

MINUTE ITEM

This Calendar Item No. 54
 was approved as Minute Item
 No. 54 by the State Lands
 Commission by a vote of 2
0 - 0 at its 2/9/82
 meeting.

CALENDAR ITEM

54

1/28/82
 W 40207
 Thompson

RESOLUTION OF DEPARTMENT OF ENERGY
 AUDIT CONTROVERSIES, LONG BEACH TIDELANDS

During the period from August 19, 1973 through January 28, 1981, crude oil produced from the Long Beach Unit (LBU), the Long Beach Harbor Department Tidelands Parcel (LBOD) and Parcel "A", which are located in Long Beach in the Wilmington oil field, was under varying degrees of federal control with respect to the price that could be charged upon its first sale. These controls began as part of the Phase IV Price Regulations under the Economic Stabilization Act of 1970 (12 U.S.C. Section 1904 note), and were continued under the Emergency Petroleum Allocation Act of 1973 (15 U.S.C. Section 751 et seq.). Price controls on the oil produced from the tidelands portion of these properties, which include all of LBOD and Parcel "A" and most of LBU, did not begin until October 25, 1973, because this oil was subject until this time to an exemption given to oil sold by State and local governments. These price controls were administered by the Department of Energy and its predecessor of Federal Regulations.

During this period of price controls, the DOE conducted numerous audits of crude oil sales from LBU, LBOD and Parcel "A", including sales of sell-off oil from these parcels. The audits resulted in allegations by the DOE of two separate violations of its Mandatory Petroleum Allocation and Price Regulations. The first violation alleged was that sales by the City of Long Beach of sell-off oil from LBU, LBOD and Parcel "A", during the period from February 21, 1974 through January 15, 1975, were made at prices in excess of the applicable ceiling price (subsequently referred to as the "sell-off bonus issue"). The second violation alleged was that oil from LBU, LBOD and Parcel "A" was sold in excess of the applicable ceiling price during periods after September 1, 1976, in that the City of Long Beach, in cooperation with the State, improperly certified as separate reservoir properties certain reservoirs which were not separate because production from them was obtained from multiple-completion wells and was commingled in the well bore (subsequently referred to as the "commingling issue"). The sell-off bonus issue was pursued by the DOE through its channels of administrative adjudication to the point where a Proposed Remedial Order was issued to the City of Long Beach in Case No. DRO-0161. The DOE has filed a letter of intent to proceed with a Notice of Probable Violation on the commingling issue.

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Members of the staff and representatives of the City of Long Beach and the Attorney General's office have been engaged in long and intense discussions with the DOE in an attempt to resolve these two audit controversies. A resolution has been obtained, subject to Commission approval, in the form of two separate Consent Orders.

One Consent Order resolves the sell-off bonus issue and is to be entered into between the City of Long Beach and the DOE. Without admitting any liability, the City agrees to a refund of \$1,000,000, which shall be applied by the City to an energy project approved by the DOE. Pursuant to a letter agreement, the DOE has given its approval to using the \$1,000,000 for the purchase of downhole motor speed control devices for installation on selected wells in the Long Beach Unit. These devices will enable the speed of the downhole submersible pumps to be adjusted to the fluid entry into the well bore in order to increase the recovery of reservoir fluids and prolong the life of the pumps. The \$1,000,000 will come from the State's share of remaining oil revenue from the Long Beach tidelands. It will be used by the Unit to purchase the control devices, which, when purchased, will become Unit facilities. A binding commitment to purchase the control devices must be made within one year of the date of the Consent Order. The satisfaction by the City of its obligation to so commit the \$1,000,000 will fully release the City from all liability to the DOE with respect to the sell-off issue.

The second Consent Order, which is to be entered into among the City, the State Lands Commission acting for the State and the DOE, will not only resolve the commingling issue but will provide a release of all liability under the Mandatory Petroleum Allocation and Price Regulations for the duration of the price control program, which is from August 19, 1973 through January 28, 1981, for LBU, LBOD and Parcel "A". Without admitting any liability, the City and State agree to a refund of \$5,000,000 which shall be applied by them to an energy project approved by the DOE. Pursuant to a letter agreement, the DOE has given its approval to the application of the \$5,000,000 toward the purchase of a drilling rig for the Long Beach Unit. The drilling rig will be used to expand infill drilling in the Unit, which should increase the success of secondary and tertiary recovery techniques. As with the \$1,000,000 under the other Consent Order, the \$5,000,000 involved in the Consent Order will come from the State's share of remaining oil revenue from the Long Beach tidelands. This money will be applied by the Unit toward the purchase of the drilling rig, with any additional moneys required coming from all Unit participants

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in proportion to their interests. When purchased, the drilling rig will become a Unit facility. A binding commitment to purchase the drilling rig must be made within one year of the date of the Consent Order. The satisfaction by the City and State of its obligation to so commit the \$5,000,000 will fully resolve all potential liability under the Mandatory Petroleum Allocation and Price Regulations for all transactions involving the production and sale of crude oil from LBU, LBOD and Parcel "A" for the duration of the price control and allocation program.

Under regulations of the DOE, both Consent Orders must be published in the Federal Register for the purpose of inviting public comment. The Consent Orders will not be effective unless and until the DOE decides, after expiration of the 30-day comment period, to issue the Consent Orders as signed and gives notice to that effect.

Because of the Commission's supervisory powers over the oil operations in the Long Beach tidelands under Chapter 29, Statutes of 1956, 1st E.S. and Chapter 138, Statutes of 1964, 1st E.S., and in view of the State's interest in the remaining oil revenue from the Long Beach tidelands, as provided in Chapter 138, it is necessary that the Commission approve the City's execution of both Consent Orders. It is appropriate that the Commission execute the Consent Order involving the commingling issue in view of the State's role as a working interest owner in Tract 2 of the Long Beach Unit.

THEREFORE, IT IS RECOMMENDED THAT COMMISSION:

1. APPROVE THE EXECUTION BY THE CITY OF LONG BEACH OF THE TWO CONSENT ORDERS RESOLVING THE DOE AUDIT CONTROVERSIES CONCERNING OIL PRODUCTION AND SALES IN THE LONG BEACH UNIT, THE LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL AND PARCEL "A" IN THE WILMINGTON OIL FIELD.
2. AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE ON THE COMMISSION'S BEHALF THE CONSENT ORDER RESOLVING THE COMMINGLING ISSUE.