

MINUTE ITEM

18. AGREEMENT AMENDING CONTRACT FOR SALE OF NATURAL GAS BETWEEN THE CITY OF LONG BEACH, ITS BOARD OF HARBOR COMMISSIONERS, SIGNAL OIL AND GAS COMPANY AND LOMITA GASOLINE COMPANY, WILMINGTON OIL FIELD - L.B.W.O. 10,193.

After consideration of Calendar Item 4 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION APPROVES AND THE EXECUTIVE OFFICER IS AUTHORIZED TO CERTIFY APPROVAL OF THE "AGREEMENT AMENDING CONTRACT FOR SALE OF NATURAL GAS", BETWEEN THE CITY OF LONG BEACH AND THE BOARD OF HARBOR COMMISSIONERS OF THE CITY OF LONG BEACH, AS FIRST PARTIES, AND SIGNAL OIL AND GAS COMPANY AND LOMITA GASOLINE COMPANY, AS SECOND PARTIES.

Attachment
Calendar Item 4 (2 pages)

CALENDAR ITEM

4.

AGREEMENT AMENDING CONTRACT FOR SALE OF NATURAL GAS BETWEEN THE CITY OF LONG BEACH, ITS BOARD OF HARBOR COMMISSIONERS, SIGNAL OIL AND GAS COMPANY AND LOMITA GASOLINE COMPANY, WILMINGTON OIL FIELD - L.B.W.O. 10,193.

The City of Long Beach, pursuant to Chapter 29, Statutes of 1956, 1st E.S., has submitted for approval by the State Lands Commission an "Agreement Amending Contract for Sale of Natural Gas", between the City of Long Beach and the Board of Harbor Commissioners of the City of Long Beach, as first parties; and Signal Oil and Gas Company and Lomita Gasoline Company (collectively referred to as "purchaser"), as second parties.

This agreement will amend an existing Contract for Sale of Natural Gas, dated September 5, 1947, which provides for the processing and sale of natural gas and natural gas products produced from lands subject to a Drilling and Operating Contract (Parcel A) entered into between the City of Long Beach and Richfield Oil Corporation on March 12, 1947 (see Exhibit "A").

It has been demonstrated that water injection operations in the Wilmington Oil Field result in a marked increase in the amount of hydrogen sulphide contained in the natural gas produced from the repressured formations. Hydrogen sulphide, if present in sufficient quantities, must be removed from such natural gas in order to make the resulting dry gas marketable. Under the present Contract for Sale of Natural Gas there is no obligation on the purchaser to remove hydrogen sulphide from the natural gas produced from Parcel "A".

Water injection operations have also resulted in a reduction of quantity and quality of the natural gas produced from Parcel "A". It is contemplated that the proposed water-flooding operation in the Ranger Zone of Fault Block V will result in a further reduction in the quantity and quality of the gas produced, with the consequence that the profitability to the purchaser from processing such gas under the present contract may be further reduced.

Since the purchaser's obligation to continue to purchase natural gas under the present contract is conditioned in part upon certain minimum volumes being maintained and upon such processing being profitable to the purchaser, the parties desire to amend the present contract in order that the purchaser will not be placed in the position where due to uneconomic operations it will be necessary to exercise its right of termination.

The proposed amendment will provide for the removal of hydrogen sulphide from the wet gas produced from Parcel "A" when such gas contains in excess of three-tenths grain hydrogen sulphide per one hundred cubic feet. The City shall reimburse the purchaser for the cost of treating such gas for the removal of hydrogen sulphide down to this specified limit.

Additionally, the proposed amendment provides if the gross income to the purchaser is less than 115% of the cost of processing Parcel "A" gas, the City shall pay the purchaser an amount equal to such deficit. The cost of processing such gas shall be computed in accordance with the accounting

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procedure set forth in Exhibit "A" of the proposed amendment. In the event that this deficit plus the purchaser's share exceeds 50 percent of the value of the products produced, the contract may be terminated by either party unless the purchaser waives its right to collect this deficit.

This amendment shall be retroactively effective from September 1, 1963, and shall expire concurrently with the original Contract for Sale of Natural Gas. The term of the original contract is for so long as natural gas is produced from Parcel "A" in paying quantities, but in no event after the expiration or sooner termination of the Drilling and Operating Contract for Parcel "A" which expires February 11, 1972.

The proposed amendatory agreement was approved by the Board of Harbor Commissioners of the City of Long Beach at its meeting on September 30, 1963, and by the City Council of the City of Long Beach at its meeting on October 8, 1963.

In the opinion of the staff, the amendment of the agreement is reasonably necessary for the implementation of the Fault Block V Unit Agreement. The office of the Attorney General has advised that under applicable statutes the Commission may consider the subject agreement for approval.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE AND AUTHORIZE THE EXECUTIVE OFFICER TO CERTIFY APPROVAL OF THE "AGREEMENT AMENDING CONTRACT FOR SALE OF NATURAL GAS", BETWEEN THE CITY OF LONG BEACH AND THE BOARD OF HARBOR COMMISSIONERS OF THE CITY OF LONG BEACH, AS FIRST PARTIES, AND SIGNAL OIL AND GAS COMPANY AND LOMITA GASOLINE COMPANY, AS SECOND PARTIES.