



CHRISTOPHER J. GARNER
DIRECTOR

211 EAST OCEAN BLVD., SUITE 500 • LONG BEACH, CA 90802
(562) 570-3900 • FAX (562) 570-3922

DEPARTMENT

OIL OPERATIONS • OIL PRODUCTION / SUBSIDENCE

November 18, 2008

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute the Amendment to the Agreement (Amendment) with Occidental Long Beach, Inc. to develop the oil reserves from State lease PRC 186 to increase the number of wells allowed, refine the cost allocation associated with injection wells, define the priority of the use of equipment and facilities, and define the payment of well fees. (Districts 1, 2 and 3)

DISCUSSION

Occidental Long Beach, Inc. (OLBI) entered into an agreement with the City of Long Beach (City) as Unit Operator of the Long Beach Unit (Unit) on February 5, 2005 to develop the oil and gas reserves from the easterly adjoining State lease PRC 186 (Belmont). OLBI is continuing to develop the reserves from the existing Unit facilities per the agreement.

The initial agreement allowed for a renegotiation of the terms after 12 wells were drilled; the total number of wells drilled to date is 15. The Amendment permits a maximum of 25 wells to be drilled and for a sharing of costs between the Unit and Belmont for new injection wells drilled close to the lease line. The Amendment also states in the event of limitations on facility capacity, the Unit shall have priority of use including but not limited to rigs, injection and water handling capacity, personnel, and any Unit facilities required for operations. Also, due to limited available well locations, the Amendment allows for an increase in the price Belmont must pay to the Unit if OBLI desires to drill a new well into Belmont.

This item was reviewed by Principal Deputy City Attorney J. Charles Parkin and Budget Management Officer Victoria Bell on October 29, 2008.

TIMING CONSIDERATIONS

City Council action on this matter is not time critical.

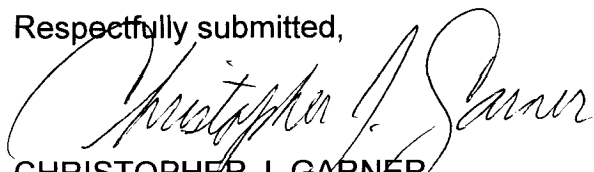
FISCAL IMPACT

An additional \$25,000 in revenue is estimated from additional production due to an expected increase in the number of wells and a 2.5 percent pass-through royalty based on oil price and the total production in Belmont. This revenue is included in the FY 09 Adopted Budget in the Uplands Oil Fund (SR 134) in the Long Beach Gas and Oil Department (EN).

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:cph

APPROVED:



PATRICK H. WEST
CITY MANAGER