

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

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March 1, 2005

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the Gas Sharing Agreement among the City of Long Beach, Oxy Long Beach, Inc., and the California State Lands Commission. (District 2)

DISCUSSION

The City of Long Beach (City), in its capacity as Unit Operator for the Long Beach Unit (LBU), desires to enter into a gas sharing agreement with its field contractor, Oxy Long Beach, Inc. (OLBI), and the California State Lands Commission (SLC) to explore and develop new sources of natural gas under the Long Beach tidelands. The new sources of natural gas are expected to come from: 1) the exploitation of the LBU shallow gas sands (the shallow gas sands), and 2) a deep exploration program by OLBI to identify additional reserves that may potentially exist under the LBU (the deep exploration). This agreement is pursuant to Chapter 1, Statutes of 2001-2002 Second Extraordinary Session of the California State Senate. The agreement does not supersede or amend any existing contract or agreement related to the extraction of oil and gas in the LBU. The basic terms of the negotiated agreement are as follows:

- The City, through its Tidelands Operating Fund (TF401), shall receive a fixed percentage of the SLC's royalty share. The SLC's royalty shall be variable between 35 and 55 percent based upon the prevailing market price for gas (per million BTU).
- For the shallow gas sands, the City's share of the SLC's royalty shall be fixed at 15 percent. If there is a deep gas discovery, the City shall receive 8 percent of the SLC's royalty revenues from deep exploration.
- No investment is required from the City or SLC. OLBI will be responsible for all gas related drilling, development, and facilities capital investments.
- If, instead of gas, a commercial oil discovery is made, then profit sharing between the parties shall be dictated by existing contracts underlying the Agreement for Implementation of an Optimized Waterflood Program.
- OLBI will be responsible for future well/facilities abandonment costs incurred by the project.

HONORABLE MAYOR AND CITY COUNCIL

March 1, 2005

Page 2

This item was reviewed by Deputy City Attorney Charles Parkin on February 15, 2005 and Budget Management Officer David Wodynski on February 16, 2005.

TIMING CONSIDERATIONS

City Council action on this matter is requested on March 1, 2005.

FISCAL IMPACT

The new gas source (shallow gas sands) included under the agreement is expected to generate, on average, \$100,000 annually for the next ten years to the City Tidelands Operating Fund (TF 401). A commercial discovery of oil and/or gas from the deep exploration project, while less likely, would result in additional revenues to TF 401.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

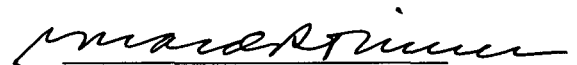


CHRISTOPER J. GARNER
DIRECTOR OF OIL PROPERTIES

CJG:dgs

LEG 618.013

APPROVED:



GERALD R. MILLER
CITY MANAGER