

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (562) 570-3900 • FAX 570-3922

November 23, 2004

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Agreement Between Signal Hill Petroleum, Inc., and the City of Long Beach
for Mineral Interests (District 5)

DISCUSSION

Signal Hill Petroleum, Inc., (SHPI) is the operator of three waterflood oil recovery Units in the Long Beach Oil Field adjacent to the Long Beach Airport. SHPI desires to collect technically advanced geological information in the Long Beach Oil Field by conducting a three-dimensional (3D) seismic survey. The new geological information will be used to improve both the waterflooding operations and the ultimate oil recovery from the field. While the seismic equipment is onsite, SHPI is interested in expanding the survey area beyond the limit of the Long Beach Oil Field and into areas where the City owns the mineral fee interests in anticipation of finding additional oil reserves to develop.

SHPI is proposing to lease approximately 1,100 acres of City mineral-fee property adjoining the Long Beach Oil Field to conduct the survey. The lease rate offered to the City is \$15 per acre per year for a minimum of five years with no right to surface entry. Should the survey result in commercial production of mineral resources in the leased acreage, the City would receive a one-sixth royalty of gross revenues, which is the industry standard.

This item was reviewed by Deputy City Attorney Charles Parkin on August 9, 2004 and Budget Management Officer David Wodynski on August 18, 2004.

TIMING CONSIDERATIONS

City Council action on this matter is requested on November 23, 2004.

FISCAL IMPACT

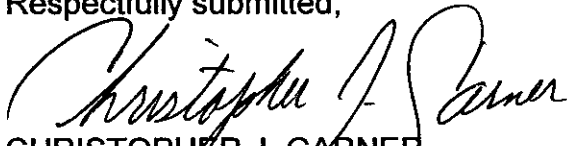
The rental fee would generate approximately \$15,000 per year to the Upland Oil Fund (SR 134) for the next five years. If mineral resources were commercially developed by SHPI, the Upland Oil Fund would realize unanticipated additional revenues through well permits, barrel tax, and royalties.

HONORABLE MAYOR AND CITY COUNCIL
November 23, 2004
Page 2

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Authorize the City Manager to enter into a five-year Mineral Interests Agreement
with Signal Hill Petroleum, Inc.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF OIL PROPERTIES

CJG:CPH

LEG 616.001B

APPROVED:



GERALD R. MILLER
CITY MANAGER