



CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

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October 5, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Crude Oil Marketing Agreement With Tidelands Oil Production Company
(Districts 1 and 2)

DISCUSSION

Since 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 December 2002, the City entered into a marketing agreement with West Coast Energy Marketing, LLC. That 18-month agreement was extended for three months and is set to expire on October 31, 2004. A request for proposal was issued to competitively select a marketer for the crude oil. Five proposals were received, and Tidelands Oil Production Company's (Tidelands) proposal was determined to best provide marketing services to the City for the benefit of the WIOs.

The marketing agreement with Tidelands will also include 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. The Department of Oil Properties has bid these Uplands crude oil volumes out in the past. It is anticipated that by coupling this relatively small Uplands crude oil volume (approximately 20,000 barrels per month) with the larger Long Beach Unit Townlot crude oil volume (approximately 82,000 barrels per month) in a single sales contract, a higher price structure for the City's crude oil will be achieved. The marketing agreement will have a three-year term with two one-year extensions.

The procedure that Tidelands is proposing is as follows:

1. Tidelands will market the crude oil on a term basis that produces the highest price. For the month of November 2004, Tidelands will market the WIOs oil in a manner consistent with Article 5.14 of the Long Beach Unit Agreement.
2. Tidelands will enter into discussions with all Southern California refiners capable of receiving Wilmington crude oil into their facilities. The pre-qualified bidders will be invited to declare a binding "reserve" premium, which will not be released pending outcome of the bidding process.
3. Those pre-qualified bidders will then be invited to bid electronically on the term purchase of the available oil on a specified day.

4. The City will monitor the bids made during the bidding period.
5. If the final electronic bid exceeds the highest reserve premium received, the company which has tendered the highest bid premium will be awarded the contract. If the highest bid premium is lower than the highest reserve premium received, the company with the highest reserve premium will be awarded the contract.

This item was reviewed by Deputy City Attorney J. Charles Parkin and Budget Management Officer David Wodynski on September 27, 2004.

TIMING CONSIDERATIONS

City Council action on this matter is time critical because the current marketing agreement expires on October 31, 2004. Tidelands must begin entering into crude oil sales contracts well in advance of the start date of its marketing contract on November 1, 2004.

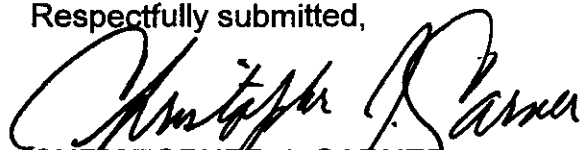
FISCAL IMPACT

The proposal will potentially maximize the revenue the City receives for its proprietary oil produced from the Wilmington Oil Field.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Authorize the City Manager to execute a crude oil marketing agreement between the City of Long Beach, Long Beach Unit Operator, and Tidelands Oil Production Company (Districts 1 and 2) and to approve extensions or to terminate the agreement for the sale of the oil allocated to the Long Beach Unit Townlot Working Interest Owners and for the sale of the City's Uplands Oil in the Townlot area of Long Beach Unit and Fault Block IV and V Ranger Zone Units. The agreement will have a three-year term, starting November 1, 2004, with two one-year extensions.

Respectfully submitted,


CHRISTOPHER J. GARNER
DIRECTOR OF OIL PROPERTIES

CJG:SCS
LEG 636.009

APPROVED:


GERALD R. MILLER
CITY MANAGER