

MINUTE ITEM

20. CRUDE OIL PRICING PROVISIONS, FIELD CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY - L.B.W.O. 10,155.

At the request of the Chairman, the Executive Officer outlined the crude oil pricing provisions proposed to be included in the Field Contractors' Agreement for the Long Beach Unit, with the understanding that final action would be taken at the next meeting of the Commission.

Mr. L. E. Scott of Pauley Petroleum objected to the pricing clause as recommended, although conceding that it was better than that originally proposed. He asked first that the State use the highest price actually paid, not the highest posted price; later he amended this to "prices posted and paid by continuing purchasers".

Commissioner Cranston moved that the proposed pricing provision be amended in accordance with Mr. Scott's suggestion; the motion was seconded by Commissioner Champion.

Mr. Scott of Pauley Petroleum also urged the Commission to amend State oil and gas lease forms to conform to whatever pricing provisions were adopted for the East Wilmington Field. It was decided that this should be discussed as a separate matter.

UPON MOTION DULY MADE AND SECONDED, A RESOLUTION WAS ADOPTED AUTHORIZING THE EXECUTIVE OFFICER TO PREPARE THE PROVISIONS FOR DETERMINATION OF CRUDE OIL VALUE FOR THE CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, IN ACCORDANCE WITH THE CRITERIA OUTLINED IN EXHIBIT "A" (AS AMENDED) ATTACHED HERETO AND HEREBY MADE A PART HEREOF, AND WITH THE UNDERSTANDING THAT FINAL ACTION WILL BE TAKEN AT THE SEPTEMBER MEETING OF THE COMMISSION ON BOTH THE OPERATING AGREEMENT AND THE UNIT AGREEMENT AS DRAFTED SUBSEQUENT TO THE PASSAGE OF NEW LEGISLATION.

A brief discussion followed about the call for bids, with Mr. Lingle of Long Beach reporting that this call would be made subsequent to Lands Commission and Long Beach City Council approval. Assuming Commission approval on September 24, 1964, bids would be opened in November, with execution of the contracts made as soon thereafter as possible.

Attachment

Amended Exhibit "A" (2 pages)

Calendar Item 30 (3 pages)

Amended

EXHIBIT "A"

CONTRACTORS' AGREEMENT
LONG BEACH UNIT

CRUDE OIL VALUE

General Provisions

1. The basic oil price will be the highest of the following:

a. The arithmetical average of the prices posted and paid in the Wilmington Field by "Continuing Purchasers".

b. The arithmetical average of prices actually paid in the Wilmington Field by Continuing Purchasers, as determined on the basis of data available to the City and the State.

c. The arithmetical average of prices posted and paid by Continuing Purchasers in the "Named Oil Fields" (i.e., Huntington Beach, Signal Hill and Inglewood) or such of them in which there is such posting.

d. The arithmetical average of prices actually paid by Continuing Purchasers in the Named Oil Fields or such of them as to which data on such purchases is available. [In the case of both (c) and (d), the average price will first be computed as to each Named Oil Field and then averaged between all Fields, so that each Field entering into the computation will receive equal weight.]

2. Other factors in the pricing determination will be as follows:

a. In the event none of the four factors set forth in part 1 (supra) can be determined on the basis of available data, the criterion will be fair market value at the point of delivery, determined on the basis of all available information, such as prices posted and/or paid in other California oil Fields, prices received and paid by Contractors et al.

Amended

EXHIBIT "A" (CONTD.)

b. If any party to the Contractors' Agreement (including Field Contractor, Nonoperating Contractors, any of the Persons comprising any of the contractors or owning a substantial interest in any such Person) purchases oil from others in the Wilmington Field at a price higher than the Contract price (otherwise computed), such contractor or Person will account to the City and the State at such higher price during the period of such purchase for that portion of the total Contract oil to which such contractor or Person is entitled.

3. The Contractors' Agreement will contain certain auxiliary provisions designed to implement the foregoing pricing provisions, including the following:

a. The parties to the Contractors' Agreement will be required to make available to the City and the State, upon request, all information relevant to or necessary to implement the foregoing provisions, including a true and complete list of all purchases and sales of crude oil by each party from or to other persons in the Wilmington Field and each of the Named Oil Fields, including specification of price, quantity and gravity of oil bought and sold.

b. A "Continuing Purchaser" will be defined as one who, during a specified preceding twelve month period, has purchased an average of at least 1000 barrels of oil per day in the oil field in question.

c. Current accounting will be on the basis of a readily ascertainable standard (such as average posted price in the Wilmington Field), subject to periodic (perhaps quarterly) review and audit to determine whether any additional sums are due in accordance with the foregoing criteria.

d. The price for valuing each delivery of oil will be computed to the closest tenth of each degree of API gravity and the closest tenth of one cent per barrel by interpolating on a straight line between the full degree of API gravity prices posted or paid.

CALENDAR ITEM

30.

CRUDE OIL PRICING PROVISIONS, FIELD CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY - L.B.W.O. 10,155.

At the conclusion of the Public Review Relative to Proposals and Criteria for the Pricing of Crude Oil to be Produced under Future Contracts from the Long Beach Unit of the Wilmington Oil Field, held on June 24, 1964, the Commission directed that the study of pricing criteria be continued.

It is the opinion of the staff that a crude oil value determination in the proposed Contractors' Agreement in conformance with the criteria specified in Exhibit "A" would assure reasonably that oil purchased from Tract I of the Unit will be accounted for at a value equal to or higher than the fair market value without adversely affecting the bids offered. Additionally, these criteria would not appear to expose the Contractor to unpredictable conditions which could result in a discounted bid.

For the market value determination, in addition to the consideration of posted prices, the inclusion of the arithmetic average of the actual purchase price paid by Continuing Purchasers for oil of like gravity both in the Wilmington Field and in three additional major fields in the Los Angeles Basin is a further safeguard of the City's and State's interest in the event that the posted price differs from the market value.

The Agreement would require that the Contractor furnish to the City a list of prices paid to others in the Field by it and by all persons, firms or corporations comprising the Contractor, which includes the Nonoperating Contractors. This data will provide the basis for making the required price determinations.

A "Continuing Purchaser" would be defined as a purchaser who has purchased an average of at least 1,000 barrels of oil per day in the Fields under consideration during each of the preceding 12 calendar months. The proposed criteria for determining the value of Tract I Crude Oil should provide assurance that the value will be at least the market value of the oil produced, whether or not the Purchaser posts prices in the Wilmington Field or any of the other fields.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO PREPARE THE PROVISIONS FOR DETERMINATION OF CRUDE OIL VALUE FOR THE CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, IN ACCORDANCE WITH THE CRITERIA OUTLINED IN EXHIBIT "A", ATTACHED HERETO AND HEREBY MADE A PART HEREOF.

Attachment
Exhibit "A"

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CONTRACTORS' AGREEMENT
LONG BEACH UNIT

CRUDE OIL VALUE

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c. The arithmetical average of prices posted by Continuing Purchasers in the "Named Oil Fields" (i.e., Huntington Beach, Signal Hill and Inglewood) or such of them in which there is such posting.

d. The arithmetical average of prices actually paid by Continuing Purchasers in the Named Oil Fields or such of them as to which data on such purchases is available. [In the case of both (c) and (d), the average price will first be computed as to each Named Oil Field and then averaged between all Fields, so that each Field entering into the computation will receive equal weight.]

2. Other factors in the pricing determination will be as follows:

a. In the event none of the four factors set forth in part 1 (supra) can be determined on the basis of available data, the criterion will be fair market value at the point of delivery, determined on the basis of all available information, such as prices posted and/or paid in other California oil Fields, prices received and paid by Contractors et al.

EXHIBIT "A" (CONTD.)

b. If any party to the Contractors' Agreement (including Field Contractor, Nonoperating Contractors, any of the Persons comprising any of the contractors or owning a substantial interest in any such Person) purchases oil from others in the Wilmington Field at a price higher than the Contract price (otherwise computed), such contractor or Person will account to the City and the State at such higher price during the period of such purchase for that portion of the total Contract oil to which such contractor or Person is entitled.

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a. The parties to the Contractors' Agreement will be required to make available to the City and the State, upon request, all information relevant to or necessary to implement the foregoing provisions, including a true and complete list of all purchases and sales of crude oil by each party from or to other persons in the Wilmington Field and each of the Named Oil Fields, including specification of price, quantity and gravity of oil bought and sold.

b. A "Continuing Purchaser" will be defined as one who, during a specified preceding twelve month period, has purchased an average of at least 1000 barrels of oil per day in the oil field in question.

c. Current accounting will be on the basis of a readily ascertainable standard (such as average posted price in the Wilmington Field), subject to periodic (perhaps quarterly) review and audit to determine whether any additional sums are due in accordance with the foregoing criteria.

d. The price for valuing each delivery of oil will be computed to the closest tenth of each degree of API gravity and the closest tenth of one cent per barrel by interpolating on a straight line between the full degree of API gravity prices posted or paid.