

**CALENDAR ITEM
C75**

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**CONSIDER CONSENT FOR CERTAIN AMENDMENTS TO THE
CRUDE OIL VALUATION PROVISIONS OF THE
CONTRACTORS' AGREEMENT AND TRACT NO. 2 AGREEMENT,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

PARTIES:

California State Lands Commission

City of Long Beach, Unit Operator, Long Beach Unit

California Resources Corporation, Field Contractor, Long Beach Unit

AREA, TYPE LAND AND LOCATION:

The Long Beach Unit (LBU) consists of two offshore tracts and over 90 onshore townlot tracts in downtown Long Beach. The LBU is part of the larger Wilmington Field. The two offshore tracts are Tract No. 1 and Tract No. 2. Tract No. 1 consists of tide and submerged lands granted by the Legislature to the City of Long Beach (City) subject to the common law Public Trust Doctrine (public trust). The Legislature did not reserve the mineral interest in the granted land, but the State receives the largest segment of oil revenues from Tract No. 1 as a result of court decisions and legislation. Tract No. 2 consists of tide and submerged lands subsequently granted by the Legislature to the City, also subject to the public trust, with the minerals reserved to the State. Tract No. 1 is by far the largest tract in the LBU.

BACKGROUND:

Oil and gas production from the LBU began in the 1960s and has resulted in the production of over 1 billion barrels of oil, providing the State with over \$6 billion in oil revenues. The LBU has an excellent environmental record.

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Tract No. 1 is operated pursuant to the Contractors' Agreement that was authorized by Chapter 138 of the Statutes of 1964, First Extraordinary Session. This agreement provides for the operation of the LBU by an oil company contractor under the direction of the City of Long Beach. The Tract No. 2 Agreement, also authorized by Chapter 138, governs production from Tract No. 2 (both the Contractor's Agreement and Tract No. 2 Agreement are herein referred to collectively as the "Agreements"). The Tract No. 2 Agreement is between the State and a contractor that does not have operating responsibilities. California Resources Corporation (CRC or contractor), is the contractor under both Agreements. The Agreements provide for sharing the net profits from the production operations between the government entities and the contractor. In 1991 the Agreements were made subject to an Optimized Waterflood Program Agreement, wherein additional development was undertaken by the contractor with its inherent investment risks in order to obtain a greater share of the net profits resulting from that investment (the "incremental oil"). Under the net profits arrangement, specifically allowed costs are deducted from the value of the oil produced in proportion to the City, State, and contractor's net profit share.

Current Oil Valuation Mechanism

The provisions of the Contractors' Agreement and the Tract No. 2 Agreement govern the calculation of the value of the oil. The oil valuation provisions in these two contracts are essentially identical and are critical in determining the amount of the net profits. These provisions provide for an initial valuation to be used by the contractor in making monthly payments to the City and the State. According to the Agreements, the monthly payments are based on the higher of the posted prices for oil purchasers in the Wilmington field or the combined average of posted prices in the Wilmington, Huntington Beach, Long Beach (Signal Hill), Inglewood, and since 2007, Midway-Sunset oil fields. The Commission consented to adding Midway-Sunset as a named field through an amendment to the Agreements on February 5, 2007 (CI 39). Currently, the only remaining field with posted prices eligible for use as a benchmark for oil valuation is the Midway-Sunset oil field located in the southern San Joaquin Valley. Because it is the last named field posting prices, the contractor pays the City and State each month based on the average of the posted prices for that field. The practical effect of adding Midway-Sunset was to ensure at least one posted price to use as a "floor" or objective minimum price for valuation under the Agreements. After each calendar year, a third party accounting firm compares the prices paid by the contractor based on the Midway-Sunset posted prices against the weighted average of prices paid for oil in the Wilmington Field (direct sales, not posted prices) and reviews and adjusts ("trues up") the total net profits by valuing the

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year's oil at the highest price, either Midway-Sunset or weighted average of prices paid for Wilmington oil. In most instances, year-after-year, the weighted average prices of sales at the Wilmington field were higher than the posted prices at Midway-Sunset meaning the State's share of net-profits was based on Wilmington weighted average sales instead of the Midway-Sunset posted prices with the State being paid the shortfall difference during the annual true up.

Changes in the Overall Wilmington Oil Market

To determine fair market value for the sale of LBU oil by the contractor to major oil refineries, the drafters of the Contractor's Agreement included provisions to require oil price benchmarks (i.e. posted prices) as the determinant for valuing overall net profits due the City and State. This method has been in place since the LBU inception in 1965, and modified once in 2007 to accommodate the inclusion of the Midway-Sunset oil price postings. This provision has been very effective in assuring an objective yardstick for measuring the adequacy of revenue receipts from net profit payments.

Recently, however, the oil market in the Wilmington oil field has undergone substantial volatility. In late 2015 the worldwide commodity price for oil plummeted to around \$30 a barrel from a peak of \$115 a barrel in mid-2014. Coincidentally, in February 2015, the Exxon refinery in Torrance, which purchases a portion of Wilmington Field oil, was damaged in an explosion further constraining local refining capacity. These changes, among others, have significantly slowed the pace of development in the Wilmington field and led to reductions in the contractor's workforce.

According to the City and CRC, reduced refining capacity, the collapse in commodity prices, imported oil, and other logistical factors, including treating and transporting oil to market, create conditions whereby CRC is no longer able to sell Wilmington oil at or above the Midway-Sunset posted price. Since November 2015, especially, CRC's sales contracts negotiated with local purchasers value the oil as the average of Midway-Sunset posted prices, with a negative differential or negative bonus per barrel. Because the Agreements set the Midway-Sunset posted price as the price floor for valuing the overall net profits due the City and State, the reversal in market circumstances is resulting in CRC receiving less than the Agreements' floor price. The per-barrel pricing shortfall between the price CRC sells oil for and the amount it must pay the City and State under the Agreements is currently absorbed by CRC's share of the LBU net profits.

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The City's Request to Amend the Agreements

On February 17, 2015, the City sent a letter to Commission staff suggesting that the Agreements be amended to eliminate the Midway-Sunset benchmark from the oil pricing provisions that is currently causing the City and State to receive a higher price than CRC receives from its contract price from the refiner. Namely, the City suggested removing Midway-Sunset as a named field and allowing CRC to value its oil under the Agreements as the price it receives under its arm's length sales contracts. Additionally, the City recommended removing the annual "true-up" mechanism under Articles 9(e) and 7(e) of the Agreements, as unnecessary under a sales contract valuation. Commission staff responded by requesting data from the City in order to confirm the facts and to analyze the potential impact to the State's net-profit share from such an amendment.

In November 2015, CRC entered into a new round of sales contracts with purchasers that valued Wilmington oil as the average of the Midway-Sunset posted price minus a per barrel differential. According to CRC, starting that month CRC paid the parties net profit share approximately \$0.49 a barrel higher than it was collecting under its sales contracts. From data provided by CRC, this meant that CRC was paying to the LBU over \$300,000 in both November and December (December data estimated) more than CRC would have paid if the Agreement valued Wilmington oil at CRC's sales contract price. According to sales contracts provided to staff this trend has continued to date.

On January 11, 2016, Commission staff received data from the City and CRC verifying the 2015 per barrel price difference between Midway-Sunset and CRC's contract price. On January 26, 2016, CRC provided Commission staff with copies of their sales contracts.

On January 20, 2016, the City formally requested Commission consent to amend the Agreement to accept the value of Wilmington oil as the sales contract price actually realized by CRC, as opposed to the currently higher Midway-Sunset benchmark. In its letter, the City indicates that it and CRC have "taken steps to address the low oil price by halting drilling, delaying non-safety critical facility projects, reducing the maintenance rig count, and negotiating reduced process with many vendors. Allowing CRC to pay the State and City the price they receive, albeit lesser, is a reasonable arrangement for the benefit of all parties and will help CRC survive a difficult time in the oil business." The City states that moving the value of oil to CRC's sales contract price supports the original intent of the Agreements "while protecting the long-term viability of oil field operations in a challenging market."

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Proposed Amendments to the Agreements

The proposed amendment consists of three changes to the oil valuation provisions of the Agreements and the addition of two new definitions.

The first change involves altering how Wilmington oil is valued for purposes of generating the City and State's net profit share. Under the proposed amendment, when CRC, or a future contractor, sells its oil in an arm's length transaction, the value of oil will be the actual amount realized on the sale. This will set the actual current market price as the contractor's sales price. The City (or the State under the Tract No. 2 Agreement) will determine whether a contract is arm's length. Where sales are not conducted at arm's length, the pre-amendment benchmarks will then be used to value the oil, meaning the highest of Midway-Sunset's posted prices or the weighted average of all sales in the Wilmington field. The intent of this change is to acknowledge that the Wilmington market price is what a contractor can obtain under a sales agreement, as long as the contract is negotiated at arm's length and prudently reached. Additionally, a fall-back benchmark persists as Midway-Sunset's average of posted prices if a future contractor has an economic interest in refining or other downstream interest making an arm's length transaction impossible.

The second change expressly identifies the City and State's right to inspect the contractor's sales contract agreements and volume data. This will allow both the City and Commission staff to verify the terms of current contracts and analyze the contractor's market participation with regards to LBU oil.

The third change is intended to continue the system of annual reviews conducted by an outside party to evaluate the Wilmington market and "true-up" the contractor's payments to ensure that the City and State receive the highest price of either the sales contract price or the weighted average price of all sales in the Wilmington field. It would also verify the actual sales prices obtained. This amends the current provisions that trues-up annual payments to the highest value of either the weighted average of all sales in the field or Midway-Sunset posted prices.

Finally, definitions will be added for "arm's length" transactions and "actual current market price" to provide objectivity and substance to those terms as they are used in the Agreements.

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The proposed amendments are to become effective February 1, 2016. The use of CRC's sales contract prices will apply to the initial monthly valuations of crude oil beginning in February 2016.

The Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California, is attached as Exhibit A, and the Agreement Amending Crude Oil Valuation Provisions, Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, California, is attached as Exhibit B. The amendments have been approved as to form by CRC and the City's staff. The City is expected to consider approval of the amendments at its meeting scheduled on February 9th, 2016, the same day the Commission will consider the amendments.

STATUTORY AND OTHER REFERENCES:

Section 10(b) of Chapter 29 of the Statutes of 1956, First Extraordinary Session, requires the California State Lands Commission's consent to any amendment to a contract for the drilling for, developing, extracting, processing, taking or removing, or disposing of oil from the Long Beach tidelands to be valid. Pursuant to section 3(j) of Chapter 138 of the Statutes of 1964, First Extraordinary Session, the Commission was given the authority to enter into the Tract No. 2 Agreement.

OTHER PERTINENT INFORMATION:

1. Consenting to the City's request to the amendments is not a project as defined by the California Environmental Quality Act (CEQA) because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378, subdivision (b)(5).

2. This action promotes Strategy 2.1 of the Commission's Strategic Plan to optimize returns for the responsible development and use of State lands and resources, both onshore and offshore; and Strategy 2.2 to ensure timely receipt of revenues and royalties from the use and development of State lands and minerals.

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EXHIBITS:

- A. Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California
- B. Agreement Amending Crude Oil Valuation Provisions, Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, California

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

1. Consent to the City's request to amend the crude oil valuation provisions of the Contractor's Agreement and authorize the Executive Officer to execute the consent provision in an agreement amending the crude oil valuation provisions of the Contractors' Agreement in substantially the form of that attached as Exhibit A.
2. Approve the amendment to the crude oil valuation provisions of the Tract No. 2 agreement and authorize the Executive Officer to execute on the Commission's behalf an agreement amending the crude oil valuation provisions of the Tract No. 2 Agreement in substantially the form of that attached as Exhibit B.

Exhibit A

AGREEMENT AMENDING CRUDE OIL VALUATION PROVISIONS, CONTRACTORS' AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, CALIFORNIA

The Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California (as amended, the Contractors' Agreement) was entered into by and among the City of Long Beach, a municipal corporation (City) and the Contractors named in the Contractors' Agreement. The Contractors' Agreement became effective April 1, 1965. Since that time the Contractors have changed. California Resources Corporation (CRC) currently holds all Contractor interests in the Contractors' Agreement.

On February 5, 2007, the Contractors' Agreement was amended to add the Midway-Sunset oil field, located in the southern San Joaquin Valley, as a "named field" from which to value oil under Article 9(b) of the agreement. Midway-Sunset was added as a "named field" because valuation information for the existing named fields had historically been unavailable and the parties deemed it necessary for the agreement to maintain valuation data for Midway-Sunset as an objective benchmark and price floor for the City and State of California's net profit valuation of Wilmington Oil Field (Field) oil.

Since the Contractors' Agreement was last amended, the marketing of crude oil in the Field has changed, in that posted prices in other oil fields in California no longer accurately reflect the actual market value of crude oil in the Field. Circumstances unique to the Field such as, constrained refining capacity, oil and water treatment costs, and transportation constraints make reliance on the Midway-Sunset posted price

benchmark inapt. The parties understand that the “Actual Current Market Price” based on the total price realized on the contractor’s oil sales contracts are a more appropriate measure of the Field’s market, so long as those sales are conducted Arm’s length. Where, upon all relevant information available, the City reasonably determines the dealings of a contractor, with respect to the sales of Field oil, to not be Arm’s length, the pre-amendment pricing benchmarks would thereafter apply. The parties further understand that the provisions of Section 9(b)(4) of Article 9, as amended, the weighted average of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field, shall serve as the minimum value or price floor for the valuation of Wilmington oil. Adjustments to true-up the value of oil to this benchmark, if necessary, would be made pursuant to Section 9(e), as amended.

In consideration of the mutual covenants and agreements contained in this Agreement Amending Crude Oil Valuation Provisions, Contractors’ Agreement, Long Beach Unit, Wilmington Oil Field, California, the City and CRC agree:

1. Article 1 DEFINITIONS of the Contractors’ Agreement is amended to add the following:

ee. Actual Current Market Price means the entirety of the price actually realized by the Contractor through an oil sales contract prudently negotiated at arm’s-length, in light of all available and relevant information.

ff. Arm’s-length means a contract between the Contractor and independent Persons who are not affiliates and who have opposing economic interests regarding

such contract. To be considered arm's-length for any production month, a contract must satisfy this definition for that month, as well as when the contract was executed.

2. Article 9 CRUDE OIL of the Contractors' Agreement is amended to read in its entirety as follows:

Article 9. CRUDE OIL

(a) General Provision

Subject to the provisions of Article 11 hereof, each Contractor shall have the exclusive right to take and shall be obligated to take the Oil Allocated to such Contractor. All Oil Allocated to each Contractor shall be accounted for and payment made to the City on the basis of its value as computed under this Article. Delivery of all Oil Allocated to each Contractor shall be taken by such Contractor or its nominee in the manner and in accordance with the applicable provisions of the Unit Agreement and Unit Operating Agreement.

(b) Valuation Applicable to all Contractors

The Value of Oil Allocated to each Contractor as to each delivery thereof shall be established in accordance with ~~one of the following three~~ ~~(3)~~ standards, ~~whichever shall be the highest:~~

1. The Actual Current Market Price of the Oil Allocated at the point of delivery.

If the City reasonably determines that the contract(s) which established the Actual Current Market Price does not reflect an Arms-length transaction, then the Standard in Section 9(b)(1) shall not apply and the Value of Oil Allocated to each

Contractor shall be established in accordance with one of the following three (3) standards, whichever shall be highest:

42. The arithmetical average of the prices posted in the Field by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the Contractor's or nominee's tanks and/or pipelines (weighted, in the event of a price change during such month, as to each Continuing Purchaser in accordance with the number of days each such price was posted during such month).

23. The arithmetical average of the prices posted in the Named Fields (or in such of them in which there are prices posted by one or more Continuing Purchasers) by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the Contractor's or nominee's tanks and/or pipelines (weighted in the event of a price change during such month, as to each Continuing Purchaser and as to its posting in each field, in accordance with the number of days each such price was posted during such month).

34. The weighted average of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field for oil of like gravity during the calendar month in which the oil to be valued is run into the Contractor's or nominee's tanks and/or pipelines.

The price for valuing each delivery of oil, as determined by any of the above methods, shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel.

If, for any reason, none of the aforesaid ~~three~~ standards set forth in the first paragraph of this Section 9(b) is ascertainable, on the basis of all available relevant and reliable information, as to any delivery, the Value of Oil Allocated to any Contractor by such delivery shall be the actual current market price of such oil at the point of delivery determined on the basis of all available relevant and reliable information.

In the event prices posted by any Continuing Purchaser in any field on any day do not include prices for all gravities of oil to be valued hereunder to the closest tenth of a degree of API gravity, the price deemed to be posted by such Continuing Purchaser on such day for oil of any gravity whose price is not actually posted in such field by such Continuing Purchaser shall be determined as follows:

1. If such Continuing Purchaser posts prices in such field for oil of both a higher and a lower API gravity than that of any oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel, by interpolating on a straight line between the nearest lower degree as to which a price is posted by such Continuing Purchaser and the nearest higher degree so posted; provided that no such interpolation shall be made if either the nearest higher or the nearest lower degree of oil as to which a price is posted is more than five degrees (5°) API gravity higher or lower than that of the oil to be valued, in which event the price of the oil to be valued will be determined by extrapolation under subparagraph (2) hereof, if either the nearest lower degree of oil or the nearest

higher degree of oil as to which a price is posted is within five degrees (5°) API gravity of that of the oil to be valued.

2. If such Continuing Purchaser posts a price in such field for only a single gravity of oil, or if all oil as to which it posts a price is either of a higher or of a lower gravity than that of the oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel, by extrapolating from such a single price, or from the price of oil of the nearest gravity to that of the oil to be valued, on the basis of the then current Index of Crude Oil Prices (Schedule "C" to Exhibit "D" of the Unit Agreement), provided that no such price posted shall be extrapolated more than five degrees (5°) API gravity above or below the API gravity of the oil to be valued.

Any prices posted by a Continuing Purchaser in the Field or in any of the Named Fields shall be excluded from the computation of the arithmetical averages of prices posted in the Field or in the Named Fields provided for in this Section 9(b) during the first fifteen (15) days of such posting (or during the entire period thereof if less than fifteen (15) days) if it can be shown on the basis of reliable information by any party hereto or the State that such Continuing Purchaser has not, during such period, made Purchases of Oil in the oil field in question of at least fifteen thousand (15,000) barrels of oil, including a substantial quantity at the same or within five degrees (5°) API gravity of the average gravity of the Oil Allocated to the Contract Lands during such period, at

a price determined on the basis of its posted prices or on the basis of an average of posted prices including its posted prices in such field; and thereafter such posted prices shall be excluded from the computation for any day if it can be shown on the basis of reliable information by any party hereto or the State that during the fifteen (15) day period immediately preceding the day for which such computation is made, such Continuing Purchaser has not made Purchases of Oil in the oil field in question of at least fifteen thousand (15,000) barrels of oil, including a substantial quantity at the same or within five degrees (5°) API gravity of the average gravity of the Oil Allocated to the Contractors during such period, at a price determined on the basis of prices posted by it in such field, or on the basis of an average of posted prices including its posted prices in such field.

In computing the weighted average of the Prices Paid for Purchases of Oil in the Field for oil of like gravity to that which is being valued, the following procedure shall be followed: (1) There shall first be aggregated all known Purchases of Oil by Substantial Purchasers in the Field of oil having an API gravity equal to or within five degrees (5°) higher or lower than that of the oil to be valued; (2) Then the price of each such Purchase of Oil shall be weighted by multiplying such price by the number of barrels of oil purchased at such price during the month; (3) Then each price, so weighted, relating to oil of an API gravity different from that of the oil to be valued will be modified by extrapolation to the API gravity of the oil to be valued, on the basis of the then current Crude Oil Price Index (Schedule "C" to Exhibit "D" to the Unit Agreement); (4) Then the

total price, so weighted and modified, of all such oil shall be divided by the number of barrels purchased during the month by means of such Purchases of Oil.

(c) Valuation Applicable to Certain Contractors

If any Contractor or any of the Persons Having an Interest in any Contractor acquires oil in the Field from any other Person either by a Purchase of Oil or by an exchange of oil for other Oil or Gas or other products extracted or manufactured from Oil or Gas or for other property or services, at a price or other consideration per barrel higher than the valuation for such oil, calculated in accordance with Section 9(b) hereof, the Value of Oil Allocated to such Contractor shall include, in addition to its value computed in accordance with Section 9(b) hereof, a further amount computed as follows:

Such further amount shall be calculated for each day such Person making such purchase or exchange received such purchased or exchanged oil into its tanks and/or pipelines by first valuing such Person's share of the Oil Allocated to such Contractor on such day in accordance with the price or other consideration paid for oil of like gravity to such other Person in the Field and then subtracting the value of such Person's share of such oil computed in accordance with Section 9(b) hereof.

The price or other consideration paid to such other Person in the Field shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel. In the event the oil so purchased or received by exchange by such Person making such purchase or exchange on any day does not include all gravities of oil to be valued under this Section 9(c) to the closest tenth of a degree API

gravity, the price or other consideration deemed to be paid by such Person making such purchase or exchange on any such day for oil of any gravity not actually purchased or received by exchange shall be determined by interpolation or extrapolation on the basis of the gravity or gravities of the oil purchased from or exchanged with such other Person in the Field and the price or prices or other consideration paid therefore, in accordance with the method set forth in the third full paragraph of Section 9(b) and the two subparagraphs thereof.

The foregoing provision of this Section 9(c) shall not apply to the Field Contractor during the term of any agreement of sale by the Field Contractor, or by another Person or Persons party to this agreement, to a successful bidder pursuant to Article 11 hereof. All oil sold by competitive bidding pursuant to Article 11 hereof shall be valued and accounted for by the Field Contractor in accordance with its valuation computed in accordance with Section 9(b) hereof, and any excess amount or bonus received by Field Contractor, or by an Person or Persons party to this agreement, from such successful bidder shall be accounted for and paid over to the City as provided in Section 5(d) hereof.

(d) Information

Each Contractor and each Person Comprising any Contractor, hereby agrees to furnish to the City or the State, upon request, the following:

1. A current and accurate (to the extent practicable) valuation schedule based upon information available to such Contractor or such Person, covering all gravities of oil available for delivery in the Field, computed to the nearest tenth of

a degree API gravity and the nearest tenth of a cent in accordance with the provisions of Section 9(b) hereof, including a specification of all calculations upon which such schedule is based.

2. A current and accurate list of all purchases and sales of oil by such Contractor and by all of the Persons Having an Interest in such Contractor, in the Field, including a specification of quantities, delivery dates, prices (including any premiums and bonuses), gravities, and names of sellers and purchasers.

Each Contractor and each Person Comprising any Contractor shall permit authorized representatives of the City and the State of California to examine relevant books, ledgers, accounts, correspondence, memoranda, oil sales contracts, volume data and other records in the possession of or under control of such Contractor and Persons Comprising any Contractor (and, to the extent it is within their power, those of Persons Having an Interest in any Contractor) for the purpose of obtaining and confirming information relevant to or necessary for the implementation of the valuation provisions contained in this Article 9 and in Article 10 hereof.

(e) Review and Adjustment

Each Contractor shall make payments currently to the City, as provided in this agreement, on the basis of the Value of the Oil Allocated to such Contractor determined on the basis of ~~posted~~ prices as set forth in subparagraph (1) of Section 9(b) hereof. ~~or~~ If subparagraph (1) of Section 9(b) does not apply, then the payments shall be on the basis of posted prices as set forth in subparagraph (2) or subparagraph (3) of the first full paragraph of Section 9(b) hereof, whichever shall be higher. Regardless of whether

the Value of Oil is established under subparagraphs (1), (2), or (3) of Section 9(b), at no point will the Value of Oil be less than that value established under subparagraph (4) of Section 9(b). At any time within nine (9) months after the end of each calendar year (or any fiscal year agreed upon between any Contractor and the City) during the term of this agreement, the City shall review and, if necessary adjust, the Value of Oil Allocated to each Contractor during such year on the basis of all available relevant and reliable information, for the purpose of determining whether any Contractor is required to account for any further Value of Oil Allocated to such Contractor under the terms of subparagraph (34) of ~~said first full paragraph~~ of Section 9(b) hereof, or under the provisions of Section 9(c) hereof. Any Contractor or the State, may require the City to make a review and, if necessary an adjustment, on the basis of all available relevant and reliable information, at any time within nine (9) months after the end of any such calendar (or fiscal) year of the Value of Oil Allocated to Contractors during such year and the proper application of the provisions of this Article 9.

Each Contractor and the City shall pay or repay to the party entitled thereto any amount of amounts necessary to make the adjustments herein provided. The payment or repayment shall be made no later than the first month of the second calendar (or fiscal) year following the calendar (or fiscal) year for which the timely adjustment is made. After making any payment required by the City pursuant hereto to which any Contractor objects, or after the City's refusal to make any adjustment which any Contractor requests, such Contractor may, after ninety (90) days' notice to the City, bring an action against the City before a judge or judges of a court of competent

jurisdiction for an adjudication on the basis of all reliable information then available pertaining to the matter at issue, for the recovery of all or any part of any amount paid pursuant to any adjustment hereunder, or for the recovery of any amount as to which the City has refused to make such an adjustment.

(f) Public Law 31

Pursuant to Public Law 31, 83rd Congress, Chapter 65, 1st Session, in time of war or when necessary for national defense, and the Congress or the President shall so prescribe, the United States shall have the right of first refusal to purchase, at the prevailing market price, all or any portion of the oil to be taken and accounted for under this agreement or to acquire and use any portion of the Contract Lands by proceeding in accordance with due process of law and paying just compensation therefore. If the United States exercises such right to purchase any portion of the Oil Allocated to any Contractor, then the price paid by the United States for such oil shall be used in valuing such portion of the Oil Allocated to such Contractor under this agreement in lieu of any other provision of this Article otherwise applicable.

(g) Cut Back

In the event any Contractor shall fail to take delivery of its Participant Allocation of oil attributable to its Working Interest in Tract No. 1 and if there shall be a decision to cut back all or part of such Contractor's said Participant Allocation as provided in Section 5.14 of the Unit Agreement, such Contractor shall nevertheless continue to pay its Contractor's Percentage of all Unit Expense and taxes attributable to Tract No. 1 and all additional costs chargeable to such Contractor under this

agreement, and such Contractor's Net Profits Account shall be credited with the oil so cut back as if such oil had actually been delivered to such Contractor; provided that nothing herein shall affect any rights at law or in equity which such Contractor may have as against the City by virtue of the net benefit to the City under this agreement occasioned by the future production of such cut back oil. Any amount to which such Contractor is entitled by virtue of such rights, if any, shall be charged to such Contractor's Net Profits Account. So long as such Contractor shall continue to carry out the obligations specified in this Section 9(g) during the period of such cut back, and shall otherwise discharge its obligations under this agreement and under the Unitization Agreements, such Contractor shall not be in default by virtue of its failure to take delivery of oil during such period.

4. The amendments shall be effective February 1, 2016, so that the changes to the initial valuations of crude oil under Article 9(b) will first be applied to the crude oil valuations for February 2016.

Dated: _____, 2016

CITY OF LONG BEACH,
a municipal corporation

By _____
City Manager

Dated: _____, 2016

CALIFORNIA RESOURCES CORPORATION,
a _____ corporation

By _____
President

At its meeting on _____, 2016, the California State Lands Commission, acting pursuant to section 10(b) of Chapter 29, Statutes of 1956, 1st E. S., gave its consent to the execution by the City of Long Beach of this Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California.

Executive Officer

This Agreement Amending Crude Oil Valuation Provisions, Contractors' Agreement, Long Beach Unit, Wilmington Oil Field, California is approved as to form.

Dated: _____, 2016

CHARLES PARKIN, City Attorney

By: _____, Deputy

Exhibit B

AGREEMENT AMENDING CRUDE OIL VALUATION PROVISIONS, TRACT NO. 2 AGREEMENT, LONG BEACH UNIT, WILMINGTON OIL FIELD, CALIFORNIA

The Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, California (Tract No. 2 Agreement) was entered into by and between the State of California, acting by and through the State Lands Commission (State), and the Contractor named in the Tract No. 2 Agreement. The Tract No. 2 Agreement became effective April 1, 1965. Since that time the Contractor has changed. California Resources Corporation (CRC or contractor) currently holds the Contractor interest in the Tract No. 2 Agreement.

On February 5, 2007, the Tract No. 2 Agreement was amended to add the Midway-Sunset oil field, located in the southern San Joaquin Valley, as a “named field” from which to value oil under Article 7(b) of the agreement. Midway-Sunset was added as a “named field” because valuation information for the existing named fields had historically been unavailable and the parties deemed it necessary for the agreement to maintain valuation data for Midway-Sunset as an objective benchmark and price floor for the State’s net profit valuation of Wilmington Oil Field (Field) oil.

Since the Tract No. 2 Agreement was last amended, the marketing of crude oil in the Field has changed in that posted prices in other oil fields in California no longer accurately reflect the actual market value of crude oil in the Field. Circumstances unique to the Field such as, constrained refining capacity, oil and water treatment costs, and transportation constraints make reliance on the Midway-Sunset

posted price benchmark inapt. The State and contractor understand that the “Actual Current Market Price” based on the total price realized on the contractor’s oil sales contracts are a more appropriate measure of the Field’s market, so long as those sales are conducted Arm’s length. Where, upon all relevant information available, the State reasonably determines the dealings of a contractor, with respect to the sales of Field oil, to not be Arm’s length, the pre-amendment pricing benchmarks would thereafter apply. The parties further understand that the provisions of Section 7(b)(4) of Article 9, as amended, the weighted average of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field, shall serve as the minimum value or price floor for the valuation of Wilmington oil. Adjustments to true-up the value of oil to this benchmark, if necessary, would be made pursuant to Section 7(e), as amended.

In consideration of the mutual covenants and agreements contained in this Agreement Amending Crude Oil Valuation Provisions, Tract No. 2 Agreement, Long Beach Unit, Wilmington Oil Field, California, the State and CRC agree:

1. Article 1 DEFINITIONS of the Tract No. 2 Agreement is amended to add the following:

z. Actual Current Market Price means the entirety of the price actually realized by the Contractor through an oil sales contract prudently negotiated at Arm’s-length, in light of all available and relevant information.

aa. Arm’s-length means a contract between the Contractor and independent Persons who are not affiliates and who have opposing economic interests regarding

such contract. To be considered arm's-length for any production month, a contract must satisfy this definition for that month, as well as when the contract was executed.

2. Article 7 CRUDE OIL of the Tract No. 2 Agreement is amended to read in its entirety as follows:

Article 7. CRUDE OIL

(a) General Provision

Except as provided in Article 9 hereof, the Contractor shall have the exclusive right to take and shall be obligated to take all the Oil Allocated to the Contract Lands. All Oil Allocated to the Contract Lands shall be accounted for and payment made to the State on the basis of its value as computed under this Article. Delivery of all Oil Allocated to the Contract Lands shall be taken by the Contractor or its nominee (or, as to oil taken in kind by the State pursuant to Article 9 hereof, the State or its nominee) in the manner and in accordance with the applicable provisions of the Unit Agreement and Unit Operating Agreement. The Contractor or its nominee and the State or its nominee are sometimes hereinafter in this Article, for convenience, referred to as "the taker."

(b) Valuation Applicable to the Contractor

The value of Oil Allocated to the Contract Lands as to each delivery thereof shall be established in accordance with ~~one of the following three (3) standards,~~ ~~whichever shall be the highest:~~

1. The Actual Current Market Price of the Oil Allocated at the point of delivery.

_____ If the State reasonably determines that the contract(s) which established the Actual Current Market Price does not reflect an Arms-length transaction, then the Standard in Section 7(b)(1) shall not apply and the Value of Oil Allocated to each Contractor shall be established in accordance with one of the following three (3) standards, whichever shall be highest:

42. The arithmetical average of the prices posted in the Field by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the taker's tanks and/or pipelines (weighted, in the event of a price change during such month, as to each Continuing Purchaser in accordance with the number of days each such price was posted during such month).

23. The arithmetical average of the prices posted in the Named Fields (or in such of them in which there are prices posted by one or more Continuing Purchasers) by Continuing Purchasers for oil of like gravity during the month the oil to be valued is run into the taker's tanks and/or pipelines (weighted in the event of a price change during such month, as to each Continuing Purchaser and as to its posting in each field, in accordance with the number of days each such price was posted during such month).

34. The weighted average of the Prices Paid by Substantial Purchasers for Purchases of Oil in the Field for oil of like gravity during the calendar month in which the oil to be valued is run into the taker's tanks and/or pipelines.

The price for valuing each delivery of oil, as determined by any of the above methods, shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel.

If, for any reason, none of the aforementioned ~~three~~ standards set for in the first paragraph of this section 7(b) is ascertainable, on the basis of all available relevant and reliable information, as to any delivery, the value of Oil Allocated to the Contract Lands by such delivery shall be the actual current market price of such oil at the point of delivery determined on the basis of all available relevant and reliable information:-

In the event prices posted by any Continuing Purchaser in any field on any day do not include prices for all gravities of oil to be valued hereunder to the closest tenth of a degree of API gravity, the price deemed to be posted by such Continuing Purchaser on such day for oil of any gravity whose price is not actually posted in such field by such Continuing Purchaser shall be determined as follows:

1. If such Continuing Purchaser posts prices in such field for oil of both a higher and a lower API gravity than that of any oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel, by interpolating on a straight line between the nearest lower degree as to which a price is posted by such Continuing Purchaser and the nearest higher degree so posted; provided that no such interpolation shall be made if either the nearest higher or the nearest lower degree of oil as to which a price is posted is more than five degrees (5°) API gravity higher or lower

than that of the oil to be valued, in which event the price of the oil to be valued will be determined by extrapolation under subparagraph (2) hereof, if either the nearest lower degree of oil or the nearest higher degree of oil as to which a price is posted is within five degrees (5°) API gravity of that of the oil to be valued.

2. If such Continuing Purchaser posts a price in such field for only a single gravity of oil, or if all oil as to which it posts a price is either of a higher or of a lower gravity than that of the oil to be valued, the price deemed to be posted in such field by such Continuing Purchaser for such oil to be valued shall be computed to the closest tenth of a cent per barrel, by extrapolating from such single price, or from the price of oil of the nearest gravity to that of the oil to be valued, on the basis of the then current Index of Crude Oil Prices (Schedule "C" to Exhibit "D" of the Unit Agreement), provided that no such price posted shall be extrapolated more than five degrees (5°) API gravity above or below the API gravity of the oil to be valued.

Any prices posted by a Continuing Purchaser in the Field or in any of the Named Fields shall be excluded from the computation of the arithmetical averages of prices posted in the Field or in the Named Fields provided for in this section 7(b) during the first fifteen (15) days of such posting (or during the entire period thereof if less than fifteen (15) days) if it can be shown on the basis of reliable information by the Contractor or the State that such Continuing Purchaser has not, during such period, made Purchases of Oil in the oil field in question of at least fifteen thousand (15,00) barrels of oil, including a substantial quantity at the same or within five degrees (5°) API gravity of

the average gravity of the Oil Allocated to the Contract Lands during such period, at a price determined on the basis of prices posted by it in such field, or on the basis of an average of posted prices including its posted prices in such field.

In computing the weighted average of the Prices Paid for Purchases of Oil in the Field for oil of like gravity to that which is being valued, the following procedure shall be followed: (1) There shall first be aggregated all known Purchases of Oil by Substantial Purchasers in the Field of oil having an API gravity equal to or within five degrees (5°) higher or lower than that of the oil to be valued; (2) Then the price of each such Purchase of Oil shall be weighted by multiplying such price by the number of barrels of oil purchased at such price during the month; (3) Then each price, so weighted, relating to oil of an API gravity different from that of the oil to be valued will be modified by extrapolation to the API gravity of the oil to be valued, on the basis of the then current Crude Oil Price Index (Schedule "C" to Exhibit "D" to the Unit Agreement); (4) Then the total price, so weighted and modified, of all such oil shall be divided by the number of barrels purchased during the month by means of such Purchases of Oil.

(c) Valuation Under Certain Circumstances

If the Contractor or any of the Persons Having an Interest in the Contractor acquires oil in the Field from any other Person either by a Purchase of Oil or by an exchange of oil for other Oil or Gas or other products extracted or manufactured from Oil or Gas or for other property or services, at a price or other consideration per barrel higher than the valuation for such oil, calculated in accordance with section 7(b) hereof, the value of Oil Allocated to the Contract Lands shall include, in addition to its

value computed in accordance with section 7(b) hereof, a further amount computed as follows:

Such further amount shall be calculated for each day such Person making such purchase or exchange receives such purchased or exchanged oil into its tanks and/or pipelines by first valuing such Person's share of the Oil Allocated to the Contract Lands on such day in accordance with the price or other consideration paid for oil of like gravity to such other Person in the Field and then subtracting the value of such Person's share of such oil computed in accordance with section 7(b) hereof.

The price or other consideration paid to such other Person in the Field shall be computed to the closest tenth of each degree of API gravity and closest tenth of a cent per barrel. In the event the oil so purchased or received by exchange by such Person making such purchase or exchange on any day does not include all gravities of oil to be valued under this section 7(c) to the closest tenth of a degree API gravity, the price or other consideration deemed to be paid by such Person making such purchase or exchange on any such day for oil of any gravity not actually purchased or received by exchange shall be determined by interpolation or extrapolation on the basis of the gravity or gravities of the oil purchased from or exchanged with such other Person in the Field and the price or prices or other consideration paid therefore, in accordance with the method set forth in the third full paragraph of section 7(b) and the two subparagraphs thereof.

(d) Information

Each Contractor and each Person Comprising the Contractor, hereby agrees to furnish to the State, upon request, the following:

1. A current and accurate (to the extent practicable) valuation schedule based upon information available to the Contractor or such Person, covering all gravities of oil available for delivery in the Field, computed to the nearest tenth of a degree API gravity and nearest tenth of a cent in accordance with the provisions of section 7(b) hereof, including a specification of all calculations upon which such schedule is based.

2. A current and accurate list of all purchases and sales of oil by the Contractor, and by all of the Persons Having an Interest in the Contractor, in the Field, including a specification of quantities, delivery dates, prices (including any premiums and bonuses), gravities, and names of sellers and purchasers.

The Contractor and each Person Comprising the Contractor shall permit authorized representatives of the State of California to examine relevant books, ledgers, accounts, correspondence, memoranda, oil sales contracts, volume data and other records in the possession of or under control of the Contractor and Persons Comprising the Contractor (and, to the extent it is within their power, those of Persons Having an Interest in the Contractor) for the purpose of obtaining and confirming information relevant to or necessary for the implementation of the evaluation provisions contained in this Article 7 and Article 8 hereof.

(e) Review and Adjustment

The Contractor shall make payments currently to the State, as provided in this agreement, on the basis of the Value of the Oil Allocated to the Contract Lands determined on the basis of ~~posted~~ prices as set forth in subparagraph (1) of Section 7(b) hereof. If subparagraph (or subparagraph (21) of Section 7(b) does not apply, then the payments shall be based on the basis of posted prices as set forth in ~~of the first full paragraph of section 7(b) hereof,~~ subparagraph (2) or subparagraph (3) of Section 7(b), whichever shall be higher. Regardless of whether the Value of Oil is established under subparagraphs (1), (2), or (3) of Section 7(b), at no point will the Value of Oil be less than that value established under subparagraph (4) of Section 7(b). At any time within nine (9) months after the end of each calendar year (or any fiscal year agreed upon between the contractor and the State) during the term of this agreement, the State shall review and, if necessary adjust, the value of Oil Allocated to the Contract Lands during such year on the basis of all available relevant and reliable information, for the purpose of determining whether the Contractor is required to account for any further value of Oil Allocated to the Contract Lands under the terms of subparagraphs (34) of ~~said first full paragraph of s~~Section 7(b) hereof, or under the provisions of section 7(c) hereof. The Contractor may require the State to make a review and, if necessary an adjustment, on the basis of all available relevant and reliable information, at any time within nine (9) months after the end of any such calendar (or fiscal) year of the value of Oil Allocated to the Contract Lands during such year and the proper application of the provisions of this Article 7.

The Contractor shall pay to the State any amount or amounts necessary to make the adjustments herein provided. The payment shall be made no later than the first month of the second calendar (or fiscal) year following the calendar (or fiscal) year for which the timely adjustment is made. After making any payment required by the State pursuant hereto to which the Contractor objects, or after the State's refusal to make any adjustment which the Contractor requests, the Contractor may, after ninety (90) days' notice to the State, bring an action against the State before a judge or judges of a court of competent jurisdiction for an adjudication on the basis of all reliable information then available pertaining to the matter at issue, for the recovery of all or any part of any amount paid pursuant to any adjustment hereunder, or for the recovery of any amount as to which the State has refused to make such an adjustment.

(f) Public Law 31

Pursuant to Public Law 31, 83rd Congress, Chapter 65, First Session, in time of war or when necessary for national defense, and the Congress or the President shall so prescribe, the United States shall have the right of first refusal to purchase, at the prevailing market price, all or any portion of the oil to be taken and accounted for under this agreement or to acquire and use any portion of the Contract Lands by proceeding in accordance with due process of law and paying just compensation therefore. If the United States exercises such right to purchase any portion of the Oil Allocated to the Contract Lands, then the price paid by the United States for such oil shall be used in valuing such portion of the Oil Allocated to the Contract Lands under this agreement in lieu of any other provision of this Article otherwise applicable.

(g) Cut Back

In the event the Contractor shall fail to take delivery of its Participant Allocation of oil attributable to its Working Interest in the Contract Lands and if there shall be a decision to cut back all or part of the Contractor's said Participant Allocation as provided in section 5.14 of the Unit Agreement, the Contractor shall nevertheless continue to pay all Unit Expense and taxes attributable to Tract No. 2 and all additional costs chargeable to the Contractor under this agreement, and the Contractor's Net Profits Account shall be credited with the oil so cut back as if such oil had actually been delivered to the Contractor; provided that nothing herein shall affect any rights at law or in equity which the Contractor may have as against the State by virtue of the net benefit to the State under this agreement or under the Contractors' Agreement occasioned by the future production of such cut back oil. Any amount to which the Contractor is entitled by virtue of such rights, if any, shall be charged to the Contractor's Net Profits Account. So long as the Contractor shall continue to carry out the obligations specified in this section 7(g) during the period of such cut back, and shall otherwise discharge its obligations under this agreement and under the Unitization Agreements, the Contractor shall not be in default by virtue of its failure to take delivery of oil during such period.

The foregoing provisions of this section 7(g) shall likewise be applicable in the event there shall be a cut back of all or any portion of the oil elected to be taken in kind by the State pursuant to the provisions of Article 9 hereof by reason of the failure of the State or its nominee to take all or any part of such oil; subject, however, to the additional provision that the Contractor's Net Profits Account shall be charged with the

value, computed in accordance with the provisions of section 7(b) hereof, of such oil so cut back as if such oil had actually been delivered to the State or its nominee.

4. The amendments shall be effective February 1, 2016, so that the changes to the initial valuations of crude oil under Article 7(b) will first be applied to the crude oil valuations for February 2016.

Dated: _____, 2016

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

by _____
Executive Officer

Dated: _____, 2016

California Resources Corporation

by _____
President