

C28
28 by the State Lands
by a vote of 3
5/5/92

CALENDAR ITEM

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S 29

C 2 8

05/05/92
W 9603.27
Tanner

APPROVE THE ASSIGNMENT OF THE CRUDE OIL SALES CONTRACTS
TRACT NO. 1, LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY

ASSIGNOR:

Fletcher Oil & Refining Company
Attn: Craig G. Colley, Vice President
P. O. Box 548
Wilmington, California 90748

ASSIGNEE:

Enron Oil Trading & Transportation Company
Attn: Mark Milano,
Vice President, West Coast
300 Oceangate, Suite # 910
Long Beach, California 90802

BACKGROUND:

At its meeting on February 6, 1991, the Commission made the determination of terms and quantities and approved the provisions of sale determined by the City of Long Beach, and authorized the Executive Officer to notify the City of Long Beach and to direct the Field Contractor to offer for sale, by competitive bidding, 12½ percent of the crude oil allocated to Tract No. 1, Long Beach Unit, Wilmington Oil Field. This production is solely from the Field Contractor's 80 percent share. These actions were taken pursuant to Section 3(e), Chapter 138, Statutes of 1964, 1st E.S.

The Field Contractor, with the City of Long Beach, offered the crude oil for competitive bidding. The crude oil was offered under two separate contracts, one for seven percent (7%) and one for five-and-one-half percent (5½%) of the crude oil allocated to Tract No. 1. The seven percent segment consists of approximately 2,400 barrels per day of 17.7° API gravity crude oil. The five-and-one-half percent segment consists of approximately 1,900 barrels per day of 17.7° API gravity crude oil.

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On May 22, 1991, the City of Long Beach opened the bids offered for this crude oil.

The Long Beach City Council, on April 30, 1991, gave approval to the City Manager to award these contracts to the highest responsible bidder, Fletcher Oil & Refining Company (Fletcher), based on recommendations from the staff of the Department of Oil Properties.

On June 5, 1991, the State Lands Commission approved the awarding of these sales contracts to Fletcher Oil & Refining Company, as the highest responsible bidder, with bonuses of \$0.5765 per barrel for the seven percent segment and \$0.3780 for the five and one-half percent segment. These are 18 month contracts and were scheduled to commence on March 1, 1992.

On February 7, 1992, Fletcher Oil & Refining Company informed the City of Long Beach that it would not be able to provide letters of credit as required by the contracts. It requested that the City cancel the contracts under the force majeure provision of the sales contracts. The City of Long Beach rejected Fletcher's request, and indicated that it viewed Fletcher's action as an anticipatory breach of the sales contracts.

Subsequent negotiations between Fletcher and Enron Oil Trading & Transportation Company (Enron) resulted in Enron's desire to assume these crude oil sales contracts and purchase the sell-off oil from Tract No. 1 from ARCO Long Beach Inc.

Pursuant to Section 8 of the Crude Oil Sales Contracts, Fletcher may assign these sales contracts to another party only by obtaining prior written consent from the City of Long Beach and the State Lands Commission.

Fletcher has requested City and State consent to assign the two crude oil sales contracts to Enron Oil Trading & Transportation Company effective May 1, 1992.

Given Enron's reliable performance with State royalty oil sales contracts and the losses in revenue that will be avoided by the immediate implementation of these sales contracts, Staff recommends the approval of the assignment of these sales contracts to Enron on the condition that Enron shall be bound by the terms and conditions of the sales contracts to the same extent as if they were the original purchaser, any conditions in the assignment documents to the contrary notwithstanding.

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STATUTORY AND OTHER REFERENCES:

- A. Article 3.5, Cal. Code Regs.
- B. Section 2163, Cal. Code Regs.
- C. Section 8 of Crude Oil Sales Contract.

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 this 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.

AB 884:

N/A.

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 ASSIGNMENT OF THE CRUDE OIL SALES CONTRACTS, TRACT NO. 1, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY, FROM FLETCHER OIL & REFINING COMPANY TO ENRON OIL TRADING & TRANSPORTATION COMPANY WITH THE CONDITION THAT THE ASSIGNEE WILL BE BOUND BY THE SALES CONTRACTS TO THE SAME EXTENT AS THE ASSIGNOR, ANY CONDITIONS IN THE ASSIGNMENT AGREEMENT TO THE CONTRARY NOTWITHSTANDING.
- 3. AUTHORIZE THE EXECUTIVE OFFICER, OR HIS DESIGNEE, TO EXECUTE ANY DOCUMENT TO EFFECT THIS ASSIGNMENT.
- 4. THIS ASSIGNMENT WILL BE EFFECTIVE ON MAY 1, 1992.

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