



March 13, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Approve the Amendment to the Crude Oil Pricing Provision of the Long Beach Unit Contractors' Agreement to include the posted oil prices in the Midway-Sunset oil field and remove the posted oil prices in the Huntington Beach, Long Beach (Signal Hill), and Inglewood oil fields. (Citywide)

DISCUSSION

The Long Beach Unit consists of two offshore tracts (Tract 1 and Tract 2) and over 90 onshore townlot tracts. 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 subject to the public trust. Tract 1 is operated pursuant to the Long Beach Unit Contractors' Agreement authorized by Chapter 138 of the Statutes of 1964, First Extraordinary Session.

A provision of the Contractors' Agreement governs the calculation of the value of the oil. The initial oil price valuations are based on posted prices and are determined 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 (named fields). After the City obtains data on prices paid by purchasers of oil in the named fields, the City calculates the average of the oil prices paid for these purchases in the Wilmington oil field and in all of the four named fields. The City and the State then adjust the initial oil valuation into the higher of either the average of prices for purchases of oil in the Wilmington oil field or in the named fields.

Since the mid-1960s, the amount of production in the four fields from which valuation data are to be used has decreased and the number of companies posting prices in these fields has decreased. Because of this situation, an amendment changing the existing Contractors' Agreement is needed. The first change will involve the inclusion of the posted prices for the Midway-Sunset oil

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field in Kern County. Because the Midway-Sunset oil field is a large field where all major refiners purchasing crude oil in California post prices, its posting will provide a better reflection of the California market than the limited number of postings remaining in the named fields. The second change will remove the Huntington Beach, Long Beach (Signal Hill) and Inglewood oil fields' oil sales information from the adjusted price valuation because that information has historically been unavailable. The subsequent adjusted price valuations will use only the prices paid for the purchases of oil in the Wilmington field. On February 5, 2007, the California State Lands Commission approved the Amendment to the Crude Oil Pricing Provision of the Long Beach Unit Contractors' Agreement.

This item was reviewed by Principal Deputy City Attorney J. Charles Parkin on February 27, 2007 and Budget and Performance Management Bureau Manager David Wodynski on February 28, 2007.

TIMING CONSIDERATIONS

City Council action on this matter is requested on March 13, 2007 as no companies are currently posting oil prices in the Wilmington oil field.

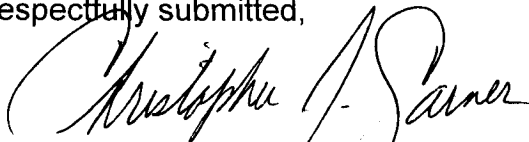
FISCAL IMPACT

There is no fiscal impact associated with this action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



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

APPROVED:



GERALD R. MILLER,
CITY MANAGER

CJG:cph
FIN 312.006