



Date: August 15, 2008

To: State Legislation Committee Members

From: Patrick H. West, City Manager 

Subject: Pending Legislation to Allow for a Contract Modification in the Tidelands Area to Increase Oil Production

The west Wilmington oil field is a valuable asset to the City of Long Beach and provides a continuous funding stream for various City projects and programs. However, the oil field is in need of investment in order to maintain current oil production levels, as well as potentially increase production and revenues on a long-term basis.

Staff has been working with Oxy, the parent company of Tidelands Oil Production Company, which handles the day-to-day management of oil field operations, and members of our State delegation to craft legislation that would allow Oxy to design, in conjunction with the City, and implement an optimized waterflood program (OWPA) that would ultimately increase oil production above and beyond previous production levels. This increased production could raise approximately \$174 million for the State of California and \$150 million for the City over a ten-year period.

Attached is a fact sheet containing background information on this proposed legislation. Assemblymember Betty Karnette has agreed to carry this legislation and will amend this new language into an existing bill, Assembly Bill (AB) 2165, early next week.

We will continue to work with Assemblymember Karnette's office as this bill moves through the legislative process. If you have any questions or require additional information, please contact Tom Modica, Manager of Government Affairs, at 8-5091.

CC: Mayor and Members of the City Council
Suzanne Frick, Assistant City Manager
Reginald Harrison, Deputy City Manager
Chris Garner, Director of Gas and Oil
Lori Ann Farrell, Director of Financial Management
Curtis Henderson, Oil Operations Bureau Manager
Samara Ashley, Director of Government Affairs (Harbor)
Tom Modica, Manager of Government Affairs
Jyl Marden, Assistant to the City Manager
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Proposed Legislation for Increased Oil Production in Long Beach

Background

The City of Long Beach contracts with Tidelands Oil Production Company (Tidelands-OPD) to conduct the day-to-day oil field operations in the west Wilmington oil field. The Wilmington oil field has been in continuous operations since the 1930's and encompasses much of area under the Port of Long Beach. Tidelands-OPD operates under three separate contractors agreements including the "Long Beach Tidelands Parcel and Parcel A Contract" which focuses on the State tidelands oil interests.

Problem

Significant investment in the oil field is needed to maintain and possibly increase oil production. Under the existing contractors' agreement the State would bear more than 95% of the additional costs out of the revenues otherwise payable to the State. The State is unwilling to bear this additional economic risk because (1) there is a significant risk that the additional production will be insufficient to compensate for the additional costs and (2) important State water, education and general programs that depend upon oil revenue should not bear the risk of any reduction in revenues resulting from the costs of increased investment into the oil field.

Proposed Solution

Oxy owns Tidelands OPC and believes that, if given the opportunity, it can design and, in conjunction with the City of Long Beach (City), implement an optimized waterflood program (OWPA) that would result in the production of a substantial volume of oil from the west Wilmington oil field over and above the volume of oil that would be produced from continuation of the development program employed historically. If realized, the increased production will greatly benefit the State, which has the largest financial interest in the field. This proposed agreement is similar to the 1992 agreement between then Arco, State, and the City concerning the Long Beach Unit.

Key Supporting Arguments

- Oxy will expand its technical resource base devoted to State interests.
- Oxy will commit to a minimum development spending level of \$30 million directed towards the State's equity share – at Oxy's risk
- Oxy will preserve the State's current profit related to existing production.
- Oxy and State will share profit related to incremental production.
- Oxy will insulate the State from all economic risk related to development activities. All negative incremental net profit will be absorbed by Oxy.
- Using the conservative figure of \$80 per barrel of oil, the projected State revenue would be \$174 million over a ten year period!
- Actual benefit to the State from 1992 agreement: over \$500 Million.