



July 21, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute an Amendment to the Crude Oil Marketing Agreement with Tidelands Oil Production Company to allow for automatic contract renewal annually until cancelled by either party upon 180 days notice. (Districts 1 and 2)

DISCUSSION

In 1994, the City, as Unit Operator of the Long Beach Unit, began selling oil on behalf of the Townlot Working Interest Owners (WIOs) who elected not to sell their own oil, as allowed by Article 5.14 of the Long Beach Unit Agreement.

In the contract between the City and Oxy Long Beach, Inc. (OLBI), the WIO's received the same price for the oil that the City received from Thums Long Beach Company, which is the higher of the prices calculated under Article 9B (1) or (2) of the Contractors' Agreement. Purchasers (refineries) of oil often pay above the posted price of oil (bonus) in order to secure a sufficient oil supply. Under the terms of the contract, OLBI did not share any bonus with the WIO's.

In December 2002, the City entered into a marketing agreement with West Coast Energy Marketing, LLC (West Coast), who provided for splitting the bonus received for the oil. The WIOs received 50 percent of the difference between the actual oil sales price and the Article 9B price, less some limited out-of-pocket expenses. In 2004, the West Coast contract expired and a request for proposal was issued to competitively select a marketer for the crude oil. Tidelands Oil Production Company (Tidelands) was selected to be the provider of oil marketing services to the City for the benefit of the WIOs. The marketing agreement with Tidelands also includes the provision to market the City's Uplands crude oil volumes in the Townlot area of the Long Beach Unit and Fault Block IV and V Ranger Zone Units.

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Tidelands, a subsidiary of Occidental Petroleum Corporation, has performed well for the past five years, marketing the oil through Occidental Energy Marketing, Inc. By combining the crude oil volumes and bidding them out jointly, Tidelands has been able to achieve a higher price structure for the WIOs, including the City's Uplands interests.

Tidelands' marketing agreement expires on October 31, 2009. The requested amendment will provide for automatic annual renewals until cancelled by either party upon 180 days notice.

This item was reviewed by Deputy City Attorney Richard Anthony and Budget and Performance Management Bureau Manager David Wodynski on June 30, 2009.

TIMING CONSIDERATIONS

City Council action on this matter is time critical because the current marketing agreement expires on October 31, 2009.

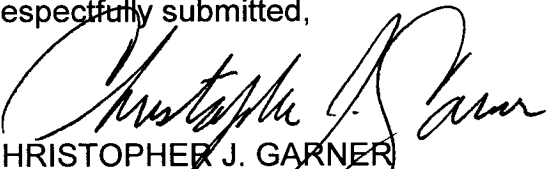
FISCAL IMPACT

There is no fiscal impact associated with the requested action.


SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

APPROVED:


PATRICK H. WEST
CITY MANAGER

CJG:SCS

LEG 636.009