



May 22, 2012

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute any and all documents necessary for a West Wilmington Optimized Waterflood Program Agreement between the California State Lands Commission, City of Long Beach, and Tidelands Oil Production Company to promote further oil exploration and production. (District 1)

DISCUSSION

The Department of Long Beach Gas and Oil (LBGO) has finalized negotiations with Tidelands Oil Production Company (Tidelands OPC) and the State Lands Commission (SLC) on an Optimized Waterflood Program Agreement (OWPA) for the West Wilmington oil field. The OWPA would provide Tidelands OPC with financial incentive to invest tens of millions of dollars of its own capital for further oil explorations and development in the field. The exploration will result in increased oil production above the volume that would otherwise be produced without this OWPA.

The OWPA will require amending the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract. The general business terms of the OWPA agreement are as follows:

- Within 90 days of executing the OWPA, Tidelands OPC will initiate a comprehensive technical evaluation to identify potential development opportunities.
- The minimum new investment by Tidelands OPC will be \$50 million, which must be initiated once the local price of oil has been sustained at a level of \$65 per barrel for six consecutive months after signing, but investment by Tidelands OPC can be (and most likely will be) initiated well before the pricing threshold is achieved.
- The split of incremental revenues will be 49 percent (SLC), 49 percent (Tidelands OPC), 2 percent (City). The City's revenue will be allocated to the Tidelands Fund.

This matter was reviewed by Deputy City Attorney Richard Anthony on May 17, 2012.

HONORABLE MAYOR AND CITY COUNCIL
May 22, 2012
Page 2

TIMING CONSIDERATIONS

City Council Action is requested on May 22, 2012 as the OWPA is on the agenda for the California State Lands Commission meeting on May 24, 2012.

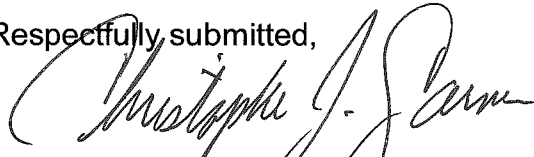
FISCAL IMPACT

Revenue from the OWPA net profits will be allocated to the Tidelands Operations Fund (TF 401). Preliminary indications are that an additional \$6.6 million in revenue to the Tidelands Operations Fund could potentially be realized over the next ten years, beginning in year four of the OWPA after Tidelands OPC has fully recovered its capital investment. Actual City revenue from the OWPA will be contingent upon the price of oil and the level of incremental production that occurs. A secondary impact on Uplands Oil Fund revenue may also be expected from other existing contractual arrangements, but it is premature to estimate the timing and amount of potential revenue until such point that future exploration and production plans are established by Oxy. Future revenue updates will be provided once known.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:KT

APPROVED:



PATRICK H. WEST
CITY MANAGER