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DEPARTMENT

OIL OPERATIONS · OIL PRODUCTION / SUBSIDENCE

April 17, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Approve a Water Delivery Agreement between the City of Long Beach and San Pedro Bay Pipeline Company for testing the Beta pipeline. (District 2)

DISCUSSION

As Unit Operator under the Fault Block II, III, IV, and V Ranger Zone Unit Agreements and as operator of certain non-unitized properties, the City of Long Beach (City) owns and operates an oil gathering system and water injection facilities whereby water is reinjected into oil producing regions. San Pedro Bay Pipeline Company (SPBPC), a wholly-owned subsidiary of Pacific Energy Resources, Ltd. (PERL), a Delaware corporation, desires to deliver "produced" water to the City. This water will result from a pipeline integrity test operation of a subsea pipeline that otherwise transports crude oil from the offshore Platform Elly to PERL's Beta Onshore Station ("Beta"), located at 170 North Pico Avenue in Long Beach. Upon delivery to Beta, the produced water will be taken by the City's Field Contractor, Tidelands Oil Production Company (Tidelands), to be processed in its water treatment facility and reinjected into oil producing regions.

The pipeline is owned by SPBPC, which has recently been sold by AERA Energy LLC (AERA) to PERL. As a condition of sale, the Minerals Management Service (MMS) of the United States Department of the Interior and the Mineral Resources Management Division of the California State Lands Commission (CSLC) are requiring that the subsea pipeline be tested.

On August 1, 2000, the City entered into an Agreement for Delivery of Water, pursuant to a minute order adopted by City Council on July 11, 2000, in which it agreed to take delivery of water by AERA, then the owner of the pipeline, resulting from pipeline integrity testing operations. The recommended new agreement will reflect the change in ownership of the pipeline to SPBPC and will

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update water handling costs, to be paid by SPBPC, including costs to treat the produced water to ensure that it will mix compatibly with water that is currently reinjected by Tidelands.

The subsea pipeline was installed in 1980 and passes through Federal, State, and City properties. It has operated without incident since that time and currently transports approximately 2,500 barrels, or about 100,000 gallons, of crude oil each day. It has never operated out of compliance with applicable regulatory agency requirements. The City agrees with the planned testing of this line and wishes to accommodate the terms of sale.

This item was reviewed by Principal Deputy City Attorney J. Charles Parkin and Budget and Performance Management Bureau Manager David Wodynski on April 3, 2007.

TIMING CONSIDERATIONS

City Council action on this matter is requested on April 17, 2007 to expeditiously facilitate the integrity testing of the pipeline scheduled to be conducted in June, a condition of its sale to PERL required by the MMS and CSLC.

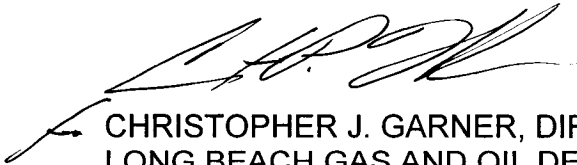
FISCAL IMPACT

There is no fiscal impact associated with this action. The City will receive a nominal administrative overhead fee.

SUGGESTED ACTION:

Approve recommendation.



Respectfully submitted,



CHRISTOPHER J. GARNER, DIRECTOR
LONG BEACH GAS AND OIL DEPARTMENT

CJG:scs
LEG 638.000

APPROVED:

GERALD R. MILLER
CITY MANAGER