

MINUTE ITEM

This Calendar Item No. C39 was approved as Minute Item No. 37 by the California State Lands Commission by a vote of 3 to 0 at its 02/05/07 meeting.

**CALENDAR ITEM
C39**

A 54

02/05/07

W 11107

S 27

PRC 3455

D. Mercier

**CONSIDER APPROVAL OF AMENDMENTS TO THE
CRUDE OIL VALUATION PROVISIONS OF THE
CONTRACTORS' AGREEMENT AND TRACT NO. 2 AGREEMENT,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

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

AREA, TYPE LAND AND LOCATION:

The Long Beach Unit consists of two offshore tracts and over 90 onshore townlot tracts in downtown Long Beach. The two offshore tracts are Tract 1 and Tract 2. Tract 1 is the largest tract in the Unit and consists of tide and submerged lands granted by the Legislature to the City of Long Beach (City) subject to the public trust. Tract 2 is a smaller tract, consisting of tide and submerged lands subsequently granted in trust to the City with the minerals reserved to the State.

BACKGROUND:

Oil and gas production from the Long Beach Unit began in the 1960s and has resulted in the production of over 900 million barrels of oil and has provided the State with over \$4 billion in oil revenues. The environmental record of this production operation has been excellent. Tract 1, which is by far the largest tract in the Unit, consists of tide and submerged lands granted by the Legislature to the City of Long Beach (City) subject to the public trust. The Legislature did not reserve the mineral interest in the trust grant, but the State receives the largest segment of oil revenues from this tract as a result of court decisions and legislation. Tract 2, a far smaller tract, consists of tide and submerged lands subsequently granted in trust to the City with the minerals reserved to the State.

Tract 1 is operated pursuant to the Contractors' Agreement that was authorized by Chapter 138 of the Statutes of 1964, First Extraordinary Session. The

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agreement provides for the operation of the Long Beach Unit by an oil company contractor under the direction of the City of Long Beach. The Tract No. 2 Agreement, also authorized by Chapter 138, governs production from Tract 2. This agreement is between the State and a contractor that does not have operating responsibilities. Occidental Long Beach, Inc. (OLBI), a subsidiary of Occidental Petroleum Corporation, is the contractor under both agreements. Both agreements provide for sharing the net profits from the production operations between the government entities and the oil company. The agreements have been made subject to the Optimized Waterflood Program Agreement in 1991, pursuant to which additional development has been undertaken with the contractor being required to take investment risks and, in turn, obtaining a greater share of the net profits from that investment. Under the Optimized Waterflood Program, the City and State receive approximately 96 percent (96%) of the net profits from base production and the contractor receives approximately 4 percent (4%). With respect to incremental production from the Optimized Waterflood Program, the combined City and State's share of the net profits is approximately equal with that of OLBI, the contractor.

Under these net profits contracts, specifically allowed costs are deducted from the value of the oil produced to determine the net profits. The provisions of the Contractors' Agreement and the Tract No. 2 Agreement govern the calculation of the value of the oil. The oil valuation provisions in these two contracts are essentially identical and are critical in determining the amount of the net profits. These provisions provide for an initial valuation to be used by the contractor in making monthly payments to the City and the State. These initial valuations are based on posted prices and are currently structured as the higher of the average of posted prices in the Wilmington oil field or the average of posted prices in the Wilmington, Huntington Beach, Long Beach (Signal Hill) and Inglewood oil fields. After the City obtains data on prices paid by purchasers of oil for specific contractually defined purchases of oil in the Wilmington, Huntington Beach, Long Beach (Signal Hill) and Inglewood oil fields, the City calculates the average of the prices paid for these purchases in just the Wilmington Field and in all four fields. The City and the State then adjust upward the initial oil valuation to the higher of the average of prices for purchases of oil in the Wilmington field or in the four fields.

Since the mid-1960s when the Contractors' Agreement and the Tract No. 2 Agreement became effective, the amount of production in the four fields from which valuation data are to be used has decreased, the number of companies posting prices in these fields has decreased and the identity of the buyers and

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sellers in these fields has changed. For example, four major refiners used to post prices in most of the four fields. Presently, only one or two refiners have been posting in these fields, and in Wilmington, the last remaining poster, ConocoPhillips, has indicated that it no longer will be posting in this field. The principal sellers in these fields used to be the major refiners whose production affiliates sold the oil to their refining affiliates. There were few arms length sales and those consisted primarily of sales by the City and State of oil made available to them for sell off by their contracts. Companies that do not have refineries now make most of the sales, and the largest number of sales by far is made in the Wilmington field due, in large part, to the decline in production from the other fields.

The changes in the oil market in the Wilmington field and the other nearby fields need to be addressed by making two changes to the oil valuation provisions of the Contractors' Agreement and the Tract No. 2 Agreement to make the valuation data more reflective of the fair market value of the oil as was intended. These changes also will eliminate costly calculations that are paid for by the City and the State that do not yield higher values for the crude oil.

The first change will involve, in the valuation based on posted prices, the inclusion of the posted prices for the Midway-Sunset oil field in Kern County. Because the Midway-Sunset field is a large field where all major refiners purchasing crude oil in California post prices, its postings provide a better reflection of the California market than the limited number of postings remaining in the four fields. The initial oil valuations based on posted price, therefore, will be the higher of the average of the posted prices in the Wilmington oil field or of the average of the posted prices in the Wilmington, Huntington Beach, Long Beach (Signal Hill), Inglewood and Midway-Sunset oil fields. Additionally, the Midway-Sunset posted prices in recent years have been higher than the posted prices in the Wilmington field and its neighboring fields. The inclusion of the Midway-Sunset posted prices, therefore, will provide higher initial valuations for the oil.

The second modification will change the method where oil value is adjusted yearly based on oil sales revenues. This change will remove from the adjusted valuation the Huntington Beach, Long Beach (Signal Hill) and Inglewood oil fields' oil sales information because that information has historically been unavailable. The subsequently adjusted valuations will use only the prices paid for the purchases of oil in the Wilmington field where most all of the sales occur, including the higher priced sales. These sales, unlike those in the other fields,

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are those for which the City and the State have contractual rights to obtain the sales data from the sellers.

The proposed amendments are to become effective March 1, 2007. The use of the Midway-Sunset postings will apply to the initial monthly valuations of crude oil beginning in March 2007. The change to the valuation standards based on prices paid for specified purchases of crude oil will apply to adjusted crude oil valuations beginning with those for calendar year 2006.

The Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California is attached as Exhibit A, and the Agreement Amending Crude Oil Valuation Provisions, Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, California is attached as Exhibit B. The amendments have been approved as to form by OLBI and the City's staff. The City is expected to consider approval of the amendments at its next meeting, which is scheduled for February 6th, 2007.

STATUTORY AND OTHER REFERENCES:

With respect to the amendments to the Contractors' Agreement, section 10(b) of Chapter 29 of the Statutes of 1956, First Extraordinary Session, requires the California State Lands Commission's consent to any amendment to a contract for the drilling for, developing, extracting, processing, taking or removing, or disposing of oil from the Long Beach tidelands for the amendment to be valid. Pursuant to section 3(j) of Chapter 138 of the Statutes of 1964, First Extraordinary Session, the Commission was given the authority to enter into the Tract No. 2 Agreement, which like its oil and gas leases, it may modify by amendment with the consent of the lessee.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it 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, sections 15060(c)(3) and 15378.

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EXHIBITS:

- A. Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California
- B. Agreement Amending Crude Oil Valuation Provisions, Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, California

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

- 1. FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3), 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:

- 1. CONSENT TO THE CITY'S APPROVAL OF THE AMENDMENTS TO THE CRUDE OIL VALUATION PROVISIONS OF THE CONTRACTORS' AGREEMENT AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE THE CONSENT PROVISION IN AN AGREEMENT AMENDING THE CRUDE OIL VALUATION PROVISIONS OF THE CONTRACTORS' AGREEMENT IN THE FORM OF THAT ATTACHED AS EXHIBIT A.
- 2. APPROVE THE AMENDMENTS TO THE CRUDE OIL VALUATION PROVISIONS OF THE TRACT NO. 2 AGREEMENT AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE ON THE COMMISSION'S BEHALF AN AGREEMENT AMENDING THE CRUDE OIL VALUATION PROVISIONS OF THE TRACT NO. 2 AGREEMENT IN THE FORM OF THAT ATTACHED AS EXHIBIT B.

Exhibit A

**AGREEMENT AMENDING CRUDE OIL VALUATION PROVISIONS,
CONTRACTORS' AGREEMENT, LONG BEACH UNIT,
WILMINGTON OIL FIELD, CALIFORNIA**

The Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California (Contractors' Agreement) was entered into by and among the City of Long Beach, a municipal corporation (City) and the Contractors named in the Contractors' Agreement. The Contractors' Agreement became effective April 1, 1965. Since that time the Contractors have changed. Occidental Long Beach, Inc. (OLBI) currently holds all Contractor interests in the Contractors' Agreement.

Since the Contractors' Agreement was entered into, the marketing of crude oil in the Field (the Wilmington oil field) and other oil fields in California has changed. Fewer companies are posting prices in fewer oil fields in the Los Angeles Basin. As a result, there are currently no posters in the Field and very few posters in the Named Fields. In order to provide a workable initial valuation of the crude oil based on a larger number of posted prices, the Midway-Sunset oil field in Kern County is being added to the list of Named Fields.

The review and adjustment of the initial valuation of the crude oil pursuant to Article 9(e) is based largely on the higher of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field and the Prices Paid by Substantial Purchasers for Purchases of Oil in the Named Fields. The calculation of these values is dependent on the City's obtaining purchase and sales data from purchasers and sellers of crude oil in these fields. The City has no legal means to compel purchasers and sellers with whom it has no contractual relationship to submit requested purchase and sales data. As a

result, the City obtains little purchase and sales data for the Named Fields. The data that it does obtain never in recent years and rarely ever provided a higher crude oil valuation than the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field. It is costly for the City to attempt to secure purchase and sales data for the Named Fields and most of the City's attempts yielded no data or data that did not contribute to a higher valuation and actually contributed to a lower valuation. The valuation standard based on Prices Paid by Substantial Purchasers for Purchases of Oil in the Named Fields, therefore, will be eliminated.

The Contractors' Agreement does not set a precise date for the Contractors to pay to the City the amount assessed pursuant to Article 9(e) for the review and adjustment, so the City and OLBI have agreed to a precise date by which the Contractors must make this payment.

In consideration of the mutual covenants and agreements contained in this Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California, the City and OLBI agree:

1. Section j of Article 1 DEFINITIONS of the Contractors' Agreement, defining Named Fields, is amended to read in its entirety as follows:

j. Named Fields means the Field and the Huntington Beach, Inglewood, Signal Hill (or Long Beach) and Midway-Sunset oil fields.

2. Section t of Article 1 DEFINITIONS of the Contractors' Agreement, defining Purchases of Oil, is amended to read in its entirety as follows:

t. Purchases of Oil means all purchases of crude oil, except that it shall not include the following:

(1) Acquisitions of royalty oil by an owner of a Working Interest at a price or value determined in accordance with Lease terms;

(2) Acquisitions of oil (but not purchases of oil from) the State's contractor or lessee pursuant to the Tract No. 2 agreement or any new Lease covering Tract No. 2, in whole or in part;

(3) Acquisitions of oil by (but not purchases of oil from) the City's Contractor under the Drilling and Operating Contract (Long Beach Harbor Tidelands Parcel)* and purchases of oil pursuant to the terms of the Drilling and Operating Contract, (Parcel "A")** issued by the City of Long Beach, or any acquisitions or purchases of oil valued or priced pursuant to the terms of any new Lease covering either said Parcel, in whole or in part;

(4) Purchases of oil by competitive bidders pursuant to Article 11 hereof, during, and only during, any period in which the price of such oil is computed by reference to the valuation of Oil Allocated to the Field Contractor, so that both computations would be interdependent absent this exception;

(5) Exchanges of oil for other Oil or Gas or other products extracted or manufactured from Oil or Gas or for other property or services;

(6) Purchases at an artificially high price; provided a purchase shall be so deemed if and when, and only if and when, a party hereto can show that he has

* Contract No. 2001 in the files of the City Clerk of the City of Long Beach

** Contract No. 2935 in the files of the City Clerk of the City of Long Beach

offered to sell to such purchaser at a lower price oil of like quantity, gravity and quality and under like terms and conditions (other than price) and that such purchaser has nevertheless, subsequent to such offer and while such offer was still in effect, purchased other oil at a price higher than such offer other than pursuant to a pre-existing binding contractual obligation of thirty (30) days or less;

(7) Purchases at an artificially low price; provided that a purchase shall be so deemed if, and only if, the price thereof is lower than the lowest price posted, by a Continuing Purchaser, in the field in which it is made, and such purchase is made by any Contractor or any Person Having an Interest in any Contractor;

(8) Purchases from any person other than a Person acquiring such oil in its capacity as an owner of a Working Interest or a Royalty Interest in the lands from which the crude oil was produced.

3. Article 9 CRUDE OIL of the Contractors' Agreement is amended to read in its entirety as follows:

Article 9. CRUDE OIL

(a) General Provision

Subject to the provisions of Article 11 hereof, each Contractor shall have the exclusive right to take and shall be obligated to take the Oil Allocated to such Contractor. All Oil Allocated to each Contractor shall be accounted for and payment made to the City on the basis of its value as computed under this Article. Delivery of all Oil Allocated to each Contractor shall be taken by such Contractor or its nominee in the

manner and in accordance with the applicable provisions of the Unit Agreement and Unit Operating Agreement.

(b) Valuation Applicable to all Contractors

The Value of Oil Allocated to each Contractor as to each delivery thereof shall be established in accordance with one of the following three (3) standards, whichever shall be highest:

1. The arithmetical average of the prices posted in the Field by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the Contractor's or nominee's tanks and/or pipelines (weighted, in the event of a price change during such month, as to each Continuing Purchaser in accordance with the number of days each such price was posted during such month).
2. The arithmetical average of the prices posted in the Named Fields (or in such of them in which there are prices posted by one or more Continuing Purchasers) by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the Contractor's or nominee's tanks and/or pipelines (weighted in the event of a price change during such month, as to each Continuing Purchaser and as to its posting in each field, in accordance with the number of days each such price was posted during such month).
3. The weighted average of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field for oil of like gravity during the calendar month in which the oil to be valued is run into the Contractor's or nominee's tanks and/or pipelines.

The price for valuing each delivery of oil, as determined by any of the above methods, shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel.

If, for any reason, none of the aforesaid three standards set forth in the first paragraph of this Section 9(b) is ascertainable, on the basis of all available relevant and reliable information, as to any delivery, the Value of Oil Allocated to any Contractor by such delivery shall be the actual current market price of such oil at the point of delivery determined on the basis of all available relevant and reliable information.

In the event prices posted by any Continuing Purchaser in any field on any day do not include prices for all gravities of oil to be valued hereunder to the closest tenth of a degree of API gravity, the price deemed to be posted by such Continuing Purchaser on such day for oil of any gravity whose price is not actually posted in such field by such Continuing Purchaser shall be determined as follows:

1. If such Continuing Purchaser posts prices in such field for oil of both a higher and a lower API gravity than that of any oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel, by interpolating on a straight line between the nearest lower degree as to which a price is posted by such Continuing Purchaser and the nearest higher degree so posted; provided that no such interpolation shall be made if either the nearest higher or the nearest lower degree of oil as to which a price is posted is more than five degrees (5°)

API gravity higher or lower than that of the oil to be valued, in which event the price of the oil to be valued will be determined by extrapolation under subparagraph (2) hereof, if either the nearest lower degree of oil or the nearest higher degree of oil as to which a price is posted is within five degrees (5°) API gravity of that of the oil to be valued.

2. If such Continuing Purchaser posts a price in such field for only a single gravity of oil, or if all oil as to which it posts a price is either of a higher or of a lower gravity than that of the oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel, by extrapolating from such a single price, or from the price of oil of the nearest gravity to that of the oil to be valued, on the basis of the then current Index of Crude Oil Prices (Schedule "C" to Exhibit "D" of the Unit Agreement), provided that no such price posted shall be extrapolated more than five degrees (5°) API gravity above or below the API gravity of the oil to be valued.

Any prices posted by a Continuing Purchaser in the Field or in any of the Named Fields shall be excluded from the computation of the arithmetical averages of prices posted in the Field or in the Named Fields provided for in this Section 9(b) during the first fifteen (15) days of such posting (or during the entire period thereof if less than fifteen (15) days) if it can be shown on the basis of reliable information by any party hereto or the State that such Continuing Purchaser has not, during such period, made

Purchases of Oil in the oil field in question of at least fifteen thousand (15,000) barrels of oil, including a substantial quantity at the same or within five degrees (5°) API gravity of the average gravity of the Oil Allocated to the Contract Lands during such period, at a price determined on the basis of its posted prices or on the basis of an average of posted prices including its posted prices in such field; and thereafter such posted prices shall be excluded from the computation for any day if it can be shown on the basis of reliable information by any party hereto or the State that during the fifteen (15) day period immediately preceding the day for which such computation is made, such Continuing Purchaser has not made Purchases of Oil in the oil field in question of at least fifteen thousand (15,000) barrels of oil, including a substantial quantity at the same or within five degrees (5°) API gravity of the average gravity of the Oil Allocated to the Contractors during such period, at a price determined on the basis of prices posted by it in such field, or on the basis of an average of posted prices including its posted prices in such field.

In computing the weighted average of the Prices Paid for Purchases of Oil in the Field for oil of like gravity to that which is being valued, the following procedure shall be followed: (1) There shall first be aggregated all known Purchases of Oil by Substantial Purchasers in the Field of oil having an API gravity equal to or within five degrees (5°) higher or lower than that of the oil to be valued; (2) Then the price of each such Purchase of Oil shall be weighted by multiplying such price by the number of barrels of oil purchased at such price during the month; (3) Then each price, so weighted, relating to oil of an API gravity different from that of the oil to be valued will be modified by

extrapolation to the API gravity of the oil to be valued, on the basis of the then current Crude Oil Price Index (Schedule "C" to Exhibit "D" to the Unit Agreement); (4) Then the total price, so weighted and modified, of all such oil shall be divided by the number of barrels purchased during the month by means of such Purchases of Oil.

(c) Valuation Applicable to Certain Contractors

If any Contractor or any of the Persons Having an Interest in any Contractor acquires oil in the Field from any other Person either by a Purchase of Oil or by an exchange of oil for other Oil or Gas or other products extracted or manufactured from Oil or Gas or for other property or services, at a price or other consideration per barrel higher than the valuation for such oil, calculated in accordance with Section 9(b) hereof, the Value of Oil Allocated to such Contractor shall include, in addition to its value computed in accordance with Section 9(b) hereof, a further amount computed as follows:

Such further amount shall be calculated for each day such Person making such purchase or exchange received such purchased or exchanged oil into its tanks and/or pipelines by first valuing such Person's share of the Oil Allocated to such Contractor on such day in accordance with the price or other consideration paid for oil of like gravity to such other Person in the Field and then subtracting the value of such Person's share of such oil computed in accordance with Section 9(b) hereof.

The price or other consideration paid to such other Person in the Field shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel. In the event the oil so purchased or received by exchange by

such Person making such purchase or exchange on any day does not include all gravities of oil to be valued under this Section 9(c) to the closest tenth of a degree API gravity, the price or other consideration deemed to be paid by such Person making such purchase or exchange on any such day for oil of any gravity not actually purchased or received by exchange shall be determined by interpolation or extrapolation on the basis of the gravity or gravities of the oil purchased from or exchanged with such other Person in the Field and the price or prices or other consideration paid therefore, in accordance with the method set forth in the third full paragraph of Section 9(b) and the two subparagraphs thereof.

The foregoing provision of this Section 9(c) shall not apply to the Field Contractor during the term of any agreement of sale by the Field Contractor, or by another Person or Persons party to this agreement, to a successful bidder pursuant to Article 11 hereof. All oil sold by competitive bidding pursuant to Article 11 hereof shall be valued and accounted for by the Field Contractor in accordance with its valuation computed in accordance with Section 9(b) hereof, and any excess amount or bonus received by Field Contractor, or by an Person or Persons party to this agreement, from such successful bidder shall be accounted for and paid over to the City as provided in Section 5(d) hereof.

(d) Information

Each Contractor and each Person Comprising any Contractor, hereby agrees to furnish to the City or the State, upon request, the following:

1. A current and accurate (to the extent practicable) valuation schedule based upon information available to such Contractor or such Person, covering all gravities of oil available for delivery in the Field, computed to the nearest tenth of a degree API gravity and the nearest tenth of a cent in accordance with the provisions of Section 9(b) hereof, including a specification of all calculations upon which such schedule is based.

2. A current and accurate list of all purchases and sales of oil by such Contractor and by all of the Persons Having an Interest in such Contractor, in the Field, including a specification of quantities, delivery dates, prices (including any premiums and bonuses), gravities, and names of sellers and purchasers.

Each Contractor and each Person Comprising any Contractor shall permit authorized representatives of the City and the State of California to examine relevant books, ledgers, accounts, correspondence, memoranda and other records in the possession of or under control of such Contractor and Persons Comprising any Contractor (and, to the extent it is within their power, those of Persons Having an Interest in any Contractor) for the purpose of obtaining and confirming information relevant to or necessary for the implementation of the valuation provisions contained in this Article 9 and in Article 10 hereof.

(e) Review and Adjustment

Each Contractor shall make payments currently to the City, as provided in this agreement, on the basis of the Value of the Oil Allocated to such Contractor determined on the basis of posted prices as set forth in subparagraph (1) or subparagraph (2) of the

first full paragraph of Section 9(b) hereof, whichever shall be higher. At any time within nine (9) months after the end of each calendar year (or any fiscal year agreed upon between any Contractor and the City) during the term of this agreement, the City shall review and, if necessary adjust, the Value of Oil Allocated to each Contractor during such year on the basis of all available relevant and reliable information, for the purpose of determining whether any Contractor is required to account for any further Value of Oil Allocated to such Contractor under the terms of subparagraph (3) of said first full paragraph of Section 9(b) hereof, or under the provisions of Section 9(c) hereof. Any Contractor or the State, may require the City to make a review and, if necessary an adjustment, on the basis of all available relevant and reliable information, at any time within nine (9) months after the end of any such calendar (or fiscal) year of the Value of Oil Allocated to Contractors during such year and the proper application of the provisions of this Article 9.

Each Contractor and the City shall pay or repay to the party entitled thereto any amount of amounts necessary to make the adjustments herein provided. The payment or repayment shall be made no later than the first month of the second calendar (or fiscal) year following the calendar (or fiscal) year for which the timely adjustment is made. After making any payment required by the City pursuant hereto to which any Contractor objects, or after the City's refusal to make any adjustment which any Contractor requests, such Contractor may, after ninety (90) days' notice to the City, bring an action against the City before a judge or judges of a court of competent jurisdiction for an adjudication on the basis of all reliable information then available

pertaining to the matter at issue, for the recovery of all or any part of any amount paid pursuant to any adjustment hereunder, or for the recovery of any amount as to which the City has refused to make such an adjustment.

(f) Public Law 31

Pursuant to Public Law 31, 83rd Congress, Chapter 65, 1st Session, in time of war or when necessary for national defense, and the Congress or the President shall so prescribe, the United States shall have the right of first refusal to purchase, at the prevailing market price, all or any portion of the oil to be taken and accounted for under this agreement or to acquire and use any portion of the Contract Lands by proceeding in accordance with due process of law and paying just compensation therefore. If the United States exercises such right to purchase any portion of the Oil Allocated to any Contractor, then the price paid by the United States for such oil shall be used in valuing such portion of the Oil Allocated to such Contractor under this agreement in lieu of any other provision of this Article otherwise applicable.

(g) Cut Back

In the event any Contractor shall fail to take delivery of its Participant Allocation of oil attributable to its Working Interest in Tract No. 1 and if there shall be a decision to cut back all or part of such Contractor's said Participant Allocation as provided in Section 5.14 of the Unit Agreement, such Contractor shall nevertheless continue to pay its Contractor's Percentage of all Unit Expense and taxes attributable to Tract No. 1 and all additional costs chargeable to such Contractor under this agreement, and such Contractor's Net Profits Account shall be credited with the oil so

cut back as if such oil had actually been delivered to such Contractor; provided that nothing herein shall affect any rights at law or in equity which such Contractor may have as against the City by virtue of the net benefit to the City under this agreement occasioned by the future production of such cut back oil. Any amount to which such Contractor is entitled by virtue of such rights, if any, shall be charged to such Contractor's Net Profits Account. So long as such Contractor shall continue to carry out the obligations specified in this Section 9(g) during the period of such cut back, and shall otherwise discharge its obligations under this agreement and under the Unitization Agreements, such Contractor shall not be in default by virtue of its failure to take delivery of oil during such period.

4. The amendments shall be effective March 1, 2007, so that the changes to the initial valuations of crude oil under Article 9(b)(1) or (2) will first be applied to the crude oil valuations for March 2007 and the elimination of the valuation standard in Article 9(b)(4) will apply beginning with the review and adjustment for calendar year 2006.

Dated: _____, 2007

CITY OF LONG BEACH,
a municipal corporation

by _____
City Manager

Dated: _____, 2007

OCCIDENTAL LONG BEACH, INC.,
a Delaware corporation

by _____
President

At its meeting on _____, 2007, the California State Lands Commission, acting pursuant to section 10(b) of Chapter 29, Statutes of 1956, 1st E. S., gave its consent to the execution by the City of Long Beach of this Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California.

Executive Officer

This Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California is approved as to form.

Dated: _____, 2007

Robert E. Shannon, City Attorney

by _____, Deputy

Exhibit B

**AGREEMENT AMENDING CRUDE OIL VALUATION PROVISIONS,
TRACT NO. 2 AGREEMENT, LONG BEACH UNIT,
WILMINGTON OIL FIELD, CALIFORNIA**

The Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, California (Tract No. 2 Agreement) was entered into by and between the State of California, acting by and through the State Lands Commission (State), and the Contractor named in the Tract No. 2 Agreement. The Tract No. 2 Agreement became effective April 1, 1965. Since that time the Contractor has changed. Occidental Long Beach, Inc. (OLBI) currently holds the Contractor interest in the Tract No. 2 Agreement.

Since the Tract No. 2 Agreement was entered into, the marketing of crude oil in the Field (the Wilmington oil field) and other oil fields in California has changed. Fewer companies are posting prices in fewer oil fields in the Los Angeles Basin. As a result, there are currently no posters in the Field and very few posters in the Named Fields. In order to provide a workable initial valuation of the crude oil based on a larger number of posted prices, the Midway-Sunset oil field in Kern County is being added to the list of Named Fields.

The review and adjustment of the initial valuation of the crude oil pursuant to Article 7(e) is based largely on the higher of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field and the Prices Paid by Substantial Purchasers for Purchases of Oil in the Named Fields. The calculation of these values is dependent on the State's obtaining purchase and sales data from purchasers and sellers of crude oil in these fields. The State has no legal means to compel purchasers

and sellers with whom it has no contractual relationship to submit requested purchase and sales data. As a result, the State obtains little purchase and sales data for the Named Fields. The data that it does obtain never in recent years and rarely ever provided a higher crude oil valuation than the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field. It is costly for the State to attempt to secure purchase and sales data for the Named Fields and most of the State's attempts yielded no data or data that did not contribute to a higher valuation and actually contributed to a lower valuation. The valuation standard based on Prices Paid by Substantial Purchasers for Purchases of Oil in the Named Fields, therefore, will be eliminated.

The Tract No. 2 Agreement does not set a precise date for the Contractor to pay to the State the amount assessed pursuant to Article 9(e) for the review and adjustment, so the State and OLBI have agreed to a precise date by which the Contractor must make this payment.

In consideration of the mutual covenants and agreements contained in this Agreement Amending Crude Oil Valuation Provisions, Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, California, the State and OLBI agree:

1. Section i of Article 1 DEFINITIONS of the Tract No. 2 Agreement, defining Named Fields, is amended to read in its entirety as follows:

i. Named Fields means the Field and the Huntington Beach, Inglewood, Signal Hill (or Long Beach) and Midway-Sunset oil fields.

2. Section q of Article 1 DEFINITIONS of the Tract No. 2 Agreement, defining Purchases of Oil, is amended to read in its entirety as follows:

q. Purchases of Oil means all purchases of crude oil, except that it shall not include the following:

(1) Acquisitions of royalty oil by an owner of a Working Interest at a price or value determined in accordance with Lease terms;

(2) Acquisitions of oil by (but not purchases of oil from) the City's Contractors pursuant to the Contractors' Agreement (or any new Lease covering Tract No. 1), in whole or in part;

(3) Acquisitions of oil by (but not purchases of oil from) the City's Contractor under the Drilling and Operating Contract (Long Beach Harbor Tidelands Parcel)* and purchases of oil pursuant to the terms of the Drilling and Operating Contract (Parcel "A")** issued by the City of Long Beach, or any acquisitions or purchases of oil valued or priced pursuant to the terms of any new Lease covering either said Parcel, in whole or in part;

(4) Purchases of oil by competitive bidders pursuant to Article 11 of the Contractors' Agreement during, and only during, any period in which the price of such oil is computed by reference to the valuation of Oil Allocated to the Field Contractor, so that (because of the similarity of the valuation provisions of this agreement and those of the Contractors' Agreement) both computations would be interdependent absent this exception;

(5) Exchanges of oil for other Oil or Gas or other products extracted or manufactured from Oil or Gas or for other property or services;

* Contract No. 2001 in the files of the City Clerk of the City of Long Beach

** Contract No. 2935 in the files of the City Clerk of the City of Long Beach

(6) Purchases at an artificially high price; provided a purchase shall be so deemed if and when, and only if an when, a party hereto can show that he has offered to sell to such purchaser at a lower price oil of like quantity, gravity and quality and under like terms and conditions (other than price) and that such purchaser has nevertheless, subsequent to such offer and while such offer was still in effect, purchased other oil at a price higher than such offer other than pursuant to a pre-existing binding contractual obligation of thirty (30) days or less;

(7) Purchases at an artificially low price; provided that a purchase shall be so deemed if, and only if, the price thereof is lower than the lowest price posted, by a Continuing Purchaser, in the field in which it is made, and such purchase is made by the Contractor or any Person Having an Interest in the Contractor;

(8) Purchases from any Person other than a Person acquiring such oil in its capacity as an owner of a Working Interest or a Royalty Interest in the lands from which the crude oil was produced.

3. Article 7 CRUDE OIL of the Tract No. 2 Agreement is amended to read in its entirety as follows:

Article 7. CRUDE OIL

(a) General Provision

Except as provided in Article 9 hereof, the Contractor shall have the exclusive right to take and shall be obligated to take all the Oil Allocated to the Contract Lands. All Oil Allocated to the Contract Lands shall be accounted for and payment

made to the State on the basis of its value as computed under this Article. Delivery of all Oil Allocated to the Contract Lands shall be taken by the Contractor or its nominee (or, as to oil taken in kind by the State pursuant to Article 9 hereof, the State or its nominee) in the manner and in accordance with the applicable provisions of the Unit Agreement and Unit Operating Agreement. The Contractor or its nominee and the State or its nominee are sometimes hereinafter in this Article, for convenience, referred to as "the taker."

(b) Valuation Applicable to the Contractor

The value of Oil Allocated to the Contract Lands as to each delivery thereof shall be established in accordance with one of the following three (3) standards, whichever shall be the highest:

1. The arithmetical average of the prices posted in the Field by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the taker's tanks and/or pipelines (weighted, in the event of a price change during such month, as to each Continuing Purchaser in accordance with the number of days each such price was posted during such month).

2. The arithmetical average of the prices posted in the Named Fields (or in such of them in which there are prices posted by one or more Continuing Purchasers) by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the taker's tanks and/or pipelines (weighted in the event of a price change during such month, as to each Continuing Purchaser and as to its posting in each field, in accordance with the number of days each such price was posted during such month).

3. The weighted average of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field for oil of like gravity during the calendar month in which the oil to be valued is run into the taker's tanks and/or pipelines.

The price for valuing each delivery of oil, as determined by any of the above methods, shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel.

If, for any reason, none of the aforementioned three standards set for in the first paragraph of this section 7(b) is ascertainable, on the basis of all available relevant and reliable information, as to any delivery, the value of Oil Allocated to the Contract Lands by such delivery shall be the actual current market price of such oil at the point of delivery determined on the basis of all available relevant and reliable information.

In the event prices posted by any Continuing Purchaser in any field on any day do not include prices for all gravities of oil to be valued hereunder to the closest tenth of a degree of API gravity, the price deemed to be posted by such Continuing Purchaser on such day for oil of any gravity whose price is not actually posted in such field by such Continuing Purchaser shall be determined as follows:

1. If such Continuing Purchaser posts prices in such field for oil of both a higher and a lower API gravity than that of any oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel, by interpolating on a straight line between the

nearest lower degree as to which a price is posted by such Continuing Purchaser and the nearest higher degree so posted; provided that no such interpolation shall be made if either the nearest higher or the nearest lower degree of oil as to which a price is posted is more than five degrees (5°) API gravity higher or lower than that of the oil to be valued, in which event the price of the oil to be valued will be determined by extrapolation under subparagraph (2) hereof, if either the nearest lower degree of oil or the nearest higher degree of oil as to which a price is posted is within five degrees (5°) API gravity of that of the oil to be valued.

2. If such Continuing Purchaser posts a price in such field for only a single gravity of oil, or if all oil as to which it posts a price is either of a higher or of a lower gravity than that of the oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of a cent per barrel, by extrapolating from such single price, or from the price of oil of the nearest gravity to that of the oil to be valued, on the basis of the then current Index of Crude Oil Prices (Schedule "C" to Exhibit "D" of the Unit Agreement), provided that no such price posted shall be extrapolated more than five degrees (5°) API gravity above or below the API gravity of the oil to be valued.

Any prices posted by a Continuing Purchaser in the Field or in any of the Named Fields shall be excluded from the computation of the arithmetical averages of prices posted in the Field or in the Named Fields provided for in this section 7(b) during the first fifteen (15) days of such posting (or during the entire period thereof if less than

fifteen (15) days) if it can be shown on the basis of reliable information by the Contractor or the State that such Continuing Purchaser has not, during such period, made Purchases of Oil in the oil field in question of at least fifteen thousand (15,000) barrels of oil, including a substantial quantity at the same or within five degrees (5°) API gravity of the average gravity of the Oil Allocated to the Contract Lands during such period, at a price determined on the basis of prices posted by it in such field, or on the basis of an average of posted prices including its posted prices in such field.

In computing the weighted average of the Prices Paid for Purchases of Oil in the Field for oil of like gravity to that which is being valued, the following procedure shall be followed: (1) There shall first be aggregated all known Purchases of Oil by Substantial Purchasers in the Field of oil having an API gravity equal to or within five degrees (5°) higher or lower than that of the oil to be valued; (2) Then the price of each such Purchase of Oil shall be weighted by multiplying such price by the number of barrels of oil purchased at such price during the month; (3) Then each price, so weighted, relating to oil of an API gravity different from that of the oil to be valued will be modified by extrapolation to the API gravity of the oil to be valued, on the basis of the then current Crude Oil Price Index (Schedule "C" to Exhibit "D" to the Unit Agreement); (4) Then the total price, so weighted and modified, of all such oil shall be divided by the number of barrels purchased during the month by means of such Purchases of Oil.

(c) Valuation Under Certain Circumstances

If the Contractor or any of the Persons Having an Interest in the Contractor acquires oil in the Field from any other Person either by a Purchase of Oil or

by an exchange of oil for other Oil or Gas or other products extracted or manufactured from Oil or Gas or for other property or services, at a price or other consideration per barrel higher than the valuation for such oil, calculated in accordance with section 7(b) hereof, the value of Oil Allocated to the Contract Lands shall include, in addition to its value computed in accordance with section 7(b) hereof, a further amount computed as follows:

Such further amount shall be calculated for each day such Person making such purchase or exchange receives such purchased or exchanged oil into its tanks and/or pipelines by first valuing such Person's share of the Oil Allocated to the Contract Lands on such day in accordance with the price or other consideration paid for oil of like gravity to such other Person in the Field and then subtracting the value of such Person's share of such oil computed in accordance with section 7(b) hereof.

The price or other consideration paid to such other Person in the Field shall be computed to the closest tenth of each degree of API gravity and closest tenth of a cent per barrel. In the event the oil so purchased or received by exchange by such Person making such purchase or exchange on any day does not include all gravities of oil to be valued under this section 7(c) to the closest tenth of a degree API gravity, the price or other consideration deemed to be paid by such Person making such purchase or exchange on any such day for oil of any gravity not actually purchased or received by exchange shall be determined by interpolation or extrapolation on the basis of the gravity or gravities of the oil purchased from or exchanged with such other Person in the Field and the price or prices or other consideration paid therefore, in accordance with

the method set forth in the third full paragraph of section 7(b) and the two subparagraphs thereof.

(d) Information

Each Contractor and each Person Comprising the Contractor, hereby agrees to furnish to the State, upon request, the following:

1. A current and accurate (to the extent practicable) valuation schedule based upon information available to the Contractor or such Person, covering all gravities of oil available for delivery in the Field, computed to the nearest tenth of a degree API gravity and nearest tenth of a cent in accordance with the provisions of section 7(b) hereof, including a specification of all calculations upon which such schedule is based.

2. A current and accurate list of all purchases and sales of oil by the Contractor, and by all of the Persons Having an Interest in the Contractor, in the Field, including a specification of quantities, delivery dates, prices (including any premiums and bonuses), gravities, and names of sellers and purchasers.

The Contractor and each Person Comprising the Contractor shall permit authorized representatives of the State of California to examine relevant books, ledgers, accounts, correspondence, memoranda and other records in the possession of or under control of the Contractor and Persons Comprising the Contractor (and, to the extent it is within their power, those of Persons Having an Interest in the Contractor) for the purpose of obtaining and confirming information relevant to or necessary for the

implementation of the evaluation provisions contained in this Article 7 and Article 8 hereof.

(e) Review and Adjustment

The Contractor shall make payments currently to the State, as provided in this agreement, on the basis of the value of the Oil Allocated to the Contract Lands determined on the basis of posted prices as set forth in subparagraph (1) or subparagraph (2) of the first full paragraph of section 7(b) hereof, whichever shall be higher. At any time within nine (9) months after the end of each calendar year (or any fiscal year agreed upon between the contractor and the State) during the term of this agreement, the State shall review and, if necessary adjust, the value of Oil Allocated to the Contract Lands during such year on the basis of all available relevant and reliable information, for the purpose of determining whether the Contractor is required to account for any further value of Oil Allocated to the Contract Lands under the terms of subparagraphs (3) or (4) of said first full paragraph of section 7(b) hereof, or under the provisions of section 7(c) hereof. The Contractor may require the State to make a review and, if necessary an adjustment, on the basis of all available relevant and reliable information, at any time within nine (9) months after the end of any such calendar (or fiscal) year of the value of Oil Allocated to the Contract Lands during such year and the proper application of the provisions of this Article 7.

The Contractor shall pay to the State any amount or amounts necessary to make the adjustments herein provided. The payment shall be made no later than the first month of the second calendar (or fiscal) year following the calendar (or fiscal) year

for which the timely adjustment is made. After making any payment required by the State pursuant hereto to which the Contractor objects, or after the State's refusal to make any adjustment which the Contractor requests, the Contractor may, after ninety (90) days' notice to the State, bring an action against the State before a judge or judges of a court of competent jurisdiction for an adjudication on the basis of all reliable information then available pertaining to the matter at issue, for the recovery of all or any part of any amount paid pursuant to any adjustment hereunder, or for the recovery of any amount as to which the State has refused to make such an adjustment.

(f) Public Law 31

Pursuant to Public Law 31, 83rd Congress, Chapter 65, First Session, in time of war or when necessary for national defense, and the Congress or the President shall so prescribe, the United States shall have the right of first refusal to purchase, at the prevailing market price, all or any portion of the oil to be taken and accounted for under this agreement or to acquire and use any portion of the Contract Lands by proceeding in accordance with due process of law and paying just compensation therefore. If the United States exercises such right to purchase any portion of the Oil Allocated to the Contract Lands, then the price paid by the United States for such oil shall be used in valuing such portion of the Oil Allocated to the Contract Lands under this agreement in lieu of any other provision of this Article otherwise applicable.

(g) Cut Back

In the event the Contractor shall fail to take delivery of its Participant Allocation of oil attributable to its Working Interest in the Contract Lands and if there

shall be a decision to cut back all or part of the Contractor's said Participant Allocation as provided in section 5.14 of the Unit Agreement, the Contractor shall nevertheless continue to pay all Unit Expense and taxes attributable to Tract No. 2 and all additional costs chargeable to the Contractor under this agreement, and the Contractor's Net Profits Account shall be credited with the oil so cut back as if such oil had actually been delivered to the Contractor; provided that nothing herein shall affect any rights at law or in equity which the Contractor may have as against the State by virtue of the net benefit to the State under this agreement or under the Contractors' Agreement occasioned by the future production of such cut back oil. Any amount to which the Contractor is entitled by virtue of such rights, if any, shall be charged to the Contractor's Net Profits Account. So long as the Contractor shall continue to carry out the obligations specified in this section 7(g) during the period of such cut back, and shall otherwise discharge its obligations under this agreement and under the Unitization Agreements, the Contractor shall not be in default by virtue of its failure to take delivery of oil during such period.

The foregoing provisions of this section 7(g) shall likewise be applicable in the event there shall be a cut back of all or any portion of the oil elected to be taken in kind by the State pursuant to the provisions of Article 9 hereof by reason of the failure of the State or its nominee to take all or any part of such oil; subject, however, to the additional provision that the Contractor's Net Profits Account shall be charged with the value, computed in accordance with the provisions of section 7(b) hereof, of such oil so cut back as if such oil had actually been delivered to the State or its nominee.

4. The amendments shall be effective March 1, 2007, so that the changes to the initial valuations of crude oil under Article 7(b)(1) or (2) will first be applied to the crude oil valuations for March 2007 and the elimination of the valuation standard in Article 7(b)(4) will apply beginning with the review and adjustment for calendar year 2006.

Dated: _____, 2007

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

by _____
Executive Officer

Dated: _____, 2007

OCCIDENTAL LONG BEACH, INC.,
a Delaware corporation

by _____
President