



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: JUNE 6, 2014

FROM: PLANNING & ECONOMIC DEVELOPMENT

SUBJECT: RESOLUTION NO. _____ – REJECTION OF PROPOSALS TO DEVELOP THE WILMINGTON OIL FIELD

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department) through acquisitions, court actions, and grants has ownership of oil and gas mineral interests from the Wilmington Oil Field in various areas within and adjacent to the Port of Los Angeles (Port). Historically, the Harbor Department has had operating contracts with oil companies to develop the oil and gas reserves. Through a Request for Proposals (RFP), the Harbor Department sought qualified entities to develop oil, gas, and hydrocarbon reserves for the mineral interests that the Harbor Department owns that are currently not being developed, as described in the RFP.

The Harbor Department received two proposals in response to the RFP, one from OXY Long Beach, Inc. (Oxy) and the other from Warren E&P, Inc. (Warren). The bids were opened on November 7, 2013, at a meeting open to the public and attended by both companies. Staff recommends rejecting both proposals.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Direct the Executive Director to reject all proposals per section 1.1.2 of the Request for Proposals for the Development of the Wilmington Oil Field and section 19.59 of the City Administrative Code; and
2. Adopt Resolution No. _____.

DISCUSSION:

Previous Board Action – The Board authorized release of the RFP for Development of the Wilmington Oil Field at its meeting of August 14, 2013 by Resolution No. 13-7539. The RFP was released to the public on September 6, 2013. As required by the City Administrative Code, a request for proposals must specify a single biddable factor on

SUBJECT: DEVELOPMENT OF THE WILMINGTON OIL FIELD

which bids will be received, with selection awarded to the highest responsible bidder.¹ The Harbor Department chose royalty rate as the biddable factor in order to maximize its share of revenue without having to front any capital expenses or share in any abandonment costs at the end of production; the higher the royalty rate, the higher the return to the Harbor Department. The RFP required that the operator use the Midway-Sunset crude oil price benchmark adjusted for the American Petroleum Institute gravity when calculating the value of the oil on which royalties are to be paid.

One of the conditions set forth in the RFP was that the Harbor Department would not provide any surface land for drilling activities (wells, exploration, etc.). This condition effectively limited the pool of prospective proposers to companies that own or lease land within drilling distance of the Harbor Department's mineral reserves.

Receipt of Proposals and Rejection of Bids – The Harbor Department received two proposals, one from OXY Long Beach, Inc. (Oxy) and the other from Warren E&P, Inc. (Warren). The bids were opened on November 7, 2013, at a meeting open to the public and attended by both companies.

The Harbor Department wishes to exercise its right to reject all proposals as authorized by section 19.59 of the City Administrative Code and as set forth in section 1.1.2 of the Request for Proposals for the Development of the Wilmington Oil Field.

ENVIRONMENTAL ASSESSMENT:

The proposed action is rejection of all bids for Development of the Wilmington Oil Field. As an administrative action, the Director of Environmental Management has determined that the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

There are no economic benefits associated with rejection of all bids.

¹ "Subject to the exemptions provided in Chapter 1457, Cal. Stats. 1959, with respect to tide and submerged lands granted in trust to the City by the State, and in Section 19.56 of this article with respect to other City lands, before a lease or any operating agreement or other type of agreement for the production of oil, gas or other hydrocarbons is entered into, the governing body shall, in open meeting, adopt a Resolution declaring its intention to take such action. The Resolution shall describe the property involved in such a manner as to identify it, specify the minimum rental, royalty or other consideration, and the term of the lease or agreement, the form of the lease or agreement and one variable, biddable factor, on which bids will be received, and fix a time not less than 60 days thereafter and place for a public meeting of said governing body at which meeting sealed proposals to lease or contract will be received and considered." Admin Code section 19.57.

DATE: JUNE 6, 2014

PAGE 3 OF 3

SUBJECT: DEVELOPMENT OF THE WILMINGTON OIL FIELD

FINANCIAL IMPACT:

While there are no costs associated with the rejection of all bids, the Port assumes significant opportunity costs by delaying this activity at this time.

CITY ATTORNEY:

The Office of the City Attorney has reviewed the staff recommendations in this Board Report and advises that the Board may, in its discretion, reject all bids under section 1.1.2 of the Request for Proposal.


FIS Approval:  (initials)

CA Approval:  (initials)


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APPROVED:


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Board Meeting: 6/19/2014