

**CALENDAR ITEM  
C35**

A 54, 55

12/03/08  
W 12001  
D. Mercier  
A. Hager

S 25, 27, 28

**CONSIDER APPROVAL OF THE NINTH AMENDMENT  
TO THE LONG BEACH HARBOR TIDELANDS PARCEL  
AND PARCEL "A" OIL CONTRACT,  
LONG BEACH TIDELANDS,  
LOS ANGELES COUNTY**

**APPLICANT:**

City of Long Beach  
Long Beach Gas and Oil Department  
Attn.: Mr. Christopher Garner, Director  
211 E. Ocean Blvd., Suite 500  
Long Beach, CA 90802

**BACKGROUND:**

The City of Long Beach (City) and its Contactor under the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract (Tidelands Contract) have agreed to the Ninth Amendment to the Tidelands Contract providing minor changes to section 18.3 dealing with the valuation of crude oil for purposes of calculating net profits. Under section 10(b) of Chapter 29, Statutes of 1956, First Extraordinary Session, the advance consent of the California State Lands Commission (Commission) is required for an amendment to this contract to be effective.

The Tidelands Contract governs oil drilling and production operations on that portion of the Long Beach tidelands within the Harbor District as well as on a small parcel known as Parcel "A," all lying west of the Long Beach Unit. The Tidelands Contract was entered into in 1989 among the City and several entities comprising the Contractor. As a result of several assignments, the current Contractor is Tidelands Oil Production Company, a general partnership, 75 percent (75%) of which is owned by OXY Tidelands, Inc. and 25 percent (25%) of which is owned by OXY Wilmington, LLC. OXY Tidelands' and OXY Wilmington's performance under the Tidelands Contract is guaranteed by Occidental Oil and Gas Holding Corporation. The Tidelands Contract has been amended eight times since its inception.

CALENDAR ITEM NO. C35 (CONT'D)

Section 18.3 of the Tidelands Contract provides the method for valuing for purposes of computing net profits the crude oil that the Contractor is required to take and account for. The oil is valued currently by using the daily average of the prices posted in five California oil fields, the Wilmington, Huntington Beach, Long Beach, Inglewood and Midway Sunset oil fields, by companies either named or meeting specified qualifications. Since this valuation method was agreed upon, the number of price postings in the Wilmington, Huntington Beach, Long Beach and Inglewood oil fields has decreased significantly. There are by far more postings by qualifying companies in the Midway Sunset oil field than in the other fields, and the Midway Sunset postings have usually been several cents per barrel higher than the postings in the other fields. Additionally, a daily average of posted prices rather than a monthly average of posted prices injects into the valuation the instability of short term price fluctuations. The use of a monthly average of postings in a field where more companies post would provide a valuation based on more stable and competitive prices. The Ninth Amendment, therefore, revises Section 18.3 to prescribe a crude oil valuation based on the monthly average of the prices posted in the Midway Sunset oil field by the named companies and any other companies meeting specified qualifications. This valuation would be used for all oil taken by the Contractor on and after July 1, 2008.

A copy of the Ninth Amendment to the Long Beach Harbor Tidelands agreed to by the City and the Contractor is attached as Exhibit A and is on file in the Long Beach office of the Commission

**STATUTORY AND OTHER REFERENCES:**

- A. Section 10(b), Ch. 29, Stats. 1956, 1st E.S.

**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 CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060(c)(3) and 15378.

CALENDAR ITEM NO. **C35** (CONT'D)

**EXHIBIT:**

- A. Ninth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract

**PERMIT STREAMLINING ACT DEADLINE:**

N/A (not a development project under the Act)

**RECOMMENDED ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA FINDINGS:**

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. APPROVE THE NINTH AMENDMENT TO THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT.
2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THIS AMENDMENT.

**NINTH AMENDMENT TO THE LONG BEACH HARBOR  
TIDELANDS PARCEL AND PARCEL “A” OIL CONTRACT**

Effective March 1, 1989, the City of Long Beach entered into the Long Beach Harbor Tidelands Parcel and Parcel “A” Oil Contract (“Tidelands Contract”) with several entities that comprised the Contractor. As a result of several assignments, the current Contractor is Tidelands Oil Production Company, a general partnership, 75% of which is owned by OXY Tidelands, Inc. and 25% of which is owned by OXY Wilmington, LLC. OXY Tidelands’ and OXY Wilmington’s performance under the Tidelands Contract is guaranteed by Occidental Oil and Gas Holding Corporation. The Tidelands Contract has been amended eight times since its inception.

Section 18.3 of the Tidelands Contract provides the method for valuing for the purpose of computing net profits the crude oil that the Contractor is required to take and account for. The oil is valued currently by using the daily average of the prices posted in five California oil fields, the Wilmington, Huntington Beach, Long Beach, Inglewood and Midway Sunset oil fields, by companies either named or meeting specified qualifications. The number of price postings in the Wilmington, Huntington Beach, Long Beach and Inglewood oil fields has decreased significantly. More companies post in the Midway-Sunset oil field, indicating more competition in Midway Sunset than in the other fields. In addition, replacing the use of daily average posted prices with monthly average posted prices will provide more stability to the valuation by reducing short term price fluctuations.

Therefore, in order to provide for the use of the monthly average of the prices posted in the Midway Sunset oil field by the named companies or companies meeting specified qualifications, the City and the Contractor agree to amend Section 18.3 of the Tidelands Contract to read:

“18.3. All oil shall be valued, accounted for and paid for at the arithmetic average of the prices posted in the Midway Sunset oil fields by Union 76, Chevron, ExxonMobil Corporation, Shell Trading US and any other person, firm or corporation operating a refinery in California with a throughput capacity of at least thirty thousand (30,000) barrels per day, for oil of like gravity during the month the oil is run into the Contractor’s tanks and/or pipelines. The value shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel.

“If the Contractor or any person, firm or corporation comprising the Contractor sells, exchanges or otherwise disposes of any of the oil taken by it under this agreement to a third party at a price or other consideration that is more than the average of the prices posted in the Midway Sunset oil field by the posters named above, it shall add to its next monthly payment to the City fifty percent (50%) of the difference between this greater amount and the average of the prices posted in the Midway Sunset oil field by the posters named above for the oil so sold, exchanged or otherwise disposed of. This difference shall not be used in computing Net Profits.

“If the Contractor or any person, firm or corporation comprising the Contractor sells, exchanges or otherwise disposes of any of the oil taken by it under this

agreement to any person, firm or corporation other than a person, firm or corporation comprising the Contractor, at a price or other consideration that is less than the average of the prices posted in the Midway Sunset oil field by the posters named above, it shall deduct from its monthly payment to the City fifty percent (50%) of the difference between this lesser amount and the average of prices posted the Midway Sunset oil field by the posters named above, for the oil so sold, exchanged or otherwise disposed of. This difference shall not be used in computed Net Profits. In the event that a Net Profits payment is not due in the following month, these deductions may accumulate and be deducted when a net profits payment is due.

“Whenever there are not at least two (2) different posters among all the companies posting in the Midway Sunset oil field, the Contractor, the City and the Commission may renegotiate this subsection 18.3 to provide another method of valuating the oil in light of these changed circumstances.

“All agreements made by the Contractor or any person, firm or corporation comprising the Contractor for the sale, exchange or other disposition of the oil taken under this agreement shall be in good faith, arm’s length agreements. Copies of all such agreements shall be furnished to the City when they are made. The agreements shall reflect the total understanding of the parties, shall show the entire consideration passing among the parties and their affiliates and shall be unrelated to any other agreements among the parties and their affiliates. The City or its authorized representatives shall be permitted at all reasonable times to examine the records of the

Contractor and any person, firm or corporation comprising the Contractor for the purpose of verifying that the agreement is a good faith, arm's length agreement and fully discloses the understanding of and consideration passing among the parties and their affiliates. Notwithstanding any other provision of this agreement, the failure of the Contractor or any person, firm or corporation comprising the Contractor to disclose fully to the City all of the consideration received by it or any of its affiliates under any agreement for the sale, exchange or other disposition of oil taken by it under this agreement shall be a major breach of this agreement entitling the City immediately to terminate this agreement and to recover from the Contractor the damages it suffered as a result of the failure to disclose fully such consideration, plus a penalty equal to double the amount of such damages.

“The Contractor shall also furnish to the City an accurate list of purchases and other acquisitions, including acquisitions on exchange, and sales and other dispositions, including dispositions on exchange, by it, and by all persons, firms and corporations comprising the Contractor, of oil in the Field and in the Huntington Beach, Long Beach, Inglewood and Midway Sunset oil fields. This list shall include the price or value placed on the oil, the volume and gravity of the oil, and the date or dates of its acquisition or disposition.

“Any person, firm or corporation comprising the Contractor may elect to acquire for its own use all but not a part of the oil required to be taken by the Contractor under this agreement. This election may be made once a year and must be for a twelve-month period. Whenever any person, firm or corporation comprising the Contractor

makes such an election the oil acquired pursuant to this election shall be valued at the highest of the following: (a) the highest price obtained by the City or its marketing contractor in any single sale of at least 2,500 barrels per day (B/D) of crude oil in the Field and providing for delivery for not less than twelve (12) consecutive months and in effect in the month in which the election to take all of the oil is made, (b) the highest weighted average of prices obtained by the City or its marketing contractor in multiple sales of crude oil in the Field in any combination totaling 2,500 B/D and providing for delivery for not less than twelve (12) consecutive months and in effect in the month in which the election to take all of the oil is made or (c) the arithmetical average of the prices posted in the Midway Sunset oil field by Union 76, Chevron, Exxon Mobil Corporation, Shell Trading US and any other person, firm or corporation operating a refinery in California with a throughput capacity of at least thirty thousand (30,000) barrels per day, for oil like gravity during the month the oil is run into the Contractor's tanks and/or pipelines. (a) and (b) shall be referred to as the City sales and (c) shall be referred to as the Midway Sunset field average. The value of the oil shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel. The Contractor, however, shall pay to the City a price for the oil equal to the value of the City sales less (50%) of the difference between the value of the City sales and the Midway Sunset field average or the Midway Sunset field average, whichever is higher. This difference, if any, shall not be used in computing Net Profits.

“All assigned oil shall be taken in the manner prescribed in the provision of the applicable Unit Agreement and/or Unit Operating Agreement.”

This Ninth Amendment shall be effective July 1, 2008.

This Ninth Amendment 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.

Dated: \_\_\_\_\_ THE CITY OF LONG BEACH, a municipal corporation

By \_\_\_\_\_

Dated: \_\_\_\_\_ OXY TIDELANDS, INC., a Delaware corporation

By \_\_\_\_\_

Dated: \_\_\_\_\_ OXY WILMINGTON, LLC, a Delaware limited liability company

By \_\_\_\_\_

Dated: \_\_\_\_\_ OCCIDENTAL OIL AND GAS HOLDING CORPORATION,  
a Delaware corporation

By \_\_\_\_\_

This Ninth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil  
Contract was approved by the California State Lands Commission at its meeting of  
\_\_\_\_\_, 2008.

Dated: \_\_\_\_\_ \_\_\_\_\_  
EXECUTIVE OFFICER