

MINUTE ITEM
This Calendar Item No. C40
was submitted for information
only, no action thereon
being necessary.

INFORMATIONAL
CALENDAR ITEM
C40

A 54

S 27

W 17003
PRC 3455
W 17000.1
D. Mercier
J. Hemphill

**STAFF REPORT ON THE STATUS OF THE CONDITIONS
REQUIRED TO RELEASE ATLANTIC RICHFIELD COMPANY
AS GUARANTOR OF PERFORMANCE UNDER THE CONTRACTOR'S
AGREEMENT, THE TRACT 2 AGREEMENT, AND THE
OPTIMIZED WATERFLOOD AGREEMENT,
LONG BEACH UNIT, WILMINGTON FIELD,
LOS ANGELES COUNTY**

PARTY:

California State Lands Commission
100 Howe Avenue, Suite 100-South
Sacramento, CA 95825-8202

BACKGROUND:

At its April 20, 2000 meeting, the California State Lands Commission (Commission) approved the City of Long Beach's (City) consent to the transfer of ARCO Long Beach, Inc.'s stock from Atlantic Richfield Company (ARCO) to Occidental Petroleum Corporation (OXY) and consented to that transfer on prescribed terms and conditions. The Commission deferred its approval of the City's release of ARCO as guarantor under the Contractors' Agreement and its own release of ARCO as guarantor of performance under the Tract 2 Agreement and the Optimized Waterflood Agreement until automatic shutdown valves were installed on the offshore pipelines in the Long Beach Unit (LBU) and a financial audit and safety audit were conducted and the issues raised in those audits were resolved.

The City, OXY and its agent, THUMS Long Beach Company (THUMS), and the Commission staff have been diligently working to comply with the prescribed terms and conditions of the transfer in order to release ARCO as guarantor.

CALENDAR ITEM NO. C40 (CONT'D)

OXY/THUMS has installed automatic shutdown valves on the LBU offshore oil pipelines. It has tested the valves and determined that they function properly and will shutdown the flow of oil when actuated. OXY/THUMS is developing and documenting training, operating, and testing procedures for the valves and the program logic control system and preparing engineering and logic diagrams and documentation required for Commission staff to verify the proper functioning of the valves. Commission staff has been working closely with OXY/THUMS to ensure that it completes the proper procedures and documentation by the end of January 2002.

The financial audit by Edward White and Company covered the period from July 1, 1998 through June 30, 2000. The report identified two issues that have been followed-up on by Commission staff. The two areas of review have to do with the accounting of ARCO Long Beach, Inc. employees loaned to THUMS, and the accounting of professional consulting services. Commission staff has made recommendations to the City to resolve these issues.

Commission staff has completed fieldwork for the Safety Audit of the LBU and the final report will be issued in February. The LBU is one of the largest oil and gas production operations in the nation and is equivalent to six platforms or facilities in scope and complexity. Commission staff found over 3,100 Action Items of which about 200 represent a serious potential for injury, adverse environmental impact, or significant property damage. OXY/THUMS has taken corrective action on most of these high-priority Action Items as they were identified. Commission staff has worked closely with OXY/THUMS and expects to resolve all of the Action Items that pose a significant threat to safety and the environment by June 2002.

CALENDAR PAGE	293
MINUTE PAGE	311