

Staff Report 56

PARTIES:

State of California, acting by and through the State Lands Commission

City of Long Beach, Unit Operator, Long Beach Unit

California Resources Corporation, Field Contractor, Long Beach Unit

PROPOSED ACTION:

Consider approval of the Twelfth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract.

AREA, LAND TYPE, AND LOCATION:

The West Wilmington oil field is divided into five¹ fault blocks and Parcel "A." Fault Blocks II through V are further divided into two segments. Segment One is the tidelands area located southerly and seaward of the boundary line established by Section 7 of Chapter 138, Statutes of 1964, First Extraordinary Session. Segment Two is the uplands area northerly of that line. The lands under the Oil Contract (Contract) include Segment One in Fault Blocks II through V (Tidelands Parcel) and a small parcel known as Parcel "A," all of which lie west of the Long Beach Unit.

BACKGROUND:

The West Wilmington oil field was discovered in 1932, and contracts for oil production from the tide and submerged lands portion (Tidelands) were first executed in 1939. At that time, the City of Long Beach (City) retained all revenues derived from oil production in the Tidelands portion of the field. By the 1960s, a majority, and since 2012, approximately one-half, of the oil and gas revenue has gone to the state's General Fund. Under principles of law, the City serves as trustee

¹ Fault Block I is outside of the jurisdiction of the Commission.

of the tideland mineral rights, holding the lands and mineral resources in trust for the State. The Tidelands area, which includes both onshore and offshore lands, is operated day-to-day, on behalf of the City, by an oil company. The current field contractor (referred to as Contractor in this report) is Tidelands Oil Production Company which is owned by the California Resources Corporation (CRC).

While the totality of operations of the Long Beach Harbor Tidelands Parcel and Parcel "A" are guided by various contracts and agreements between the City, field contractor, and the Commission, the Contract established procedures for oil development, cost sharing, oil valuation, accounting, and other aspects of oil production in the tidelands portion of West Wilmington. The Contract has been amended 11 times to account for new circumstances, address ambiguities, and in response to changing market conditions. One of the conditions in the Contract is that the contractor must sell their oil consistent with public price postings in named fields.

In early 2025, the oil industry ceased public price postings. Based on this change in industry practice and the elimination of price postings, the City seeks a 12th amendment to the Contract to adjust how the City values oil for purposes of determining the oil revenue that is allocated to the State.

STAFF ANALYSIS AND RECOMMENDATION:

CURRENT OIL VALUATION METHODOLOGY:

Section 18.3 of the Contract governs how crude oil is valued for purposes of calculating net profits and was last amended in 2008 ([Item 35, December 3, 2008](#)) The City entered into the Contract effective March 1, 1989, with several entities that comprised the Contractor. As a result of a series of assignments, the current Contractor is a wholly owned subsidiary of CRC, called Tidelands Oil Production Company.

In order to ensure that Wilmington oil was being sold at an arm's length, fair market value, the City's contractor is required to value the oil sold based on actual current market price. A sale is considered to be at "arm's-length" when it is made between independent parties with opposing economic interests and no conflicts of interest. This standard must be satisfied when the contract is executed and for each month of production. "Actual current market price" is the full consideration realized under such a contract.

Since the 1960s, for a fair comparison, West Wilmington oil prices have been based on the average price posted by local oil companies for oil with similar basic qualities (such as thickness and sulfur content).

The Ninth Amendment to the Contract, approved in 2008, revised Section 18.3 in response to the significant reduction in the availability of publicly posted prices across several California oil fields, which made the prior valuation method unstable and unrepresentative of true market conditions. The Ninth Amendment replaced the daily average of posted prices in five fields with the monthly arithmetic average of postings in the Midway-Sunset oil field by major operators such as Union 76, Chevron, ExxonMobil, Shell Trading US, as well as any other qualifying refiners with at least 30,000 barrels per day of throughput capacity. This change provided a more stable and competitive benchmark.

As of March 2025, public pricing in the Midway-Sunset field ceased. Without posted prices, the existing formula in the Contract can no longer be applied. The proposed amendment is therefore necessary to establish a new valuation methodology. CRC, as field Contractor, remains responsible for marketing the produced oil. Because the valuation formula directly determines the calculation of net profits, Section 10(b) of Chapter 29, Statutes of 1956, First Extraordinary Session, requires the Commission's consent for this amendment to take effect.

For reference, the City executed a similar amendment in 2016 for the Long Beach Unit, which shifted valuation to arm's-length sales, including fallback benchmarks, inspection rights, and clarified definitions of "arm's length" and "actual current market price." The changes took effect February 1, 2016 ([Item 75, February 9, 2016](#)).

PROPOSED AMENDMENT TO THE CONTRACT:

The use of posted prices was started in the 1960s due to concerns that field contractors at the time were "vertically-integrated" meaning they owned all levels of production (e.g., exploration, production, refining, and retail), and that, due to their market control, transactions between the field contractor and its affiliates would produce under-market valuations.

In the current instance, Contractor is not vertically integrated and must negotiate with unaffiliated refiners and marketers in the region to sell West Wilmington oil. Given the particularities of the Los Angeles Basin oil market and that Contractor's transactions are monitored by the City and audited by the Commission, staff believe that the market price Contractor obtains is a fair valuation of the oil's value.

The Twelfth Amendment to the Contract (Exhibit A), renegotiates Section 18.3, as authorized under the Ninth Amendment when Midway-Sunset postings fall below two active posters. The revised provision mandates that oil be valued, accounted for, and paid based on the actual current market price, prudently negotiated by Contractor at arm's length. Values must be computed to the nearest tenth of a degree of API gravity and the nearest tenth of a cent per barrel.

All oil transactions must be made in good faith, at arm's length, and fully disclosed to the City upon execution. Contracts must reflect the complete agreement between the parties and exclude affiliate transactions. The City and the State retain the right to inspect all records to verify compliance. Failure to fully disclose consideration constitutes a major breach, allowing the City to terminate the agreement and recover damages, plus a penalty equal to twice the damage.

CRC, as the field contractor, will be compensated for reasonable and necessary expenses incurred under this agreement. Expenses will be invoiced monthly on a prorated, per-barrel basis tied to total barrels marketed by its marketing team or affiliates. All other terms of the Contract remain in effect.

Staff recommends approval of the proposed amendment. The cessation of posted prices at Midway-Sunset eliminates the current method of oil valuation at West Wilmington, necessitating a new method moving forward.

ENVIRONMENTAL REVIEW:

Not applicable. The proposed amendment is limited to contractual and pricing adjustments and does not authorize new development or physical activities that could result in environmental impacts.

STATUTORY AND OTHER REFERENCES:

Section 10(b) of Chapter 29, Statutes of 1956, First Extraordinary Session, requires the Commission's consent for any amendment to a Long Beach tidelands oil contract involving the extraction or disposition of oil.

OTHER PERTINENT INFORMATION:

1. This action is consistent with the Commission's 2021–2025 Strategic Plan focus on Meeting Evolving Public Trust Needs, specifically maintaining fiscal integrity through transparency, accountability, and the efficient management of the revenue-generating portfolio. It also supports the goal of Committing to

Collaborative Leadership, as this matter involves coordination with granted lands and multiple stakeholders. Together, these priorities ensure sound financial stewardship and effective partnership in managing State resources.

2. The Commission's participation is required under the governing legislative grant, which provides that amendments to the Tidelands Contract are not effective without Commission consent. The Commission's role is therefore limited to confirming consistency with the State's trustee and fiscal interests; it does not extend to operational control of the tidelands oil program.
3. Amending valuation provisions of the Tidelands Contract and executing the consent provision is not a project as defined by the California Environmental Quality Act 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, sections 15060, subdivision (c)(3), and 15378, subdivision (b)(5).

EXHIBIT:

- A. Twelfth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Contract.

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 Tidelands Contract and authorize the Executive Officer to execute the consent provision in the agreement.
2. Approve the Twelfth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Contract.

Exhibit A

W 12001

TWELFTH AMENDMENT TO THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL “A” OIL CONTRACT

This Twelfth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel “A” Oil Contract (“Twelfth Amendment”) is made and entered into by and between the City of Long Beach, a municipal corporation (“City”) and Tidelands Oil Production Company LLC, a Texas limited liability company (f/k/a Tidelands Oil Production Company)(“Contractor”).

WHEREAS, effective March 1, 1989, the City entered into the Long Beach Harbor Tidelands Parcel and Parcel “A” Oil Contract (including all amendments and assignments, the “Contract”) with several entities that formerly comprised the Contractor. Through a series of assignments, the current Contractor is Tidelands Oil Production Company, which is owned by California Resources Corporation (CRC); and

WHEREAS California State Lands Commission (the Commission) is a working interest owner and, in its trustee capacity, retains ongoing oversight of operations in the Long Beach Harbor Tidelands Parcel and Parcel “A” to ensure consistency with the applicable legislative grants and the public trust doctrine; and

WHEREAS, on April 1, 2025, the number of different posters in the Midway Sunset oil field became less than two which in the Ninth Amendment of the Contract provides that “the Contractor, the City, and the Commission may renegotiate this subsection 18.3 to provide another method of valuating the oil in light of these changed circumstances”.

NOW THEREFORE, in consideration of the mutual terms, covenants, and conditions herein contained, the parties agree as follows:

1. In order to provide a new methodology for pricing oil, the parties hereby amend the entirety of Section 18.3 of the Contract to read as follows:

“18.3. All oil shall be valued, accounted for and paid for at the Actual Current Market Price prudently negotiated at Arm’s-length in light of all available and relevant information. The value shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel. “Arms-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. “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.

All agreements made by the Contractor or any person, firm or corporation comprising the Contractor for the sale, exchange or other disposition of the oil taken under this agreement shall be in good faith, Arm's-length agreements. Copies of all such agreements shall be furnished to the City when they are made. The agreements shall reflect the total understanding of the parties, shall show the entire consideration passing among the parties and their affiliates and shall be unrelated to any other agreements among the parties and their affiliates. The City, Commission, or their authorized representatives shall be permitted at all reasonable times to examine the records of the Contractor and any person, firm or corporation comprising the Contractor for the purpose of verifying that the agreement is a good faith, Arm's-length agreement and fully discloses the understanding of and consideration passing among the parties and their affiliates.

Notwithstanding any other provision of this agreement, the failure of the Contractor or any person, firm or corporation comprising the Contractor to disclose fully to the City all of the consideration received by it or any of its affiliates under any agreement for the sale, exchange or other disposition of oil taken by it under the agreement shall be a major breach of this agreement entitling the City immediately to terminate this agreement and recover from the Contractor the damages it suffered as a result of the failure to disclose fully such consideration, plus a penalty equal to double the amount of such damages.

California Resources Tidelands, Inc, a Delaware corporation ("CRC Tidelands"), as field contractor, shall be compensated for reasonable and necessary expenses incurred for carrying out the services contemplated hereunder ("Expenses") as authorized in the field contractor agreements. The method of compensating CRC Tidelands shall be as follows: CRC Tidelands shall invoice the units, on a monthly basis, consistent with a pro-rated per barrel rate based on the total amount of barrels marketed by CRC Tidelands or its affiliates' crude oil marketing team."

2. Except as expressly amended herein, all the terms and conditions in the Contract, as previously amended and/or supplemented, are ratified and confirmed and shall remain in full force and effect.

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IN WITNESS WHEREOF, the parties have caused this Twelfth Amendment to be duly executed as of the dates set forth below, with this Amendment effective as of April 1, 2025.

**THE STATE OF CALIFORNIA
CALIFORNIA STATE LANDS COMMISSION**

Date: _____

By: _____

Name: _____

Title: _____

CITY OF LONG BEACH, a municipal corporation

Date: _____

By: _____

Name: _____

Title: _____

Tidelands Oil Production Company, a Texas limited liability company

Date: _____

By: _____

Name: _____

Title: _____

This Twelfth Amendment is approved as to form on _____, 2025.

DAWN MCINTOSH, City Attorney

By _____
Deputy