the Tract 2 Agreement, the Unit Agreement, the Unit Operating Agreement and the Optimized Waterflood Agreement until the following conditions have been fulfilled:

a. The automatic shutdown valves are installed, as required by paragraph 2c above, to the satisfaction of the City and the State.

b. All issues raised in the financial audit of the Long Beach Unit, required by paragraph 2d above, are resolved to the satisfaction of the City, the State, ARCO, ALBI and Oxy or have been submitted to and resolved fully by binding arbitration.

c. All issues raised in the field safety audit of the Long Beach Unit, required by paragraph 2e above, are resolved to the satisfaction of the City, the State, ARCO, ALBI and Oxy or have been submitted to and resolved fully by binding arbitration.

d. Within thirty (30) days of the satisfactory completion or resolution of the three conditions precedent, as provided in subparagraphs 3a, 3b and 3c above, the City and the State shall provide written notice of such satisfactory completion or resolution to ALBI and ARCO.

e. On a date that is one hundred twenty (120) days following the date when all of the conditions in subparagraphs a, b and c of this paragraph 3 have been fulfilled, ARCO shall be released prospectively from its guarantor obligations under the Tract 2 Agreement, the Unit Agreement, the Unit Operating Agreement and the Optimized Waterflood Agreement, unless on or before that date, the California State Lands Commission, at a regularly scheduled meeting where a hearing is required to be given and evidence is required to be taken, finds that Oxy does not have the financial capability or has not demonstrated the operational capability or expertise to fulfill the responsibilities of the Tract 2 Nonoperating Contractor under the Tract 2 Agreement or of those undertaken by the ARCO Parties under Article 2 of the Optimized Waterflood Agreement without the continuing guarantee of ARCO. ARCO, ALBI and/or Oxy may challenge the Commission's finding by filing in the Los Angeles County Superior Court, Central District, a petition for writ of administrative mandate under section 1094.5 of the California Code of Civil Procedure, or any successor provision, within thirty (30) days of the Commission's decision.

4. This Assignment Consent Agreement and Consent to Assignment shall be governed by the laws of the State of California.

5. This Assignment Consent Agreement and Consent to Assignment may be executed in counterpart copies, and each executed counterpart copy shall have the same force and effect as an original and shall be enforceable to the same extent as if all parties had executed the same document.

6. This Assignment Consent Agreement and Consent to Assignment shall be effective May 1, 2000.

OCCIDENTAL PETROLEUM CORPORATION,  
a Delaware corporation

\_\_\_\_\_, 2000

by \_\_\_\_\_

ATLANTIC RICHFIELD COMPANY,  
a Delaware corporation

\_\_\_\_\_, 2000

by \_\_\_\_\_

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ARCO LONG BEACH, INC.,  
a Delaware corporation

\_\_\_\_\_, 2000

by \_\_\_\_\_

STATE OF CALIFORNIA, by and through the  
CALIFORNIA STATE LANDS COMMISSION

\_\_\_\_\_, 2000

by \_\_\_\_\_  
PAUL D. THAYER, Executive Officer

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