MINUTE ITEM

This Calendar Item No. C49 was approved as Minute Item No. 49 by the California State Lands Commission by a vote of 3 to 0 at its 12/9/04 meeting.

CALENDAR ITEM
C49

A 54

12/09/04
W 13001
W 40831
M. Voskanian
D. Mercier
A. Reid

S 27

CONSIDER APPROVAL OF THE INTERIM AGREEMENT FOR THE SALE OF TIDELANDS DRY GAS TO THE LONG BEACH UNIT POWER PLANT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

APPLICANT:

City of Long Beach
Department of Oil Properties
Attn: Mr. Christopher J. Garner, Director
211 E. Ocean Blvd., Suite 500
Long Beach, CA 90802

BACKGROUND:

The City of Long Beach, through Long Beach Energy, is currently purchasing all Long Beach Unit (Unit) tidelands dry gas available for sale pursuant to the terms of the 2003 Long Beach Tidelands Dry Gas Price Agreement (2003 Agreement) between the City and the State. Unit tidelands dry gas available for sale currently is delivered to Long Beach Energy by THUMS Long Beach Company (THUMSCO), which operates a plant for processing tidelands gas, pursuant to the Natural Gas Delivery Agreement for Locally Produced Gas dated November 4, 1997 (Delivery Agreement).

The industry standard for the maximum percentage of carbon dioxide (CO_2) in delivered dry gas, and the standard required by Long Beach Energy, is three percent (3%), based on the U. S. Department of Transportation (DOT) requirement for DOT regulated pipelines. The Delivery Agreement, however, grants THUMSCO a variance from this standard that increases the maximum percentage of CO_2 in gas delivered by THUMSCO to five percent (5%). Since the inception of the Delivery Agreement, this variance has been applied to most tidelands dry gas deliveries by THUMSCO to Long Beach Energy, which has exceeded the three percent (3%) industry standard for CO_2 content. Current tidelands dry gas deliveries from THUMSCO to Long Beach Energy average approximately five percent (5%) CO_2. In a letter dated July 1, 2004, Long Beach Energy, acting pursuant to the Delivery Agreement, gave notice to THUMSCO that effective January 31, 2005, Long Beach Energy would no longer allow the variance, and would terminate the Delivery Agreement until THUMSCO could deliver tidelands dry gas with a CO_2 content not exceeding three percent (3%), and adhere strictly to the DOT standard.

It will take an estimated eighteen months or more to design, permit and install the equipment required to reduce the CO_2 content of the tidelands dry gas to a level suitable for sale to Long Beach Energy. Therefore, to insure that production from the Unit is not interrupted, an interim solution is required. Currently, all of the tidelands portion and townlot portion of the Unit dry gas is being delivered as fuel to the Long Beach Unit electric power generating plant when it is more economic than purchasing electricity from the electric utility. This gas is paid for pursuant to the terms of the Power Plant Gas Usage Agreement, dated November 15, 2001. When it is less than economic to operate the power plant, electricity is purchased from the utility, and the Unit dry gas is sold to Long Beach Energy pursuant to the 2003 Agreement and the Long Beach Unit Townlot Dry Gas Agreement, respectively.

The City, as Unit Operator, has agreed, on an interim basis, to accept into its power plant uninterrupted deliveries of tidelands and townlot dry gas from THUMSCO's processing plant, not as Produced Fuel Gas, as defined in the Power Plant Gas Usage Agreement, but as gas used for the power plant. Since OXY Long Beach Inc. (OLBI) has no economic interest in the dry gas allocated to Tract 1, this interim agreement, as shown as Exhibit A, attached hereto, sets forth the terms pursuant to which OLBI will pay the City for the dry gas allocated to Tract 1 and the City will forward that payment to the State. Major terms included in this agreement are as follows:

A. Deliveries of tidelands dry gas or wet gas shall commence on February 1, 2005, and shall continue until 60 days after THUMSCO or the State gives written notice to the other of its desire to terminate deliveries.

B. Under this agreement THUMSCO shall pay for tidelands dry gas delivered to the power plant an amount per MMBtu equivalent to the Southern

California Gas Company's Weighted Average Cost of Gas (WACOG) in effect at the time the tidelands dry gas is delivered to the power plant. This price shall be discounted as necessary as provided in the interim agreement.

C. The discount provided for in the interim agreement results in a monthly-adjusted, weighted average amount per MMBtu that keeps the Unit financially whole when the power plant is operating when it normally would be shut-in for economic reasons. The data used in the calculation of the gas price discount in the manner provided in Exhibit A, shall reflect actual amounts available at the end of the month and shall be subject to audit by the State.

D. For approximately five (5%) of the time each year, the power plant will not be operational because of routine maintenance, repairs or unanticipated downtime. During the periods when the power plant is not operational, THUMSCO shall either flare the wet gas or dispose of the tidelands dry gas in some other manner. If the tidelands dry gas is sold, the proceeds of such sales will be delivered to the City. The City shall make payment to the State in accordance with Paragraph 6 of the Interim Agreement.

OTHER PERTINENT INFORMATION

1. The interim agreement provides for the sale and valuation of Long Beach Tidelands dry and/or wet gas to the Long Beach Power Plant for a temporary period, until a permanent solution for removing contaminants is installed. No physical modifications to the environment will occur as a result of the Commission's action. Therefore, pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

   Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

EXHIBIT:

A. Interim Agreement for the Sale of Tidelands Dry Gas to the Long Beach Unit Power Plant with exhibit.

PERMIT STREAMLINING ACT DEADLINE:
N/A

RECOMMENDED ACTION:
IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:
FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:
APPROVE THE INTERIM AGREEMENT FOR THE SALE OF TIDELANDS DRY GAS TO THE LONG BEACH UNIT POWER PLANT, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE THE INTERIM AGREEMENT SUBSTANTIVELY IN THE FORM ATTACHED AND TAKE SUCH ADDITIONAL MEASURES AS MAY BE NECESSARY TO IMPLEMENT THE TERMS THEREOF.

W 13001
W 40831

EXHIBIT A

INTERIM AGREEMENT FOR SALE OF TIDELANDS DRY GAS TO THE LONG BEACH UNIT POWER PLANT

This Interim Agreement for Sale of Tidelands Dry Gas to the Long Beach Unit Power Plant (Interim Dry Gas Sales Agreement) is made and entered into among Oxy Long Beach, Inc., a Delaware corporation (OLBI), the holder of the Field Contractor and Nonoperating Contractor interests in Tract 1; THUMS Long Beach Company, a Delaware corporation (THUMSCO), agent for the Field Contractor; the City of Long Beach, a municipal corporation (City), in its capacities as a municipality, as Unit Operator for the Long Beach Unit and as tidelands trustee; and the State of California, acting by and through the California State Lands Commission (State). These entities will be referred to collectively as the Parties.

The Long Beach Unit (Unit) has constructed and, acting through THUMSCO, is operating a 45-megawatt gas-fired power generating facility (power plant). The Unit constructed the power plant to provide electricity for its oil field operations instead of purchasing that electricity from the power grid.

The Unit produces wet gas in the course of its producing operations. The Unit processes the wet gas to extract wet gas products and contaminants such as hydrogen sulfide and then allocates the wet gas products and the residue dry gas to the Unit participants in proportion to their participating shares in the Unit. However, pursuant to the terms of the Contractors' Agreement, none of the residue dry gas shall become the property of any contractor.

Pursuant to the provisions of Chapter 29, Statutes of 1956, 1st E. S. (Chapter 29) and Chapter 138, Statutes of 1964, 1st E. S. (Chapter 138), the City is required to pay to the State free of the public trust all revenue from dry gas allocated to the Long Beach tidelands. Section 1(d) of Chapter 138 defines "dry gas revenue" as "the reasonable wholesale market value of dry gas derived from, or allocated or assigned to, or attributable to production from, or allocated and assigned to, . . . [the] Long Beach tidelands and received into the system of the municipal gas department of . . . [the] City of Long Beach, and the net receipts to the City of Long Beach from the sale of tidelands dry gas as such and which is not received into said system."

With regard to the disposition of tidelands dry gas, section 6 of Chapter 29 provides that "the City of Long Beach shall receive into the system of its municipal gas department all dry gas derived from the Long Beach tidelands which can be economically utilized by said department and which is not required for oil field injection or repressuring operations in said tidelands."

The City of Long Beach, through Long Beach Energy, is currently purchasing all Unit tidelands dry gas available for sale pursuant to the terms of the 2003 Long Beach Tidelands Dry Gas Price Agreement (2003 Agreement) between the City and the State. The terms of the 2003 Agreement, like those of section 6 of Chapter 29, require Long Beach Energy to purchase only the tidelands dry gas that it can utilize economically.

Unit tidelands dry gas available for sale currently is delivered to Long Beach Energy by THUMSCO, which operates a plant for processing tidelands gas, pursuant to the Natural Gas Delivery Agreement for Locally Produced Gas dated November 4, 1997 (Delivery Agreement). The industry standard for the maximum percentage of carbon dioxide (CO_2) in delivered dry gas, and the standard required by Long Beach Energy, is 3%. The Delivery Agreement, however, grants THUMSCO a variance from this standard that increases the maximum percentage of CO_2 in gas delivered by THUMSCO to 5%.

Since the inception of the Delivery Agreement, most tidelands dry gas deliveries by THUMSCO to Long Beach Energy have exceeded the 3% industry standard for CO_2 content. Current tidelands dry gas deliveries from THUMSCO to Long Beach Energy average approximately 5% CO_2. In a letter dated July 1, 2004, Long Beach Energy, acting pursuant to the Delivery Agreement, gave notice to THUMSCO that effective January 31, 2005, Long Beach Energy would terminate the Delivery Agreement until THUMSCO could deliver tidelands dry gas with a CO_2 content not exceeding 3% because the Department of Transportation would no longer allow gas with greater than 3% CO_2 into its regulated pipelines.

THUMSCO's gas processing plant has no facilities for removing CO_2 from the produced gas. The Unit, however, by Approval after Submission to the Participants, has been obligated since July 1, 1972, to treat each Unit Participant's share of wet gas for the extraction of wet gas products, hydrogen sulfide and non-marketable contaminants, and the Contractors' Agreement has been amended to reflect the Unit's assumption of this obligation. The Unit must install facilities for the removal of CO_2 that will be costly and will take a substantial amount of time. In the meantime, THUMSCO needs a place to deliver the tidelands dry gas after the Delivery Agreement with Long Beach Energy terminates.

Under the terms of the Power Plant Gas Usage Agreement dated November 15, 2001, OLBI, THUMSCO, the City and the State agreed that THUMSCO, as operator of the power plant, after the first two years of the power plant's operation, may elect to switch from using or not using all or a portion of the gas produced from the Unit as fuel for the power plant. In the event THUMSCO elects to use all or a portion of the produced gas from the Unit as fuel for the power plant, THUMSCO must pay to the City a Gas Make Whole Payment, as defined in the Power Plant Gas Usage Agreement, for the gas that it does not deliver to the City but uses as fuel for the power plant. All Unit produced gas in excess of the portion used as fuel for the power plant shall be sold to the City under the terms of the existing agreements for the sale of tidelands and townlot dry gas.

Currently, the bulk of the tidelands portion and townlot portion of the Unit dry gas is being delivered to the power plant and being paid for pursuant to the terms of the Power Plant Gas Usage Agreement. The balance of the tidelands portion and townlot portion of the Unit dry gas is being sold to Long Beach Energy pursuant to the 2003 Agreement and the Long Beach Unit Townlot Dry Gas Agreement, respectively.

The City, as Unit Operator, has agreed, on an interim basis, to accept into its power plant deliveries of tidelands and townlot dry gas from THUMSCO's processing plant, not as Produced Fuel Gas, as defined in the Power Plant Gas Usage Agreement, but as gas used for the power plant. Since OLBI has no economic interest in the dry gas allocated to Tract 1, this agreement sets forth the terms pursuant to which OLBI will pay the City for the dry gas allocated to Tract 1 and the City will forward that payment to the State.

THEREFORE, the Parties agree as follows:

1. Delivery. THUMSCO, acting at the direction of the Unit Operator, will deliver to the Unit's power plant the tidelands dry gas from THUMSCO's processing plant or wet gas.

2. Term. Deliveries of tidelands dry gas or wet gas shall commence on February 1, 2005, and shall continue until 60 days after THUMSCO or the State gives written notice to the other of its desire to terminate deliveries.

3. Amount. THUMSCO shall deliver to the power plant 100% percent of the tidelands dry gas from its processing plant or wet gas, except when the power plant is not operational.

4. Deliveries Not Produced Fuel Gas. Notwithstanding the provisions of the Power Plant Gas Usage Agreement, and particularly Sections 2.1 and 3.1, none of tidelands dry gas or wet gas delivered under this agreement shall be gas to be used as Produced Fuel Gas for which THUMSCO is obligated to make a Gas Make Whole Payment to the City nor shall any of this gas be valued on the basis of Produced Fuel Gas Value as defined in the Power Plant Gas Usage Agreement. If this Interim Dry Gas Sales Agreement is terminated as provided in paragraph 2, the Power Plant Gas Usage Agreement shall become fully operational.

5. Price. THUMSCO shall pay for tidelands dry gas delivered to the power plant an amount per MMBtu equivalent to the SoCal WACOG in effect at the time the tidelands dry gas is delivered to the power plant, which price shall be discounted as provided in Exhibit A.

The SoCal WACOG is the Southern California Gas Company's cost of purchases of interstate gas for sales to its core customers. If the actual SoCal WACOG is not known or is not fully ascertainable when THUMSCO's payment is due, THUMSCO shall make the payment using the currently published estimated SoCal WACOG and adjust the payment when the actual SoCal WACOG is known or is fully ascertainable. If the SoCal WACOG ceases to exist, THUMSCO's payments for the tidelands dry gas shall be based on any successor pricing mechanism reflecting the weighted average price per MMBtu of Southern California Gas Company's purchases of interstate gas for sales to its core customers in the Los Angeles Basin.

Exhibit A consists of a recitation of the steps for calculating the discount and an exemplar of the calculation. The discount shall result in a monthly-adjusted, weighted average amount per MMBtu that is designed to keep the Unit financially whole while the power plant is operating during periods when it normally would be shut-in for economic reasons. The data to be used in the monthly calculation of the discount shall be those data reflecting actual amounts available at the end of the month and shall be subject to audit by the State. The monthly discount shall never exceed 100% of the SoCal WACOG or any successor pricing mechanism.

If wet gas is delivered, the wet gas MMbtu will be multiplied by 94.6% to calculate a dry gas sales equivalent. This accounts for the MMbtus that would have been recovered from the wet gas as natural gas liquids by processing at the Unit gas plant, and may be modified from time to time through gas sampling.

Whenever another Unit Participant or other Unit Participants, either on their own or pursuant to an agreement or agreements with a marketer, sell their Unit Participation share or shares of dry gas or wet gas pursuant to a non-confidential sales contract or sales contracts at a price or prices higher than the price the State is receiving for tidelands dry gas or wet gas as provided above, the State shall receive from THUMSCO the highest of those prices for its tidelands dry gas or wet gas.

6. Payment. THUMSCO shall make payment monthly to the City on or before the last day of the month following the month for which tidelands dry gas or wet gas deliveries are made, based on the price formula in paragraph 5. The City shall make payment in full to the State of the gross proceeds it receives from THUMSCO as part of the net profits payment to the State for the month in which it receives the payment from THUMSCO.

7. Gas Disposal When Power Plant is Not Operational. The power plant will not be operational for approximately 5% of the time each year because it must undergo routine maintenance and repairs. The power plant may also not be operational due to unforeseen conditions. During the periods when the power plant is not operational, and the tidelands dry gas cannot be sold to another party, THUMSCO shall flare the wet gas. If the tidelands dry gas is sold to another party, the proceeds from that sale shall be delivered to the City. The City shall make payment to the State in accordance with paragraph 6 above.

8. Force Majeure. A delay or failure of performance under this Interim Dry Gas Sales Agreement by any party shall be excused to the extent it is caused by Force Majeure, as defined below, provided that the excuse shall not relieve the party claiming it from using reasonable efforts to overcome or remove the Force Majeure. Force Majeure means acts, events, occurrences and conditions beyond the reasonable control of the party claiming Force Majeure, but not limited to acts of God, riots, terrorists, labor disputes, sudden actions of the elements, the effect of changes in applicable laws or regulations, actions by federal, state or municipal agencies, actions of legislative, judicial, or regulatory agencies or denial, lapse or revocation of any permit, license or regulatory approval necessary in connection with operation of the power plant. A party claiming delay or failure of performance shall give prompt notice of the Force Majeure upon which it bases its claim and a description of its efforts to overcome the Force Majeure.

9. Notices. All notices to be sent under this Interim Dry Gas Sales Agreement shall be in writing and shall be deemed given when deposited with the United States Postal Service as first class mail, with postage pre-paid, or when sent by telephonic facsimile to the parties at the following addresses and phone numbers:

Oxy Long Beach, Inc.
Mr. Fred Boepple
P. O. Box 2900
Long Beach, CA 90801
Phone: 562-624-3304
Fax: 562-624-3299

THUMS Long Beach Company
Mr. Charlie Plant
P. O. Box 2900
Long Beach, CA 90801
Phone: 562-624-3202
Fax: 562-624-3299

City of Long Beach
Department of Oil Properties
Mr. Chris Garner
211 East Ocean Boulevard, Suite 500
Long Beach, CA 90802
Phone: 562-570-3947
Fax: 562-570-2008

California State Lands Commission
Mr. Paul Mount
200 Oceangate, 12th Floor
Long Beach, CA 90802

Phone: 562-590-5205
Fax: 562-590-5210

10. Successors and Assigns. This Interim Dry Gas Sales Agreement shall be binding upon the successor and assigns of the parties.

11. Counterparts. This Interim Dry Gas Sales Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered.

Dated: ________________, 2004

OXY LONG BEACH, INC.

By ________________________
FRANK KOMIN
General Manager - OLBI

Dated: ________________, 2004

THUMS LONG BEACH COMPANY, as Agent for the Field Contractor

By________________________
FRANK KOMIN
President - THUMSCO

Dated: ________________, 2004

CITY OF LONG BEACH, a municipal corporation, in its capacities as a municipality, as Unit Operator of the Long Beach Unit and as tidelands trustee

By ________________________
GERALD R. MILLER
City Manager

Dated: ________________, 2004

STATE OF CALIFORNIA, acting through the California State Lands Commission

By ________________________
PAUL D. THAYER
Executive Officer

Exhibit "A"

Discounted Gas Price Calculation Steps

1. A few days before the beginning of every month, the following are input into a spreadsheet (this is the same process/model that has been used during the last year) to determine the lowest cost power plant schedule:

   - Southern California Weighted Average Cost of Gas (SCG WACOG)
   - Southern California Edison (SCE) electric grid cost
   - The power plant operating cost

   Both the above SCG WACOG & electrical grid costs are used for calculating the following month's projected operating time.

   The power plant run options are:

   - Shut-down full time
   - Modified Week (Operates Weekdays except Mon & Thur and excludes 1 off peak period during the week)
   - Weekend Shutdown
   - Full Time Operation

2. The lowest cost option is selected based on a computer run economic model.

3. The additional cost of operating the power plant full time over the lowest cost option is the keep whole adjustment paid to the unit by the State.

4. When the monthly accounting is completed, the actual monthly costs are used to determine the keep whole adjustments.

5. The State audits the numbers to ensure that the State is only keeping the unit financially whole for the power plant operating cost incurred above the lowest cost option.

Discounted Gas Price Calculation Example (Actual Numbers)

The example calculation below shows how the State's gas will be discounted as a result of the power plant operating full time to use all the gas - no shut-down for economics. The discount amount is the difference between running the power plant full time and starting and stopping the plant based on economics.

September 2004 Data:

Step 1 is a calculation that accounts for SCG WACOG , SCE cost and the power plant cost.

Both SCG and SCE inputs are availble before each month. Based on these inputs the lowest cost of the four options shown below is chosen.

Power Plant Run Options[1]	Elect. Gen. MWh	Percent Operating Time
1) Shut-down full time	-	0%
2) Modified Week (Operates Weekdays except Mon & Thur)	18,254	59%
3) Weekend Shutdown	20,178	66%
4) Full Time	30,780	100%

			Description
Lowest cost option (MWh)		**18,254**	The lowest cost option is #2 above
Electricity Amount (MWh)			
Required (Full Time)		30,780	The power plant runs full time to use all dry gas
Planned		18,254	The lowest power cost option is chosen above
a) Additional MWh		12,526	The additional amount of electricity needed to operate full time
Actual Power Plant Cost ($/MWh)			
Fuel	$	50.91	LBU gas + purchased gas (about 20%) divided by the power plant electricity generated (option #2 above).
O & M[2]	$	5.00	
Heat Duct Revenue	$	(4.75)	A credit from a local company (GP) that uses the plant's steam
Operators	$	1.35	
User Utility Fees	$	0.30	A city utility fee
Exit Fees	$	7.37	
b) Power Plant $/MWh	$	60.18	The power plant's variable cost (doesn't include any fixed costs like the lease payment)
c) SCE $/MWh	$	55.93	Actual Southern California Edison Grid cost. This is the cost of electricity during the period of time when the power plant would normally be shut-in.
d) Additional $/MWh - (b-c)	$	4.25	The additional cost per MWh (to generate the 12,526 MWh above) from operating the power plant full time
e) Keep Whole - (a*d)	**$**	**53,179**	The additional cost of running the power plant full time (using all unit dry gas) when it would normally be shut-in for economics .
f) Gas Revenue	$	1,160,122	The total LBU revenue, using the SCG WACOG price.
g) Gas Discount (%) - (e/f)		**5%**	The percent discount to the State's SCG WACOG shall never exceed 100% in any month.

Notes:

1) These options are calculated the same as they have been calculated by the power plant operator over the last year
2) All costs within this category should be within the range of historical charges over the last year.
3) THUMSCO disputes that the UUT is applicable to electrical generation. However, to the extent the UUT is charged the unit is forced to pay the tax, the appropiate costs will be incorporated in the calculation under exhibit A.

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