



CHRISTOPHER J. GARNER  
DIRECTOR

2400 EAST SPRING STREET · LONG BEACH, CA 90806  
(562) 570-2000 · FAX (562) 570-2050

[www.lbgo.org](http://www.lbgo.org)

January 8, 2013

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 City of Long Beach and Tidelands Oil Production Company to further promote oil exploration and production while also lessening the associated financial risk to the City. (District 1)

**DISCUSSION**

On May 22, 2012, City Council approved an Optimized Waterflood Program Agreement (OWPA) for the West Wilmington oil field between the City of Long Beach (City), Tidelands Oil Production Company (Tidelands OPC) and the State Lands Commission (SLC) to provide financial incentives for the exploration and production of incremental oil volumes. An additional OWPA is proposed between the City and Tidelands OPC for the City's Uplands incremental oil interests in West Wilmington. For the non-incremental volumes, the City will continue to receive all oil revenue it would expect under current contract terms.

The City is currently responsible for its full share of the investment costs in the oil field. Unless an OWPA is agreed to, during the next few years of the initial stages of exploration and production, this cost obligation (an estimated \$26 million over the next four years and more over the long-term) will significantly reduce the City's net oil revenues available to the General Fund. Should oil prices and resulting revenues decrease, the City's net exposure would be magnified, as the City's oil revenue would not do as much to offset the City's share of oil field costs.

Under the provisions of the OWPA, this cost exposure to the City will be eliminated, as Tidelands OPC will cover the City's share of field investment. In exchange, if and when incremental profit is realized from the new exploration and investment, Tidelands OPC would receive 49 percent and the City would receive 51 percent of any incremental oil revenue, the same public/private revenue sharing percentages in the other Wilmington Oil Field's OWPA agreements. Without the OWPA, the City would be responsible for 100 percent of its share of the costs and would receive 100 percent of the incremental revenue. By approving the OWPA,

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the City can expect to have more net revenue initially (next few years) and a more secure and stable revenue stream available to the General Fund in the longer term, but somewhat lower net revenue after the first few years. The City's revenue will be allocated to the Uplands Oil Fund.

This matter was reviewed by Deputy City Attorney Richard Anthony on December 10, 2012 and by Director of Financial Management John Gross on December 11, 2012.

TIMING CONSIDERATIONS

City Council action on this matter is requested for January 8, 2013 to alleviate the City's payment of oil field costs as soon as possible.

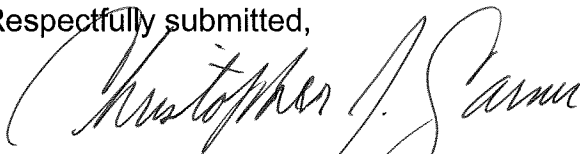
FISCAL IMPACT

Adoption of the OWPA will result in net City revenue not being adversely impacted by the costs of incremental oil exploration and production, saving an estimated \$26 million over the next four years, but resulting in less incremental revenue from any new oil production. Net profits from the OWPA will be contingent upon actual incremental production results and the market price of oil at the time of production. As a result of this OWPA, the Uplands Oil fund will avoid substantial investment costs and minimize risk of reduced net revenues. The City and Tidelands OPC will share all associated future incremental oil revenues on a 51/49 percentage basis, respectively.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER  
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:KT

APPROVED:

  
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PATRICK H. WEST  
CITY MANAGER