

MINUTE ITEM

3/11/66

2. PROPOSAL FOR RESTRICTIVE PURCHASE OF SUBMARINE LINE PIPE, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY - W.O. 5200.309.2.

After consideration of Calendar Item 2 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION MODIFIES THE RESOLUTION OF SEPTEMBER 23, 1965 (MINUTE ITEM 27, PAGE 11,749), TO PERMIT THE FIELD CONTRACTOR FOR THE LONG BEACH UNIT TO LIMIT BIDDING FOR LINE PIPE REQUIRED TO CONSTRUCT SUBMARINE PIPELINES FOR THE FOUR OFFSHORE ISLANDS, TO PIPE MANUFACTURED IN THE UNITED STATES, AS OUTLINED IN THUMS APPROVAL REQUEST 2-66.

Attachment

Calendar Item 2 (2 pages)

2.

PROPOSAL FOR RESTRICTIVE PURCHASE OF SUBMARINE LINE PIPE, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY - W.O. 5200.309.2.

THUMS Long Beach Company, field contractor for the Long Beach Unit, has requested City of Long Beach approval of a restricted bidding procedure requiring that line pipe used to construct the submarine pipelines from the four offshore islands be manufactured in the United States. The details of this request are set forth in THUMS Approval Request 2-66, attached as Exhibit "A".

The Commission, at its meeting of March 1, 1966, deferred action on this item and requested that additional information be presented by the staff at the next meeting of the Commission.

At its meeting of September 23, 1965, the Commission unanimously adopted the following resolution:

"OIL WELL CASING, TUBING, AND LINE PIPE REQUIREMENTS FOR THE LONG BEACH UNIT DEVELOPMENT PROGRAM ARE TO BE PURCHASED UNDER A PROCEDURE SPECIFYING:

- A. OPEN COMPETITIVE BID BY ALL SUPPLIERS;
- B. AWARD OF BID TO LOWEST RESPONSIBLE BIDDER;
- C. BIDS TO BE RECEIVED ON AN INCREMENT OR INCREMENTS OF REQUIREMENTS FOR A TOTAL OF NOT MORE THAN THOSE REQUIRED FOR THE ANTICIPATED ANNUAL DEVELOPMENT, BUT WITH THE UNDERSTANDING THAT PURCHASES WILL BE DIVIDED INTO INCREMENTS OF SUFFICIENT SIZE TO PRODUCE AN OBJECTIVE EVALUATION OF THE PROCEDURE.

THIS PROCEDURE IS SUBJECT TO REVIEW BY THE STATE LANDS COMMISSION PRIOR TO FUTURE CALLS FOR BID."

THUMS Long Beach Company is presently soliciting bids for approximately \$400,000 worth of line pipe for the construction of submarine pipelines to transport an estimated 180,000 barrels of crude oil per day from four offshore islands.

It is imperative that in purchasing line pipe for this purpose the Long Beach Unit take every precaution to prevent any line break which would result in crude oil escaping into ocean waters off Long Beach, endangering public health, welfare, and safety. Because of this danger, the field contractor has requested that the Commission modify their previous action for this specific purchase and permit the field contractor to limit the purchase of line pipe for these submarine pipelines to United States sources.

THUMS Long Beach Company has submitted a memorandum (attached as Exhibit "B") indicating among other factors that the potential savings from the purchase of foreign pipe would not exceed ten percent of the total price (approximately \$40,000).

CALENDAR ITEM 2. (CONTD.)

The reputation of domestic mills and their interest in public relations dictate that their services not be limited to providing materials which only meet minimum specifications. Also, judicial decisions have extended the law of manufacturers' warranty to the point that a mill could be held responsible for damages arising out of failure of its pipe for intended use. A judgment against a foreign mill might be difficult to obtain or to enforce.

The staff is of the opinion that this legal obligation could result in domestic mills furnishing higher quality pipe and services than foreign bidders. Review of the experience with submarine pipelines on State tide and submerged lands indicates the use of domestic pipe for submarine pipelines from the offshore islands will insure the highest degree of protection to public health, welfare, and safety.

In summary:

1. Well casing and tubing purchased from foreign manufacturers and selected to meet the minimum specification standards set by the American Petroleum Institute is satisfactory for subsurface well installations where pipe failures cannot hazard the general public health, welfare, and safety.
2. Experience of a major testing laboratory has shown that pipe of foreign manufacture has a notably higher incidence of rejection, particularly at operating levels above minimum specifications, than domestically produced pipe, indicating that procedures of manufacture, testing, and shipping by United States mills generally provide quality above minimum specifications.
3. The estimated cost for the total submarine pipeline requirements for the Long Beach project is \$400,000 compared with at least \$40,000,000 to be expended for well casing and tubing. No practice will be established in the purchase of pipe for submarine lines which could be alleged to have further mandatory applicability to the project.
4. The maximum price differential estimated by foreign suppliers is \$40,000. Such additional amount for domestic pipe appears to be justified as "insurance", particularly in consideration of the public health and safety hazards from a harbor submarine pipeline installation, and even the high cost of elimination of contamination resulting from any line failure.

IT IS RECOMMENDED THAT THE COMMISSION MODIFY THE RESOLUTION OF SEPTEMBER 23, 1965 (MINUTE ITEM 27, PAGE 11,749), TO PERMIT THE FIELD CONTRACTOR FOR THE LONG BEACH UNIT TO LIMIT BIDDING FOR LINE PIPE REQUIRED TO CONSTRUCT SUBMARINE PIPELINES FOR THE FOUR OFFSHORE ISLANDS, TO PIPE MANUFACTURED IN THE UNITED STATES, AS OUTLINED IN THUMS APPROVAL REQUEST 2-66.