MINUTE ITEM
This Calendar Item No. C53 was approved as Minute Item No. 53 by the California State Lands Commission by a vote of 3 to 0 at its 11/27/00 meeting.

CALENDAR ITEM
C53

A 57, 58

S 29

11/27/00
W 12001
A. Reid

CONSIDER AMENDMENT OF LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT, WILMINGTON OIL FIELD, LOS ANGELS COUNTY

APPLICANT:

Fortum Oil and Gas OY
Mr. Mikael LiLius, CEO
c/o Fortum Corporation
P. O. Box 1
Finland 99947 Fortum

BACKGROUND:

The contractor for the Long Beach Harbor Department Tidelands Parcel and Parcel "A" Oil Contract is Neste Holding U.S.A. Inc. (Neste), Chanse Energy Corporation, and Tidelands Oil Production Company. The past parent company of Neste Holding Company U.S.A. Inc. was Neste OY, which has merged with a large Finish power company. The merged entity is Fortum Oil and Gas OY (Fortum). The Finish Government owns a major portion of Fortum's stock.

In 1989, Neste provided a Performance Bond of $4 million in compliance with Section 28 of the Contract. The Second Amendment of the contract, approved in 1990, allowed Neste to furnish a letter of credit in lieu of the bond. The City of Long Beach (operator) under its discretion and with the approval of the California State Lands Commission (Commission) reviewed and altered the instrument of credit, based on current market conditions, to $2 million.

The contractor has now requested that a parent company corporate guaranty from Fortum be substituted for the $2,000,000 letter of credit. Prior to approval of the request, section 28 of the Contract would need to be amended to allow the

City to accept other security instruments such as a Corporate Guaranty which the City determines with the approval of the Commission to be satisfactory.

The City of Long Beach has requested approval of the Commission to amend the contract to substitute a Corporate Guaranty from Fortum in lieu of the Letter of Credit. The City of Long Beach has not yet approved amendment to the contract. It is expected that the Long Beach City Council will consider the amendment on November 28, 2000. Approval by the Commission will be contingent on subsequent approval by the City of Long Beach and approval of Commission Staff of the form and amount of the corporate guaranty.

STATUTORY AND OTHER REFERENCES:

A. Public Resources Code sections: Division 6, Parts 1 and 2: Division 13.
B. California Code of Regulations section: Title 3, 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 from the City of Long Beach requesting Amendment to the Long Beach harbor Tidelands Parcel and Parcel "A" Oil Contract
B. Amendment to the Long Beach harbor Tidelands Parcel and Parcel "A" Oil Contract

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.

AUTHORIZATION:

APPROVE FORTUM OIL AND GAS OY'S REQUEST TO AMEND SECTION 28 OF THE LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT, TO ALLOW FOR SUBSTITUTION OF A CORPORATE GUARANTY IN PLACE OF A SURETY BOND OR LETTER OF CREDIT. THIS APPROVAL IS CONTINGENT UPON THE CITY OF LONG BEACH APPROVING THIS AMENDMENT AND STAFF OF THE STATE LANDS COMMISSION APPROVING THE FORM AND AMOUNT OF THE COPORATE GUARANTY.

Exhibit A

W 12001

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (562) 570-3900 • FAX 570-3922

October 23, 2000

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. In early 1999, the Sixth Amendment was approved which reduced the review period from five years to every two years. Based on market conditions, the letter of credit was reduced to $2,000,000.

The Contractor has requested that a parent company guaranty from Fortum Oil and Gas Oy be substituted for the letter of credit. A draft of the proposed guaranty is enclosed along with the audited financials of Fortum Oil and Gas Oy, the successor to Neste Oy.

Prior to approving this request, the Contract would need to be amended by adding the following paragraph under Section 28:

> The City, in lieu of the aforementioned bond or instrument of credit, may accept other security which the City determines, with the approval of the State Lands Commission, to be satisfactory.

We are requesting approval of the State Lands Commission to amend the Contract in order to substitute a parent company guaranty for the letter of credit.

Sincerely,

Dennis M. Sullivan
Director

DMS:RJR
Enclosures
LEG: 616.003

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SAMPLE

1 January 2001

GUARANTY

This Guaranty is issued on 1 January 2001 by Fortum Oil and Gas Oy (the Guarantor), a corporation organized and existing under the laws of Finland, whose principal office is at Keilaniemi, Espoo Finland in favor of The City of Long Beach, Department of Oil Properties, Attention: Dennis Sullivan, fax number (562) 570-3922 (the Beneficiary), a municipal corporation in California.

Whereas, the Beneficiary has entered into The Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract as amended (the Agreement) with Tidelands Oil Production Company (the Obligor), a partnership controlled by Neste Oil Services, Inc.

Whereas, Section 28 of the Agreement provides for the Obligor to furnish to the Beneficiary a performance bond conditioned for the faithful performance by the Obligor of all the terms, covenants and conditions of the Agreement.

Whereas, the Beneficiary and the Obligor have requested that the Guarantor furnish this Guaranty to assure the performance of the Obligor.

Whereas, Beneficiary is prepared to accept this Guaranty as an acceptable substitute for the performance bond stipulated in said Section 28 of the Agreement.

Now therefore, for valuable consideration and as an inducement for the Beneficiary to enter into said Agreement, the parties, each intending to be legally bound, agree as follows:

1. The Guarantor hereby unconditionally and irrevocably guarantees the faithful performance by the Obligor pursuant to Section 28 of the Agreement up to a maximum aggregate amount of _____ United State Dollars (USD_____).

2. This Guaranty shall remain in force until revoked by Guarantor giving not less than sixty (60) days' written notice thereof by fax to the Beneficiary and in any case this Guaranty expires automatically on 1 January 2002 provided that such revocation shall be effective only as to claims which arise out of transactions entered into after the expiry date stipulated in Guarantor's notice or after 1 January 2002 respectively.

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3. Guarantor represents and warrants to the Beneficiary (1) that this Guaranty has been duly authorized, executed and delivered by Guarantor and constitutes a valid and legally binding obligation on its part enforceable in accordance with its terms, and is in full force and effect, (2) that there is no action, suit, proceedings or threat or any basis thereof, affecting the validity or enforceability of the Guaranty, (3) that the Guaranty does not, and the performance hereof will not, conflict with or result in any violation of any bylaw, articles of incorporation, agreement, decree, statute or regulation applicable to Guarantor, and (4) that Guarantor now possesses the ability to perform this Guaranty so long as any of its obligations hereunder remain outstanding.

This Guaranty shall be governed by and construed in accordance with the laws of the State of California. Fortum Oil and Gas Oy hereby submits to the jurisdiction of the courts of the State of California with respect to any claim made hereunder.

This Guaranty cancels the USD 2,000,000 Letter of Credit (No. P-260267) issued by Chase Manhattan Bank and extended pursuant to Amendment No. 5 to December 31, 2000.

Guarantor warrants that the Government of Finland continues to own the majority interest in Fortum Oil and Gas Oy, the parent company, as well as Neste Oil Holding (U.S.A.), Inc. and Tidelands Oil Production Company, a Texas general partnership, signatories to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract ("the Contract").

In witness whereof, Guarantor has executed this Guaranty this_____.

FORTUM OIL AND GAS OY

pp. pp.

Authorized Signatory Authorized Signatory

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EXHIBIT B W 12001

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

1. **PARTIES AND EFFECTIVE DATE.** This Seventh Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Contract (the "Contract") is made and entered into between the City of Long Beach, a municipal corporation ("City") and Tidelands Oil Production Company, a Texas general partnership, by its partners, Neste Oil Services, Inc., a Delaware corporation and Chanse Long Beach Production Corporation, a Delaware corporation, collectively herein ("Contractor") pursuant to a minute order adopted by the City Council of the City of Long Beach on _____, 2000, effective January 1, 2001.

2. **Recitals.** This Seventh Amendment is made with reference to the following facts and objectives:

A. City and Contractor entered into the Contract effective March 1, 1989 (City Clerk's No. 20596). The Contract provides, among other things, for the Contractor to conduct oil recovery operations on certain tide and submerged lands in the Long Beach Tidelands ("the Subject Lands"), pursuant to the terms and conditions set forth therein.

B. The City and Contractor have previously entered into six amendments to the Contract. Among those amendments are the Second and Sixth Amendments which, among other things, amended Section 28 of the Contract regarding security instruments for the faithful performance by the Contractor of the terms and conditions of the Contract.

C. The City and Contractor are desirous of further amending Section 28 of the Contract to provide for the posting of additional or substitute forms of security from those presently authorized under said Section 28.

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Robert E. Shannon
City Attorney of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
Telephone (562) 570-2200

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3. **Amendment to Contract.** Subsection (3) is added to Section 28 of the Contract to read as follows:

(3) Notwithstanding the foregoing provisions of this Section 28, the City, in lieu of the aforementioned bond for faithful performance or instrument of credit, may accept other forms of security which the City determines, in its discretion and with the approval of the State Lands Commission, to be satisfactory.

4. **Force and Effect.** Except as specifically amended herein, all of the terms and conditions of the Contract, as amended, shall remain in full force and effect.

Executed 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

_____, 2000

By:_____
City Manager

"City"

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

NESTE OIL SERVICES, INC., a Delaware corporation

_____, 2000

By:_____
Title:_____

CHANSE LONG BEACH PRODUCTION CORPORATION, a Delaware corporation

_____, 2000

By:_____
Title:_____

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Rob... E. Shannon
City Attorney of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
Telephone (562) 570-2200

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MINUTE PAGE 00022

The foregoing Seventh Amendment to Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract is approved as to form this ____ day of _____, 2000.

ROBERT E. SHANNON, City Attorney

By: _____
Deputy

The foregoing Seventh Amendment to Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract was approved by the California State Lands Commission at its meeting of _____, 2000.

_____
Executive Officer

R. E. Shannon
City Attorney of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
Telephone (562) 570-2200

RAA
11-8-00
SeventhAmend.

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