



November 3, 2009

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 Operating Waterflood Program Agreement between the City of Long Beach and Tidelands Oil Production Company to promote further oil exploration and production within the Port of Long Beach. (District 1)

DISCUSSION

The Department of Long Beach Gas and Oil (LBGO) has finalized negotiations with Tidelands Oil Production Company (Tidelands OPC) on an Optimized Waterflood Program Agreement (OWPA) for the West Wilmington oil field. The OWPA would provide Tidelands OPC with the financial incentive to invest tens of millions of dollars of its own capital for further oil exploration and development in the field. The exploration will potentially result in increased oil production far above the volume that would otherwise be produced without this OWPA. A similar OWPA has been in place since 1992 for the State of California's interest in the East Wilmington oil field (Long Beach Unit). The Long Beach Unit OWPA has been very successful in maximizing the revenues for all parties due to additional drilling, capital investment, cost cutting, and aligning of financial and operational interests.

The OWPA will require amending the Amended and Restated Field Contractor Agreement (Harbor Department – Segment II) and the Amended and Restated Field Contractor Agreement (City – Segment II), and the creation of a new agreement. The general business terms of the OWPA agreement are as follows:

- Within 90 days of executing a new agreement, Tidelands OPC will initiate a comprehensive technical evaluation to identify potential redevelopment opportunities.
- The minimum new investment by Tidelands OPC will be \$20 million, which must be initiated once the local price of oil has been sustained at a level of \$65 per barrel for six months, but investment by Tidelands OPC can be (and most likely will be) initiated before that pricing threshold is achieved.

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- The split of incremental revenues will be 51 percent (City) / 49 percent (Tidelands OPC). The City's revenue will be allocated to the Tidelands Fund.
- LBGO and Tidelands OPC have been negotiating with the State Lands Commission (SLC) on a similar deal for the SLC interest in the West Wilmington oil field. If finalized, any improvement in terms for the SLC above those provided for in this OWPA with the City will be subsequently offered to the City by Tidelands OPC.

This matter was reviewed by Principal Deputy City Attorney J. Charles Parkin and by Budget and Performance Management Manager David Wodynski on October 1, 2009.

TIMING CONSIDERATIONS

City Council Action is requested by November 3, 2009 to commence the OWPA by December 1, 2009.

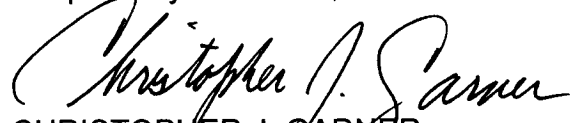
FISCAL IMPACT

City revenue resulting from the OWPA will be allocated to the Tidelands Fund. Net profits from the OWPA will be contingent upon the price of oil and actual incremental production results. An additional \$100 million in revenue to the Tidelands Fund could potentially be realized over the next ten years.

SUGGESTED ACTION:

Approve recommendation.


Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:CPH:ls
OWPA 10-20-09

APPROVED:



PATRICK H. WEST
CITY MANAGER