

MINUTE ITEM

This Calendar Item No. 22
was approved as Minute Item
No. 22 by the State Lands
Commission by a vote of 3
0 at its 2/5/92
meeting.

CALENDAR ITEM

A 57, 58

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02/05/92
W 17095
R. Ludlow

CONSIDER THE CONSENT BY THE CITY OF LONG BEACH
FOR THE ASSIGNMENT TO ATLANTIC RICHFIELD COMPANY AND
ULTIMATELY TO ARCO LONG BEACH, INC.
OF EXXON CORPORATION'S INTEREST IN THE FIELD CONTRACTORS'
SHARE OF THE CONTRACTORS AGREEMENT, LONG BEACH UNIT

ASSIGNOR:

Exxon Corporation
Attn: Tom Roche
225 West Hilcrest Drive
Thousand Oaks, California 91360

ASSIGNEE:

Atlantic Richfield Company
ARCO Long Beach, Inc.
Western District
P. O. Box 147
Bakersfield, California 93302

PARTY:

City of Long Beach
Department of Oil Properties
333 West Ocean Boulevard
Long Beach, California 90802

BACKGROUND

In 1965, the City of Long Beach (City) and several oil companies entered into the Contractors' Agreement for the development and production of oil from the eastern extension of the Long Beach tidelands and upland parcels unitized with these tidelands, now known as the Long Beach unit. The Contractors' Agreement provides the rights and obligations of the City and its oil company contractors with respect to the hydrocarbons allocated and the costs attributable to Tract 1 of the Long Beach Unit, which is the portion of the Unit encompassing the City's granted tidelands.

The Contractors' Agreement is divided into a Field Contractor's share and several Nonoperating Contractors' shares. The Field Contractors' share comprises an 80-percent interest in Tract 1. The holder of this share is responsible for conducting the day-to-day field operations in the Long Beach Unit under the direction and control of the City which is the Unit Operator. The holder of this interest is also responsible for taking 80 percent of the oil allocated to Tract 1 and paying 80 percent of the expenses attributable to Tract 1.

The highest bidder for the Field Contractor's share was a group of five oil companies, each with a one-fifth interest. The five companies were Texaco, Inc., Humble Oil and Refining Company (now Exxon), Union Oil Company of California, Socony Mobil Oil Company, and Shell Oil Company. They came to be known by the acronym THUMS. These five companies formed THUMS Long Beach Company, a separate corporation in which each owned 20 percent of the stock, to act as the agent for the five companies to carry out the functions of the Field Contractor. Each of the five companies was jointly and severally liable for performing the functions of the Field Contractor.

In 1989, Atlantic Richfield Company, through its wholly owned subsidiary, ARCO Long beach, Inc., acquired the interests of Texaco, Union, and Shell in the Field Contractor. In 1991, it acquired the interest of Mobil. ARCO Long Beach now holds an 80 percent interest in the Field Contractor and 80 percent of the THUMS Long Beach Company stock. Atlantic Richfield has entered into an agreement with Exxon Corporation under which it will acquire Exxon's 20-percent interest in the Field Contractor and Exxon's 20 percent of the THUMS stock. Thereupon, Atlantic Richfield will assign this interest and portion of stock to ARCO Long Beach and will guarantee the performance of ARCO Long Beach. If this acquisition becomes effective, ARCO Long Beach will hold an 100-percent interest in the Field Contractor.

Under Article 25 of the Contractors' Agreement, an assignment or other disposition of any interest in the Contractors' Agreement is not valid without the consent of and is subject to terms and conditions imposed by the City Manager of Long Beach acting with the approval of the State Lands Commission.

Atlantic Richfield, through its wholly owned subsidiary, ARCO Long Beach, is fully qualified to hold an additional 20-percent interest in the Field Contractor. Therefore, staff recommends that the Commission consent to the assignment subject to the terms and conditions set forth in the Findings.

In addition to the consent to the assignment, Exxon has also requested that it be released from all liability under the Contractors' Agreement on matters arising subsequent to the effective date of the assignment.

Commission staff is agreeable to releasing Exxon from liability under the Contractor's agreement for events that occur after the effective date of the assignment provided, however, that Exxon agree to enter into an Assignment Consent Agreement with the City of Long Beach which will contain terms and conditions substantially in the form set forth in Exhibit "A" to this Calendar Item.

AB 884:
N/A

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), the staff has determined that his activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Code Regs. 15378.

EXHIBIT:

- A. Terms of Assignment Consent Agreement

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. APPROVE THE CONSENT BY THE CITY MANAGER OF LONG BEACH TO THE ASSIGNMENT TO ARCO LONG BEACH, INC. OF THE INTEREST OF EXXON CORPORATION IN THE FIELD CONTRACTOR'S SHARE IN THE CONTRACTORS' AGREEMENT, LONG BEACH UNIT. THE CONSENT SHALL STATE THAT EXXON CORPORATION SHALL REMAIN JOINTLY AND SEVERALLY LIABLE FOR ANY MATTERS ARISING UNDER OR AFFECTING THE PERFORMANCE OF THE FIELD CONTRACTOR'S DUTIES UNDER THE CONTRACTORS' AGREEMENT OCCURRING PRIOR TO THE EFFECTIVE DATE OF THE ASSIGNMENT, ANYTHING IN ANY AGREEMENT BETWEEN ATLANTIC RICHFIELD COMPANY AND EXXON CORPORATION TO THE CONTRARY NOTWITHSTANDING, AND FURTHER PROVIDED, THAT EXXON

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CORPORATION ENTER INTO AN ASSIGNMENT CONSENT AGREEMENT WITH THE CITY OF LONG BEACH CONTAINING TERMS AND CONDITIONS SUBSTANTIALLY IN THE FORM ATTACHED TO THIS CALENDAR ITEM AS EXHIBIT "A".

3. DETERMINE THAT, BY GIVING ITS CONSENT TO THIS ASSIGNMENT, THE COMMISSION DOES NOT APPROVE ANY OF THE TERMS AND CONDITIONS OF THE CONTRACTS BETWEEN ATLANTIC RICHFIELD AND EXXON CORPORATION, OR ANY OTHER AGREEMENT INVOLVING EXXON CORPORATION, ATLANTIC RICHFIELD, OR ARCO LONG BEACH, EFFECTING OR IMPLEMENTING THE ASSIGNMENT.

EXHIBIT "A"

The Assignment Consent Agreement to be entered into among the City of Long Beach (City), Exxon Corporation (Exxon), Atlantic Richfield Company (ARCO), and ARCO Long Beach, Inc., and approved by the State Lands Commission shall include the following terms and conditions:

1. After execution of the Assignment Consent Agreement and the closing of the Purchase and Sale Agreement (the "Closing Date"), Exxon no longer shall be a party to the Contractors' Agreement and no longer shall be subject to the Contractors' Agreement with respect to activities or obligations under such agreement arising or occurring after the Closing Date. However, Exxon shall not be relieved from any liabilities to the City or the State relating to Long Beach Unit operations arising from or attributable to the activities of Exxon acting separately or as a part of the Field Contractor on or before the Closing Date. Exxon shall remain jointly and severally liable for any and all matters arising or affecting the performance of the Field Contractor's duties under the Contractors' Agreement on or before the Closing Date.
2. After the Closing Date, the only obligation Exxon shall have to the City or to the State, other than those set forth in paragraph 1 above, shall be the purchase of crude oil allocated to the Field Contractor after the Closing Date under certain limited conditions which are defined as follows:
 - (a) Exxon's obligations shall run from the day after the Closing Date to the earliest of (i) the completion of Exxon's obligations under 2(e) below,; (ii) midnight March 31, 2000, or midnight the day the Contractors' Agreement is sooner terminated; (iii) midnight the day the Contractors' Agreement is amended in any manner affecting the Field Contractor's obligations to take the oil allocated to its interest or; (iv) midnight the day the Field Contractor's interest or any portion of it is assigned or otherwise transferred to anyone other than ARCO or any wholly owned subsidiary of ARCO.
 - (b) Upon the occurrence of a Total Default, as defined in 2(c) below, the City shall have the right to notify Exxon that it is exercising its right to compel Exxon to purchase from the City, on a one-time basis, a specified amount of crude oil allocated to the Field Contractor's interest in Tract 1 that by reason of a Total Default has not been

purchased by ARCO or any wholly owned subsidiary of ARCO. That specified amount of crude oil shall not exceed the lesser of (i) 10,000 barrels per day of crude oil allocated to the Field Contractor's interest in Tract 1 or (ii) 32 percent of the average daily production of crude oil allocated to Tract 1 during the twelve months prior to the City's exercise of its rights (the "Purchase Amount").

(c) The City shall have the right to compel Exxon to purchase under 2(b) above only if (i) ARCO voluntarily or involuntarily becomes the subject of federal bankruptcy proceedings and (ii) the Contractors' Agreement is rejected in its entirety in the proceedings in accordance with federal bankruptcy law ("Total Default").

(d) After the City has exercised its one-time right to compel Exxon to purchase under 2(b) above, the City may elect to terminate Exxon's purchase obligations by providing Exxon with at least one month's advance written notice.

(e) After the City has exercised its right to compel Exxon to purchase under 2(b) above, Exxon shall begin to purchase the Purchase Amount at the beginning of the first month after the month in which Exxon receives notice of the City's election, provided that Exxon shall receive a minimum of fifteen (15) days notice to purchase the Purchase Amount unless a shorter notice period is agreed to by Exxon and the City. Exxon shall continue to purchase the Purchase Amount until the earliest of (i) the last day in the eleventh consecutive month after the first month in which Exxon makes a purchase under this 2(e); (ii) the last day in the month in which ARCO or any wholly owned subsidiary of ARCO starts to purchase any amount of crude oil allocated to the Field Contractor's interest in Tract 1; (iii) the last day of the month after the month in which Exxon receives the City's notice under 2(d) above to terminate Exxon's purchase of crude oil or; (iv) expiration of Exxon's purchase obligations in 2(a) above.

(f) The City may exercise its election in 2(b) above only once.

(g) No rights of the City or the State or obligations of Exxon regarding the purchase of oil by Exxon shall arise because of the Total Default by ARCO Long Beach Inc. or any other subsidiary or affiliate of ARCO.

(h) For purchases pursuant to this Assignment Consent Agreement, Exxon shall pay the City the price calculated pursuant to Article 9(b)(1) of the Contractors' Agreement without regard to any Amendment to the Contractors' Agreement on or after the Closing Date. Exxon shall pay the City for oil purchased by the end of the first month after the month in which Exxon takes delivery of such oil.

3. ARCO and ARCO Long Beach accept all of the right, title, and interest in and to the Contractors' Agreement from Exxon and agree and covenant to incur and be responsible for all of the obligations of the Field Contractor currently provided by the terms of the Contractors' Agreement, anything in any other agreements to which ARCO, ARCO Long Beach and/or Exxon may be a party to the contrary notwithstanding.
4. ARCO guarantees fully the performance by ARCO Long Beach of all of the terms, covenant, and conditions of the Contractors' Agreement.