

CALENDAR ITEM
C94

MINUTE ITEM
This Calendar Item No. C94
was approved as Minute Item
No. 94 by the State Lands
Commission by a vote of 3
to 0 at its 10-17-95
meeting. 10/17/95

A 57, 58

S 29

W 12002

Willard

Reid

D. Mercier

APPROVE THE FOURTH AMENDMENT
TO THE LONG BEACH HARBOR TIDELANDS PARCEL
AND PARCEL "A" OIL CONTRACT

PARTIES:

City of Long Beach
Department of Oil Properties
211 East Ocean Boulevard, Suite 500
Long Beach, California 90802

Tidelands Oil Production Company
P. O. Box 1330
Long Beach, California 90801

BACKGROUND:

Oil and gas production operations in the portion of the Long Beach tidelands outside the Long Beach Unit are located in the Long Beach Harbor District and on Parcel "A". The oil operations in this area were consolidated on March 1, 1989, with the approval of the State Lands Commission (SLC), under a contract between the City of Long Beach (City) and the Tidelands Oil Production Company. Pursuant to this contract the City, as trustee for the State, receives 95 percent of the net profits. The contract was to expire on April 1, 2000.

The Legislature in 1991 enacted Chapter 1163 which provided that the City with approval of the SLC, could extend the contract so that the total term of the contract from inception (March 1, 1989) to termination does not exceed 35 years (March 1, 2024). The purpose of the extension was to provide the City and its Contractor with incentive to implement a steamflood and cogeneration project within the Long Beach Harbor tidelands.

On March 8, 1994, the SLC approved an extension of the Contract conditions for a state-of-the art full field steamflood development or other thermal enhanced recovery project with similar potential for oil and gas resource recovery. The extended contract provisions contemplated submission of a plan that detailed implementation of full field steamflood development utilizing a large cogeneration facility and requiring an investment by Tidelands Oil Production Company of more than fifty million dollars. Under such a plan, all steamflood development costs incurred by Tidelands Oil Production Company were to

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be recovered solely from the sale of oil produced from the project (steamflood). Net profits from the existing waterflood were to continue to accrue to the benefit of the City and the State.

However, conditions currently exist which provide a unique opportunity to expedite a phased steamflood operation and increase revenue to the Contractor (Tidelands Oil Production Company), the City and the State, in anticipation of a cogeneration project.

PROPOSED PROJECT:

Tidelands Oil Production Company has proposed to begin the project early, by initiating a phased steamflood program for the recovery of additional oil from the Tar zone of the West Wilmington Field. Commencement at this time would be an advantage in that oil revenue would be recovered earlier than under the current plan. The initial phase will consist of modifying existing production facilities for steamflood production, construction of pipelines to move fuel gas and production fluids, a 50 MMBTU per hour steam generator and drilling of five wells (two injection and three producing). The steam generation equipment and the size of the steamfield pattern are designed to utilize certain noncommercial gas production from Tidelands Oil Production Company's operation, as fuel for the steam generator. Steam generation equipment is intended to be used for continuing development in potential future patterns. The initial phase is estimated to cost not more than \$8.3 million.

The initial pattern is estimated to produce approximately 1.8 million barrels of oil in steamflood recovery. If the initial pattern is successful, subsequent patterns would produce equivalent barrels and if initiated sequentially over the extended contract period could produce up to 11 million barrels. The following patterns could be developed at considerably less cost, at approximately \$3.5 million per pattern. If the steamflood performs as planned, there is potential to recover 100 million barrels in the entire West Wilmington Field area with a cogeneration project.

Another significant advantage to initiating the project now, is that the Long Beach Harbor Department (Department) has plans for expansion of the pier A container terminal that has resulted in an opportunity for the phased steamflood project. Under an agreement with Tidelands Oil Production Company, the Department must pay for moving production equipment from the pier A to the X-Y tank farm. If the initial phase of the steamflood is developed concurrently with the pier A project, the Department will pay for installing the fuel gas line to the steam generator, a savings of \$650,000.

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PROJECT ECONOMIC ANALYSIS:

Tidelands Oil Production Company has requested the current contract be modified to provide for the recovery of the initial phase project capital costs including interest (\$8.3 million) from steamflood and waterflood revenues. Interest would be based on the actual cost of borrowing (Euro dollar plus one percent), but not to exceed \$1.3 million. For each subsequent phase, capital costs would continue to be recovered from both steamflood and waterflood revenues, however, no interest expense would be allowed. As proposed, the steamflood initial phase will recover about 1.8 million barrels of oil from the Tar zone. The average oil price for Tar zone production during the last 12 months is \$13.96 per barrel and the price used in the analysis was \$13.50 per barrel. Under the existing contract terms, the estimated cumulative initial phase steamflood profit is approximately \$5 million (Exhibit A). With the proposed contract modifications, the cumulative initial phase steamflood and waterflood profit would be more than \$25 million and recover capital costs in the second year (Exhibit B). Without the contract modifications as proposed by Tidelands Oil Production Company, capital recovery would not take place until the sixth year and the project would not be implemented. This project, not including cogeneration, is estimated to provide \$46 million in cumulative profits by the year 2024.

The initial phase steamflood profit sensitivity to oil price is shown in Exhibit "C", e.g., if oil price averaged \$17 per barrel, the cumulative profit would be approximately \$12 million. Also, this plot shows the "break even" steamflood oil price of \$10.50 per barrel. The historical Tar zone oil price has never averaged (annual) less than \$10 per barrel.

The City and its Contractor will annually report on the progress of the steamflood to the Executive Officer. Further following the initial phase, and before each subsequent phase, the City shall submit a steamflood phase development plan for review and approval by the Executive Officer. In this manner, the State can assure that the steamflood project is progressing in accordance with the projected development and economic plan.

Commission staff has carefully reviewed the proposal by Tidelands Oil Production Company and, based on the foregoing, recommends approval of the proposed project.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code: Div. 6, Parts 1 and 2; Div. 13.
- B. Cal. Code Regs.: Title 3, Div. 3; Title 14, Div. 6.

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AB 884:

N/A

OTHER PERTINENT INFORMATION:

1. The City of Long Beach approved the contract amendment at its City Council meeting on September 19, 1995.
2. The proposed amendment complies with the provision of Chapter 1163, Statutes of 1991.
3. 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.

EXHIBITS:

- A. Initial Phase Cumulative Steamflood Profit
- B. Initial Phase Cumulative Steamflood and Waterflood Profit
- C. Initial phase Cumulative Steamflood Profit Based on Oil Price

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 PUBLIC RESOURCES CODE SECTION 21065 AND 14 CAL. CODE REGS. 15378.
2. FIND THAT THE FOURTH AMENDMENT TO THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT CONFORMS TO THE REQUIREMENTS OF CHAPTER 1163, STATUTES OF 1991.
3. AUTHORIZE THE EXECUTIVE OFFICER TO APPROVE THE FOURTH AMENDMENT TO LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT IN SUBSTANTIALLY THE FORM ON FILE IN THE OFFICE OF THE COMMISSION.

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4. APPROVE THE NESTE HOLDING (USA), INC., AND CHANSE ENERGY CORPORATION GUARANTEE, IN SUBSTANTIALLY ON FORM ON FILE IN THE OFFICE OF THE COMMISSION, OF THE TERMS AND CONDITIONS OF THE CONTRACT AS AMENDED BY THE FOURTH AMENDMENT.
5. AUTHORIZE THE EXECUTION OF ALL DOCUMENTS NECESSARY TO IMPLEMENT THE CONTRACT AMENDMENT.

EXHIBIT A

Initial Phase Cum Steamflood Profit

1995 \$'s

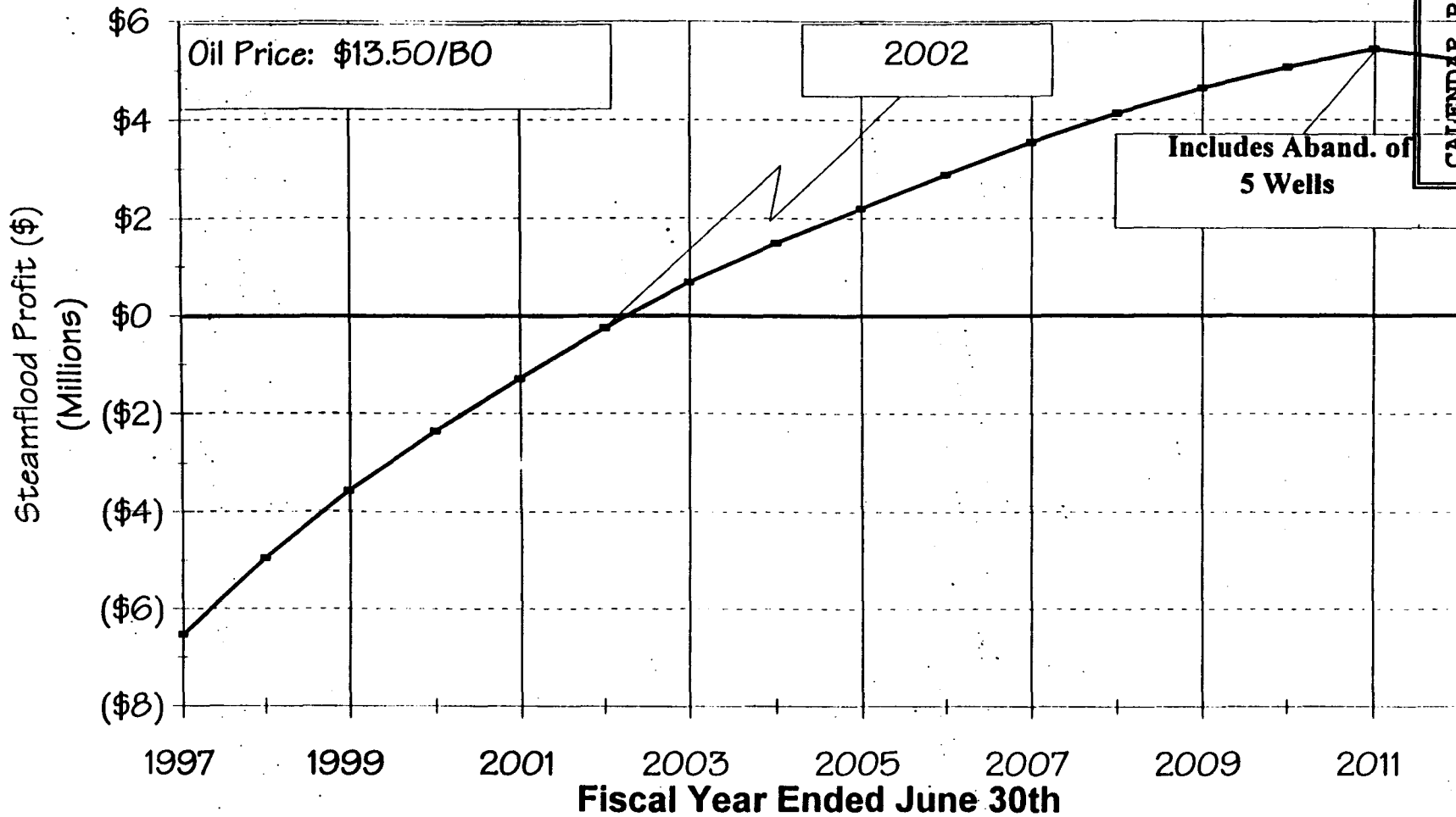
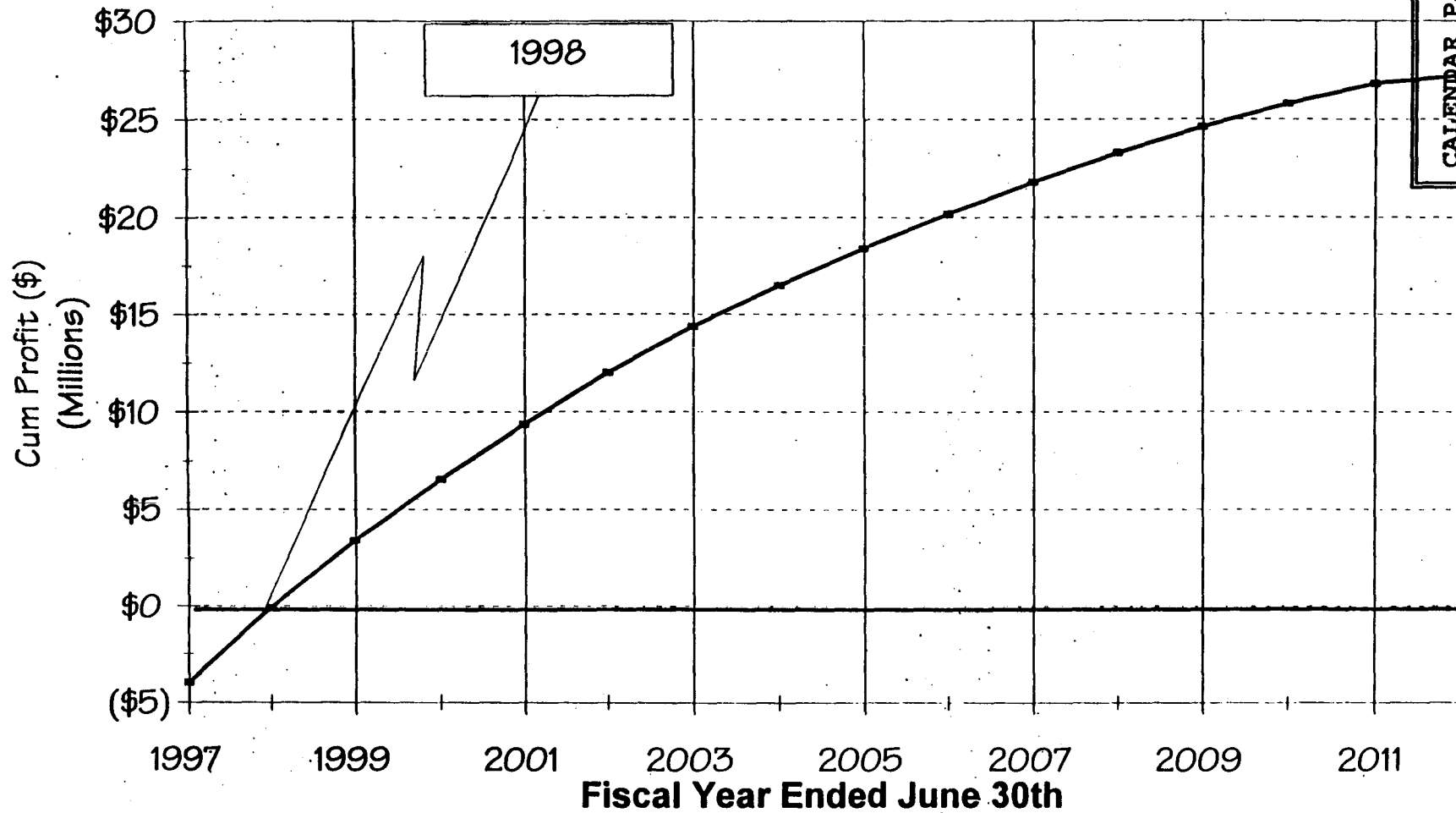


EXHIBIT B

Initial Phase Steam/Water Flood Profit

1995 \$'s



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Initial Phase Cum Steamflood Profit

As a Function of Oil Price (1995 \$'s)

