



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: AUGUST 14, 2013

FROM: PLANNING & ECONOMIC DEVELOPMENT

SUBJECT: RESOLUTION NO. _____ – RELEASE OF A REQUEST FOR PROPOSALS FOR DEVELOPMENT OF 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 various oil companies to develop the oil and gas reserves. Currently the Harbor Department maintains one operating contract within a unit agreement outside of State Tidelands and is a participant in one unit agreement within State Tidelands.

Recovery operations of a portion of the Harbor Department's mineral rights were formally operated by Exxon Oil Company (Exxon) and/or Mobil Oil Company (Mobil) under unit agreements and/or operating agreements that have been terminated. Through a Request for Proposals (RFP), the Harbor Department is seeking qualified entities to develop oil, gas, and hydrocarbon reserves that may remain in those areas previously operated by Exxon and/or Mobil.

RECOMMENDATION:

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

1. Approve the issuance of a Request for Proposals for Development of the Wilmington Oil Field;
2. Authorize the Executive Director to release the Request for Proposals for Development of the Wilmington Oil Field in accordance with the requirements and procedures of the California Public Resources Code and the City of Los Angeles Administrative Code; and
3. Adopt Resolution No. _____.

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DISCUSSION:

Background/Context – Leasing within the Tidelands area for the extraction of oil, gas, or other hydrocarbons is governed by both the California Public Resources Code and Chapter 4 of the City of Los Angeles Administrative Code. Specific requirements and procedures are dictated, one of which is the prior approval by the California State Lands Commission (SLC) of a resolution by a port governing body addressing an RFP to develop oil and gas prior to the Port governing body acting on it. The SLC approved this resolution at its meeting on June 21, 2013, granting the Board this authority. The next step in the process is approving the issuance of a RFP through this Board action (Transmittal 1).

On August 28, 1968, the SLC approved the unit and operating agreements for the Fault Block I Terminal Unit (Unit), which is a pooling of oil and gas leases within the Wilmington Oil Field to form one operating area with a single operator (Transmittal 2). With a subsequent SLC action on October 24, 1968, some tracts owned by the Harbor Department became part of the Unit operated by Exxon. The Unit terminated in 1994 and the tracts have remained idle since that time.

The elements required in this Resolution per the California Public Resource Code and the Los Angeles Administration Code are the following:

1. Subject Lands: Map describing the area in the Fault Block I Terminal Unit Agreement (Transmittal 3):
 - Tract 1 – Drilling and Operating Contract of 1968 by and between the Port and Humble Oil and Refining Company
 - Tract 2 – Drilling and Operating Contract of 1968 by and between the Port and Humble Oil and Refining Company
 - Tract 3 – Drilling and Operating Contract of 1968 by and between the Port and Humble Oil and Refining Company
 - Tract 4 – (Harbor – Brookline Permit)
 - Tract 5 – (Harbor – Terminal Permit)
 - Tract 6 – (Harbor – Zephyr Permit)
 - Tract 7 – (Harbor – K. G. S. Permit)
 - Tract 18 – (Harbor – Apex Permit)
 - Tract 28 – (Patten Lease)
 - Tract 29 – (Isco Permit)

2. Minimum Rental: The Fault Block I Terminal Unit lands will be subject to a rental fee of one thousand dollars (\$1,000) per acre (approximately 435 acres) per year and would only be applicable if the entity has been unable to commence

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development of Harbor Department mineral rights by drilling and completing at least one well within two years of executing the agreement with the Harbor Department. Payment (if any) will be made for the first two years, and each year after that a well has not been completed, or until either party exercises its right of termination.

3. Term of the Agreement: The proposed term would be for thirty-five (35) years, and is subject to a mutual termination by both parties.
4. Form of the Agreement: The form of the agreement will be an operating agreement similar to previous agreements the Harbor Department has had with oil operators, including that the financial risk will be borne by the contractor.
5. Biddable Factor: The one biddable factor the Harbor Department will utilize is Royalty Rate, which is the proposed percentage of the total revenue that the Harbor Department will receive from the mineral development of the subject area. All other information requested will be used to determine if the bidder is responsible.
6. Operations: The successful proposer will, at its own risk drill, produce gas, water, oil and other substances, operate and conduct any and all operations.
7. Liability: The successful proposer will, at its own risk, assume all liability with the abandonment of any operations connected with the drilling, production, or operation of the oil field.
8. Environmental: The successful proposer will be responsible for obtaining any and all necessary environmental review, approvals, and permits such as well work permits, building permits, etc.
9. Public Meeting: The date, time and location for the public opening of the bids will be determined if this Resolution is approved. The bid opening will not occur earlier than 30 days after this Resolution is approved.
10. Publication of Resolution: The resolution shall be published once a week for four successive weeks in one or more newspapers of general circulation in the city of Los Angeles.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is limited to the approval of a Resolution to release the Request for Proposals for Development of the Wilmington Oil Field. The Board action on this item does not commit the Harbor Department to the approval of any agreement or any terms or conditions thereof, or any proposed project. Any proposed project concerning development of the Wilmington Oil Field, including but not limited to, drilling, production, or operation of the oil field would be subject to environmental review and approval in accordance with the requirements of the California Environmental Quality Act (CEQA) and other applicable environmental regulations, as appropriate. As an administrative activity involving the release of a Request for Proposals, the Director of Environmental Management has determined that the proposed action is exempt from CEQA in accordance with Article II Section 2 (f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the Resolution will have no employment impact in the five-county region.

FINANCIAL IMPACT:

Approval of the Resolution to release the Request for Proposals for Development of the Wilmington Oil Field will have no immediate financial impact to the Harbor Department other than the cost to advertise the RFP in local publications as required by the California Public Resources Code and the Los Angeles Administration Code. This cost is yet to be determined. If this Resolution is approved, funds from the FY 13/14 budget will be provided from the Planning & Economic Development Division budget, Account Number 52020, Center Number 0428, and Program Number 000. Any financial impacts associated with the development of the Wilmington Oil Field will be detailed in a future separate Board action should an operator be selected.

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CITY ATTORNEY:

The proposed resolution raises no legal issues at this time.

TRANSMITTALS:

1. Request for Proposals for Development of the Wilmington Oil Field
2. Map of Terminal Unit Location
3. Map of Fault Block I

FIS Approval:  (initials)
CA Approval:  (initials)


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APPROVED:


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