

MINUTE ITEM

This Calendar Item No. 45 was approved as Minute Item No. 45 by the California State Lands Commission by a vote of 3 to 0 at its 12-09-03 meeting.

**MINUTE ITEM
45**

12/09/03
W 17003
PRC 3455
W 17000.1
D. Mercier
M. Steinhilber

**ATLANTIC RICHFIELD COMPANY/ARCO LONG BEACH, INC.,
OCCIDENTAL PERROLEUM CORPORATION, AND CITY OF
LONG BEACH (PARTIES)**

Regular Calendar Item 45: Commission listened to a staff presentation on the recommendation to release ARCO of its guarantor performance obligation under the governing agreements of the Long Beach unit oil operation. The item was approved by unanimous vote.
Calendar Item attached.

002734

MINUTE PAGE

CALENDAR ITEM

45

A 54

W 17003

PRC 3455

W 17000.1

D. Mercier

S 27

M. Steinhilber

**CONSIDER APPROVAL TO RELEASE ATLANTIC RICHFIELD COMPANY
AS GUARANTOR OF PERFORMANCE UNDER THE CONTRACTORS'
AGREEMENT, THE TRACT 2 AGREEMENT, THE OPTIMIZED
WATERFLOOD AGREEMENT, THE UNIT AGREEMENT,
AND THE UNIT OPERATING AGREEMENT,
LONG BEACH UNIT, WILMINGTON FIELD,
LOS ANGELES COUNTY**

PARTIES:

Atlantic Richfield Company/ARCO Long Beach, Inc.
C/o British Petroleum, Plc.
First Saint James Square
London, England SW1 Y4PD

Occidental Petroleum Corporation
C/o Oxy Long Beach, Inc.
111 W. Ocean Blvd
Long Beach, CA 90801-2900

City of Long Beach
Department of Oil Properties
211 E. Ocean Blvd, Suite 500
Long Beach, CA. 90802

AREA, LAND TYPE, AND LOCATION:

The Long Beach Tidelands include a large portion of the Wilmington oil field, a major oil field in the United States. The East Wilmington portion of this field includes tidelands granted in trust to the City of Long Beach, a small parcel in

CALENDAR ITEM NO. 45 (CONT'D)

which the State retained the mineral interest and an uplands area consisting of much of downtown Long Beach. These areas are combined into the Long Beach Unit for unitized oil production operations, with the City tidelands area being Tract 1, the state tidelands parcel being Tract 2, and the uplands area being in the Townlot.

BACKGROUND:

During the April 20, 2000 meeting, the California State Lands Commission (Commission) approved the City of Long Beach's (City) consent to the transfer of ARCO Long Beach, Inc.'s stock from Atlantic Richfield Company (ARCO) to Occidental Petroleum Corporation (OXY) and consented to that transfer on prescribed terms and conditions. The Commission deferred its approval of the City's release of ARCO as guarantor under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement, and its own release of ARCO as guarantor of performance under the Tract 2 Agreement, the Optimized Waterflood Agreement, the Unit Agreement and the Unit Operating Agreement until automatic shutdown valves were installed on the offshore pipelines in the Long Beach Unit (LBU) and a financial audit and safety audit were conducted and the issues raised in those audits were resolved. The LBU is one of the largest oil and gas production operations in the nation and is equivalent to six platforms or facilities in scope and complexity.

The City, OXY and its agent, THUMS Long Beach Company (THUMS), have completed the installation, and testing of the safety valves, have resolved all issues from the financial audit, and have completed all required action items from the safety audit. Commission staff has verified completion of these three aforementioned conditions and has notified OXY of completion, (Exhibit A, attached hereto). Commission staff recommends that ARCO be released as guarantor. The City is in the process of sending a letter to OXY to concur in this recommendation. If the letter is not received prior to the December 9 meeting, this item will be deferred to the next Commission meeting.

OXY/THUMS installed automatic shutdown valves on the LBU offshore oil pipelines in 2001 and tested the valves to verify that they were functioning properly and will shutdown the flow of oil when actuated. Over a year and a half of successful operating history has been established on system readiness and operability.

The financial audit by Edward White and Company covered the period from July 1, 1998 through June 30, 2000. The report identified two issues that have been

CALENDAR ITEM NO. 45 (CONT'D)

followed-up on by Commission staff. The two areas of concern were the accounting of ARCO Long Beach, Inc., employees loaned to THUMS and the professional consulting services. These two issues have been resolved to staff's satisfaction.

Commission staff has been working closely with OXY/THUMS to verify completion of all 3,197-action items that were identified during the safety audit of the LBU. Of these, about 200 represented a serious potential for injury, adverse environmental impact, or significant property damage. The final few items have recently been completed and verified by Commission staff. Substantial timeframes were required for a number of items that involved significant design effort, or where implementation required extensive project coordination or equipment installations at as many as six different facilities, all while maintaining a maximum level of safety and spill prevention.

STATUTORY AND OTHER REFERENCES:

1. Article 25 of the Contractors' Agreement permits a contractor to assign its interest in the contract only after obtaining the written consent of and subject to any terms and conditions prescribed by the Long Beach City Manager, acting with the approval of the California State Lands Commission.
2. Article 19 of the Tract No. 2 Agreement permits the contractor to assign its interest in the contract only after obtaining the written consent of and subject to any terms and conditions prescribed by the California State Lands Commission.
3. Article 7.07 of the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit permits ARCO and ALBI to assign their rights and obligations under Article 2 of the Agreement (the provisions dealing with the implementation and continuing conduct of the optimized waterflood program) only after securing the written consent of the California State Lands Commission.
4. Public Resources Code Section 6804

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15061], the staff has determined that this activity is exempt from the requirements of

CALENDAR ITEM NO. 45 (CONT'D)

the CEQA because the activity is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code, section 21065 and Title 14, California Code of Regulations, section 15378.

2. The City of Long Beach consented to the future release of ARCO from its guarantor obligations under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement under terms and conditions prescribed by the City Manager and subject to the approval of the Commission.

EXHIBITS:

- A. Staff letter to OXY on Completion of All Conditions to Release ARCO as Guarantor for the Long Beach Unit of November 12, 2003.
- B. Assignment Consent Agreement Among the City, ARCO, ALBI and OXY approved by the City April 19, 2000.
- C. Assignment Consent Agreement and Consent to Assignment Among the State, ARCO, ALBI and OXY effective May 1, 2000.

PERMIT STREAMLING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. APPROVE THE RELEASE OF ARCO AS GUARANTOR OF ALBI'S PERFORMANCE UNDER THE CONTRACTORS' AGREEMENT, THE UNIT AGREEMENT, AND THE UNIT

CALENDAR ITEM NO. 45 (CONT'D)

OPERATING AGREEMENT ON TERMS AND CONDITIONS SET FORTH IN THE ASSIGNMENT CONSENT AGREEMENT AMONG THE CITY, ARCO, ALBI, AND OXY (EXHIBIT B, ATTACHED).

2. CONSENT TO THE RELEASE OF ARCO AS GUARANTOR OF ALBI'S PERFORMANCE UNDER THE TRACT NO. 2 AGREEMENT, THE OPTIMIZED WATERFLOOD AGREEMENT, THE UNIT AGREEMENT, AND THE UNIT OPERATING AGREEMENT ON THE TERMS AND CONDITIONS SUBSTANTIALLY SET FORTH IN THE ASSIGNMENT CONSENT AGREEMENT AND CONSENT TO ASSIGNMENT AMONG THE STATE, ARCO, ALBI, AND OXY (EXHIBIT C, ATTACHED).
3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

STATE OF CALIFORNIA

GRAY DAVIS, Governor

CALIFORNIA STATE LANDS COMMISSION200 Oceangate, 12th Floor
Long Beach, CA 90802-4331**PAUL D. THAYER, Executive Officer**

(916) 574-1800 FAX (916) 574-1810

California Relay Service From TDD Phone 1-800-735-2922
from Voice Phone 1-800-735-2929**Contact Phone: (562) 590-5205****Contact FAX: (562) 590-5210**

November 12, 2003

File Ref: W 17003

PRC 3455

W 40821.2

Mr. Frank E. Komin
OXY Long Beach, Inc.
111 W. Ocean Blvd., Suite 800
Long Beach, CA 90802**Subject: Completion of All Conditions to Release ARCO as Guarantor for
the Long Beach Unit**

Dear Mr. Komin:

Thank you for your letter of November 3, 2003 on the subject of Completion of Conditions Precedent Assignment Consent Agreement and Consent to Assignment concerning ARCO Long Beach, Inc. We are preparing a calendar item for the next regularly scheduled California State Lands Commission (CSLC) meeting in December 2003. This calendar item will ask the Commission to consider for approval, the City of Long Beach's release of ARCO as guarantor of performance under the Contractor's Agreement, and for Commission approval of the release of ARCO as guarantor under the Tract 2 Agreement, and the Optimized Waterflood Agreement.

This letter acknowledges the CSLC staff's verification that all action items, identified during the safety audit of the Long Beach Unit, have now been completed. The resolution of the issues identified by the safety audit was the third condition required for Commission Approval to release ARCO. The other two conditions, the installation of subsea pipeline shutdown valves, and the financial audit with resolution of findings, were previously completed.

The Gage – Babcock and Associates Analysis of Fire Protection Systems on the Long Beach Unit was received on November 4, 2003. The report provided sufficient information for us to clear the four remaining safety audit action items that pertained to fire protection, fire detection, and gas detection issues. As a result, we have updated our official action item list and show these four items complete as of November 4, 2003. The official action item list also shows that all items have been completed or were previously cleared by the CSLC staff.

000268

CALENDAR PAGE

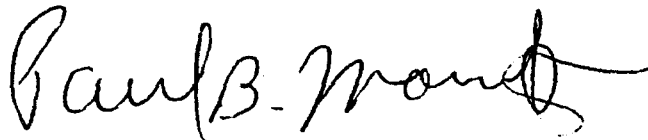
002740

MINUTE PAGE

Mr. Frank Komin
November 12, 2003
Page 2

Thank you for the cooperation of your staff during the safety audit and their perseverance in resolving the action items. We believe that your desire to implement the best possible solutions in the interest of safety and spill prevention will pay big dividends in the long run. If you have any questions regarding the upcoming Commission Meeting, please contact Mr. Mark Steinhilber at (562) 590-8401.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul B. Mount II", with a stylized flourish at the end.

Paul B. Mount II, P. E.
Chief, Mineral Resources Management Division

cc: Dennis Sullivan, Long Beach Dept of Oil Properties

000269

CALENDAR PAGE

002741

MINUTE PAGE

W 17003
PRC 3455
W 40821.2

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8

D. On November 15, 1999, ARCO and Oxy entered into a Stock Purchase Agreement in which ARCO agreed to sell and Oxy agreed to buy all of ARCO's stock in ALBI and all of ARCO's outstanding rights and obligations under the Optimized Waterflood Agreement (the Stock

Robert E. Shannon
City Attorney of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
Telephone (562) 570-2200

002742

MINUTE PAGE

1 Transaction). As a result of the Stock Transaction, ALBI will become a wholly owned subsidiary of
2 Oxy. THUMS will continue to be a wholly owned subsidiary of ALBI. Also under the Stock
3 Purchase Agreement, Oxy has agreed to be the guarantor or responsible party under the Contractors'
4 Agreement, the Unit Agreement, the Unit Operating Agreement and the Optimized Waterflood
5 Agreement.

6 E. ARCO, ALBI and Oxy have requested that the City consent to the Stock Transaction
7 insofar as it affects the rights and obligations of the Field Contractor and Nonoperating Contractors
8 under the Contractors' Agreement.

9 F. ARCO has requested that the City release ARCO from all of its responsibilities as
10 guarantor of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the
11 Unit Operating Agreement.

12 G. Article 25 of the Contractors' Agreement permits any contractor to assign or otherwise
13 dispose of its interest in the Contractors' Agreement only after obtaining the written consent of and
14 subject to any terms and conditions prescribed by the Long Beach City Manager, acting with the
15 approval of the State.

16 H. The City has negotiated with ARCO, ALBI and Oxy the terms and conditions upon which
17 the Long Beach City Manager will consent to the Stock Transaction and release ARCO from its
18 guarantee of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the
19 Unit Operating Agreement. Those terms and conditions are set forth below. The State has given its
20 approval to those terms and conditions.

21 Based on these factual recitals, the City, ARCO, ALBI and Oxy agree as follows:

22 1. The City is willing to consent and does consent to the Stock Transaction insofar as it
23 affects the transfer of the ownership of ALBI from ARCO to Oxy (including the rights and
24 obligations of ALBI as the holder of the Field Contractor and the Nonoperating Contractor interests
25 under the Contractors' Agreement and the rights and obligations of ARCO under the Contractors'
26 Agreement and the Optimized Waterflood Agreement) on the following terms and conditions:

27 a. All provisions of the Contractors' Agreement and the Optimized Waterflood
28 Agreement and all amendments to the Contractors' Agreement and the Optimized Waterflood

1 Agreement shall remain fully in force and in effect.

2 b. ALBI reaffirms all of its obligations under the Contractors' Agreement and the
3 Optimized Waterflood Agreement, anything in any other agreements to which ARCO, ALBI
4 and/or Oxy may be a party to the contrary notwithstanding.

5 c. Within sixty (60) days after the effective date of this Assignment Consent
6 Agreement, ALBI, the City and the State shall vote for, approve of or consent to a Long
7 Beach Unit Determination or Approval After Submission to the Participants (as defined in the
8 Unit Agreement) for the installation of automatic shutdown valves on all four primary
9 offshore oil lines, a total of eight valves. The installation shall be completed by July 1, 2001;
10 provided, however, that this time may be extended so long as the installation process has
11 proceeded and continues to proceed diligently. The cost of installing these valves shall be
12 charged as Unit Expense to the Participants in the Long Beach Unit. This cost shall be a Base
13 Cost, as defined in Article 1.02(f) of the Optimized Waterflood Agreement, and shall be
14 accounted for as such under the terms of the Optimized Waterflood Agreement.

15 d. Within sixty (60) days after the effective date of this Assignment Consent
16 Agreement, ALBI, the City and the State shall vote for, approve of or consent to a Long
17 Beach Unit Determination or Approval After Submission to the Participants (as defined in the
18 Unit Agreement) for a complete financial audit of Long Beach Unit operations which shall
19 be performed jointly by the City and the State. The audit shall cover fiscal years 1998/1999
20 and 1999/2000. The audit shall be completed by July 1, 2001; provided, however, that this
21 time may be extended so long as the audit process has proceeded and continues to proceed
22 diligently. The cost of the audit shall be charged as Unit Expense to the Participants in the
23 Long Beach Unit.

24 e. A full field safety audit of the Long Beach Unit shall be conducted by the State's
25 staff and its consultants; provided that Oxy shall have the right to approve such consultants,
26 such approval not to be unreasonably withheld. The audit shall be completed by July 1, 2001;
27 provided, however, that this time may be extended so long as the audit process has proceeded
28 and continues to proceed diligently. The costs for this audit that are incurred by the State's

1 staff and its consultants shall be reimbursed to the State by Oxy in an amount not to exceed
2 \$500,000.

3 f. By giving its consent to the assignments of these interests, the City does not
4 approve or give its consent to any of the provisions of the Stock Purchase Agreement
5 between ARCO and Oxy or to the provisions of any other agreement by and among all or
6 some of ARCO, ALBI and Oxy pertaining to these assignments.

7 g. Oxy fully guarantees and assumes full responsibility for the performance of all the
8 obligations of ALBI as the Field Contractor and all Nonoperating Contractors under the
9 Contractors' Agreement and all the obligations of ALBI as a Participant under the Unit
10 Agreement and the Unit Operating Agreement, and agrees to be responsible for all of the
11 obligations adhering to those interests, anything in any other agreements to which ARCO,
12 ALBI and/or Oxy may be a party to the contrary notwithstanding.

13 2. ARCO shall not be released from its guarantees of ALBI's performance under the
14 Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement until the following
15 conditions have been fulfilled:

16 a. The automatic shutdown valves are installed, as required by paragraph 1c above,
17 to the satisfaction of the City and the State.

18 b. All issues raised in the financial audit of the Long Beach Unit, required by
19 paragraph 1d above, are resolved to the satisfaction of the City, the State, ARCO, ALBI and
20 Oxy or have been submitted to and resolved fully by binding arbitration.

21 c. All issues raised in the field safety audit of the Long Beach Unit, required by
22 paragraph 1e above, are resolved to the satisfaction of the City, the State, ARCO, ALBI and
23 Oxy or have been submitted to and resolved fully by binding arbitration.

24 d. Within thirty (30) days of the satisfactory completion or resolution of the three
25 conditions precedent, as provided in subparagraphs 2a, 2b and 2c above, the City and the
26 State shall provide written notice of such satisfactory completion or resolution to ALBI and
27 ARCO.

28 e. On a date that is one hundred twenty (120) days following the date when all of the

1 conditions in subparagraphs a, b and c of this paragraph 2 have been fulfilled, ARCO shall be
2 released prospectively from its guarantor obligations under the Contractors' Agreement, the
3 Unit Agreement and the Unit Operating Agreement, unless on or before that date, the Long
4 Beach City Council or the California State Lands Commission, at a regularly scheduled
5 meeting where a hearing is required to be given and evidence is required to be taken, finds
6 that Oxy does not have the financial capability or has not demonstrated the operational
7 capability or expertise to fulfill the responsibilities of the Field Contractor and Nonoperating
8 Contractors under the Contractors' Agreement without the continuing guarantee of ARCO.
9 ARCO, ALBI and /or Oxy may challenge the City Council's and the Commission's findings
10 by filing in the Los Angeles County Superior Court, Central District, a petition for writ of
11 mandate under section 1094.5 of the California Code of Civil Procedure, or any successor
12 provision, within thirty (30) days of the decision of the City Council or the Commission,
13 whichever is later.

14 3. This Assignment Consent Agreement shall be governed by the laws of the State of
15 California.

16 4. This Assignment Consent Agreement may be executed in counterpart copies, and each
17 executed counterpart copy shall have the same force and effect as an original and shall be enforceable
18 to the same extent as if all parties had executed the same document.

19 5. This Assignment Consent Agreement shall be effective May 1, 2000.

20 OCCIDENTAL PETROLEUM CORPORATION,
21 a Delaware corporation

22 by 

23 ATLANTIC RICHFIELD COMPANY,
24 a Delaware corporation

25 by 

26 ARCO LONG BEACH, INC.,
27 a Delaware corporation

28 by 

Robert E. Shannon
City Attorney of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
Telephone (562) 570-2200

000274

CALENDAR PAGE

5

002755

MINUTE PAGE

Robert E. Shannon
City Attorney of Long Beach
333 West Ocean Boulevard
Long Beach, California 90802-4664
Telephone (562) 570-2200

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

EXECUTED PURSUANT
CITY OF LONG BEACH, TO SECTION 301 OF
a municipal corporation THE CITY CHARTER,

4. 19., 2000

by *[Signature]*
ASSISTANT City Manager

The foregoing Assignment Consent Agreement is approved as to form this 19th day of April, 2000.

ROBERT E. SHANNON, City Attorney
by *[Signature]*
RICHARD A. ALESSO, Deputy

ASSIGNMENT CONSENT AGREEMENTAND CONSENT TO ASSIGNMENT

This Assignment Consent Agreement and Consent to Assignment is entered into by and among Atlantic Richfield Company, a Delaware corporation (ARCO), ARCO Long Beach, Inc., a Delaware corporation and wholly owned subsidiary of ARCO (ALBI), Occidental Petroleum Corporation, a Delaware corporation (Oxy) and the State of California, by and through the California State Lands Commission (State).

This Assignment Consent Agreement and Consent to Assignment is made with reference to the following facts:

A. Effective April 1, 1965, the City of Long Beach (City) entered into the Contractors' Agreement, Long Beach Unit, Wilmington Oil Field (Contractors' Agreement) with a Field Contractor and several Nonoperating Contractors providing for the development and operation of Tract 1 of the Long Beach Unit. ALBI is the holder of the Field Contractor's interest and all Nonoperating Contractor interests. ALBI is also a Participant as to Tract 1 under the Unit Agreement for the Long Beach Unit (Unit Agreement) and under the Unit Operating Agreement for the Long Beach Unit (Unit Operating Agreement) by virtue of the provisions of Article 2 of the Contractors' Agreement. ARCO is the guarantor of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the Unit Operating Agreement.

B. Effective April 1, 1966, the State entered into the Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field (Tract 2 Agreement) with a nonoperating Contractor (Tract 2 Nonoperating Contractor) for the development of Tract 2 of the Long Beach Unit. ALBI is the holder of this Nonoperating Contractor interest. ALBI is also the Participant as to Tract 2 under the Unit Agreement and the Unit Operating Agreement by virtue of the provisions of Article 2 of the Tract 2 Agreement. ARCO is the guarantor of ALBI's performance under the Tract 2 Agreement, the Unit Agreement and the Unit Operating Agreement.

C. Effective November 5, 1991, the City, the State, ARCO and ALBI entered into the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit (Optimized Waterflood Agreement) pursuant to which ARCO and ALBI agreed to commit their

1 expertise and a substantial sum of money to secure an increase in the oil production from the Long
2 Beach Unit in return for a greater share of the net profits from any enhanced production. ARCO is
3 the guarantor of ALBI's performance under the Optimized Waterflood Agreement.

4 D. THUMS Long Beach Company, a Delaware corporation (THUMS), is the agent for the
5 Field Contractor under the Contractors' Agreement and, as such, carries out the operational
6 responsibilities of the Field Contractor. THUMS is a wholly owned subsidiary of ALBI.

7 E. On November 15, 1999, ARCO and Oxy entered into a Stock Purchase Agreement in
8 which ARCO agreed to sell and Oxy agreed to buy all of ARCO's stock in ALBI and all of ARCO's
9 outstanding rights and obligations under the Optimized Waterflood Agreement (the Stock
10 Transaction). As a result of the Stock Transaction, ALBI will become a wholly owned subsidiary of
11 Oxy. THUMS will continue to be a wholly owned subsidiary of ALBI. Also under the Stock
12 Purchase Agreement, Oxy has agreed to be the guarantor or responsible party under the Contractors'
13 Agreement, the Unit Agreement, the Unit Operating Agreement, the Tract 2 Agreement and the
14 Optimized Waterflood Agreement.

15 F. ARCO, ALBI and Oxy have requested that the City consent to the Stock Transaction
16 insofar as it affects the rights and obligations of the Field Contractor and Nonoperating Contractors
17 under the Contractors' Agreement and that the State consent to the Stock Transaction insofar as it
18 affects the rights and obligations of the Contractor under the Tract 2 Agreement. In addition, ARCO
19 and ALBI are seeking the consent of the State under section 7.07 of the Optimized Waterflood
20 Program to the Stock Transaction in that it is a sale by an ARCO Party of the stock of a wholly
21 owned subsidiary of an ARCO Party.

22 G. ARCO has requested that the City release ARCO from all of its responsibilities as
23 guarantor of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the
24 Unit Operating Agreement and that the State release ARCO from all of its responsibilities as
25 guarantor of ALBI's performance under the Tract 2 Agreement, the Unit Agreement, the Unit
26 Operating Agreement and the Optimized Waterflood Agreement.

27 H. Article 25 of the Contractors' Agreement permits any contractor to assign or otherwise
28 dispose of its interest in the Contractors' Agreement only after obtaining the written consent of and

000277

CALENDAR PAGE

2002749

MINUTE PAGE

1 subject to any terms and conditions prescribed by the Long Beach City Manager, acting with the
2 approval of the State.

3 I. Article 19 of the Tract 2 Agreement permits the contractor to assign or otherwise dispose
4 of its interest in the Tract 2 Agreement only after obtaining the written consent of and subject to any
5 terms and conditions prescribed by the State.

6 J. Article 7.07 of the Optimized Waterflood Agreement permits ARCO and ALBI to assign
7 their rights and obligations under Article 2 of the Optimized Waterflood Agreement (the provisions
8 dealing with the implementation and continuing conduct of the optimized waterflood program) only
9 after securing the written consent of the State.

10 K. The City has negotiated with ARCO, ALBI and Oxy the terms and conditions upon which
11 the Long Beach City Manager will consent to the Stock Transaction and release ARCO from its
12 guarantee of ALBI's performance under the Contractors' Agreement, the Unit Agreement and the
13 Unit Operating Agreement. Those terms and conditions are set forth in the proposed Assignment
14 Consent Agreement among the City, ARCO, ALBI and Oxy attached as Exhibit A.

15 L. The State has negotiated with ARCO, ALBI and Oxy the terms and conditions upon which
16 it will consent to the Stock Transaction and release ARCO from its guarantee of ALBI's performance
17 under the Tract 2 Agreement, the Unit Agreement, the Unit Operating Agreement and the Optimized
18 Waterflood Agreement. Those terms and conditions are set forth below.

19 Based on these factual recitals, the State, ARCO, ALBI and Oxy agree as follows:

20 1. The State is willing to give and does give its approval to the Long Beach City Manager's
21 consent to the Stock Transaction insofar as it affects the transfer of the ownership of ALBI from
22 ARCO to Oxy (including the rights and obligations of ALBI as the holder of the Field Contractor and
23 the Nonoperating Contractor interests under the Contractors' Agreement and the rights and
24 obligations of ARCO under the Contractors' Agreement and the Optimized Waterflood Agreement),
25 and to the future release of ARCO's guarantee of ALBI's performance under the Contractors'
26 Agreement, the Unit Agreement and the Unit Operating Agreement on the terms and conditions set
27 forth in the Assignment Consent Agreement attached as Exhibit A.

28 2. The State is willing to consent and does consent to the Stock Transaction insofar as it

1 affects the transfer of the ownership of ALBI from ARCO to Oxy (including the rights and
2 obligations of ALBI as the holder of the Tract 2 Nonoperating Contractor interest under the Tract
3 2 Agreement and pursuant to Article 7.07 of the Optimized Waterflood Agreement and the rights and
4 obligations of ARCO under the Tract 2 Agreement and the Optimized Waterflood Agreement) on
5 the following terms and conditions:

6 a. All provisions of the Contractors' Agreement, the Tract 2 Agreement and the
7 Optimized Waterflood Agreement and all amendments to the Contractors' Agreement, the
8 Tract 2 Agreement and the Optimized Waterflood Agreement shall remain fully in force and
9 in effect.

10 b. ALBI reaffirms all of its obligations under the Contractors' Agreement, the Tract
11 2 Agreement and the Optimized Waterflood Agreement, anything in any other agreements to
12 which ARCO, ALBI and /or Oxy may be a party to the contrary notwithstanding.

13 c. Within sixty (60) days after the effective date of this Assignment Consent
14 Agreement and Consent to Assignment, ALBI, the City and the State shall vote for, approve
15 of or consent to a Long Beach Unit Determination or Approval After Submission to the
16 Participants (as defined in the Unit Agreement) for the installation of automatic shutdown
17 valves on all four primary offshore oil lines, a total of eight valves. The installation shall be
18 completed by July 1, 2001; provided, however, that this time may be extended so long as the
19 installation process has proceeded and continues to proceed diligently. The cost of installing
20 these valves shall be charged as Unit Expense to the Participants in the Long Beach Unit.
21 This cost shall be a Base Cost, as defined in Article 1.02(f) of the Optimized Waterflood
22 Agreement, and shall be accounted for as such under the terms of the Optimized Waterflood
23 Agreement.

24 d. Within sixty (60) days after the effective date of this Assignment Consent
25 Agreement and Consent to Assignment, ALBI, the City and the State shall vote for, approve
26 of or consent to a Long Beach Unit Determination or Approval After Submission to the
27 Participants (as defined in the Unit Agreement) for a complete financial audit of Long Beach
28 Unit operations which shall be performed jointly by the City and the State. The audit shall

1 cover fiscal years 1998/1999 and 1999/2000. The audit shall be completed by July 1, 2001;
2 provided, however, that this time may be extended so long as the audit process has proceeded
3 and continues to proceed diligently. The cost of the audit shall be charged as Unit Expense
4 to the Participants in the Long Beach Unit.

5 e. A full field safety audit of the Long Beach Unit shall be conducted by the State's
6 staff and its consultants; provided that Oxy shall have the right to approve such consultants,
7 such approval not to be unreasonably withheld. The audit shall be completed by July 1, 2001;
8 provided, however, that this time may be extended so long as the audit process has proceeded
9 and continues to proceed diligently. The costs for this audit that are incurred by the State's
10 staff and its consultants shall be reimbursed to the State by Oxy in an amount not to exceed
11 \$500,000.

12 f. By giving its consent to the assignments of these interests, the State does not
13 approve or give its consent to any of the provisions of the Stock Purchase Agreement
14 between ARCO and Oxy or to the provisions of any other agreement by and among all or
15 some of ARCO, ALBI and Oxy pertaining to these assignments.

16 g. Oxy fully guarantees and assumes full responsibility for the performance of all the
17 obligations of ALBI as the Tract 2 Nonoperating Contractor under the Tract 2 Agreement,
18 all the obligations of ALBI as a Participant under the Unit Agreement and the Unit Operating
19 Agreement and all the obligations of ARCO and ALBI under Article 2 of the Optimized
20 Waterflood Agreement, and agrees to be responsible for all of the obligations adhering to
21 those interests, anything in any other agreements to which ARCO ALBI and/or Oxy may be
22 a party to the contrary notwithstanding.

23 3. ARCO shall not be released from its guarantees of ALBI's performance under the Tract
24 2 Agreement, the Unit Agreement, the Unit Operating Agreement and the Optimized Waterflood
25 Agreement until the following conditions have been fulfilled:

26 a. The automatic shutdown valves are installed, as required by paragraph 2c above,
27 to the satisfaction of the City and the State.

28 b. All issues raised in the financial audit of the Long Beach Unit, required by

1 paragraph 2d above, are resolved to the satisfaction of the City, the State, ARCO, ALBI and
2 Oxy or have been submitted to and resolved fully by binding arbitration.

3 c. All issues raised in the field safety audit of the Long Beach Unit, required by
4 paragraph 2e above, are resolved to the satisfaction of the City, the State, ARCO, ALBI and
5 Oxy or have been submitted to and resolved fully by binding arbitration.

6 d. Within thirty (30) days of the satisfactory completion or resolution of the three
7 conditions precedent, as provided in subparagraphs 3a, 3b and 3c above, the City and the
8 State shall provide written notice of such satisfactory completion or resolution to ALBI and
9 ARCO.

10 e. On a date that is one hundred twenty (120) days following the date when all of the
11 conditions in subparagraphs a, b and c of this paragraph 3 have been fulfilled, ARCO shall be
12 released prospectively from its guarantor obligations under the Tract 2 Agreement, the Unit
13 Agreement, the Unit Operating Agreement and the Optimized Waterflood Agreement, unless
14 on or before that date, the California State Lands Commission, at a regularly scheduled
15 meeting where a hearing is required to be given and evidence is required to be taken, finds
16 that Oxy does not have the financial capability or has not demonstrated the operational
17 capability or expertise to fulfill the responsibilities of the Tract 2 Nonoperating Contractor
18 under the Tract 2 Agreement or of those undertaken by the ARCO Parties under Article 2 of
19 the Optimized Waterflood Agreement without the continuing guarantee of ARCO. ARCO,
20 ALBI and/or Oxy may challenge the Commission's finding by filing in the Los Angeles
21 County Superior Court, Central District, a petition for writ of administrative mandate under
22 section 1094.5 of the California Code of Civil Procedure, or any successor provision, within
23 thirty (30) days of the Commission's decision.

24 4. This Assignment Consent Agreement and Consent to Assignment shall be governed by the
25 laws of the State of California.

26 5. This Assignment Consent Agreement and Consent to Assignment may be executed in
27 counterpart copies, and each executed counterpart copy shall have the same force and effect as an
28 original and shall be enforceable to the same extent as if all parties had executed the same document.

1 /

2 /

3 /

4 /

5 6. This Assignment Consent Agreement and Consent to Assignment shall be effective May
6 1, 2000.

7

OCCIDENTAL PETROLEUM CORPORATION,
a Delaware corporation

8

4/18, 2000

by [Signature]

9

10

ATLANTIC RICHFIELD COMPANY,
a Delaware corporation

11

4/18, 2000

by [Signature]

12

13

ARCO LONG BEACH, INC.,
a Delaware corporation

14

4/18, 2000

by [Signature]

15

16

STATE OF CALIFORNIA, by and through the
CALIFORNIA STATE LANDS COMMISSION

17

4/20, 2000

by [Signature]

18

PAUL D. THAYER, Executive Officer

19

20

21

22

23

24

25

26

27

28

000282

CALENDAR PAGE

002754

MINUTE PAGE