

MINUTE ITEM

21. (AGREEMENT AMENDING DRILLING AND OPERATING CONTRACTS, WILMINGTON FIELD, LOS ANGELES COUNTY - L.B. W.O. 10,020.)

After presentation of Calendar Item 23 attached, the Assistant Executive Officer reported that the City of Long Beach had on the previous day delivered in writing a definition of the phrases "Maximum Economic Recovery" and "Ultimate Maximum Economic Recovery", leaving only the first two of the suggested additional amendments to be discussed.

Mr. Sam Vickers, City Manager of Long Beach, suggested that the questions under review be handled by letter, rather than requiring actual amendments to the contract. He indicated that there was disagreement on any additional amendments, as the City of Long Beach felt that it was competent to administer the trust that had been given to it; he further stated that if it were necessary to exceed the four-million-dollar limitation, the City would agree to submit information to the Commission and to apprise the Commission before taking any action, and that if it were necessary to cease operations because of damage caused by the water-flooding project, the City would agree to inform the Commission of this, with the hope that the Commission would not require any operational control.

The Assistant Executive Officer suggested that the "requirement for approval by the State Lands Commission as to any termination of the water-flooding project" apparently could be handled on the basis of cooperative notice but that there should be a cost limitation as a condition of the contract approval required under Chapter 29 of the Statutes of 1956.

Deputy Attorney General Jay L. Shavelson reported on a legal analysis of the proposed contract amendment with the conclusion that the Commission should not give any approval in such broad terms that major policy changes could be made within the contract amendment without further consideration by the Commission.

Mr. Vickers stated that, in his opinion, the action being recommended to the Commission constituted the first inroad into local control.

Mr. Kirkwood pointed out that the State's responsibility is to review the City's expenditures to see that they are in the best interests of the State as well as of Long Beach and that by taking the action recommended by the staff the Commission would not be changing the principles under which it has been operating.

Mr. Phillip J. Brady appeared on behalf of the City of Long Beach, stating that with local control vested in the City, the City should have flexibility in carrying any operational program to a conclusion.

The Executive Officer indicated that the State should not approve the proposed contract amendment without a limitation on the amount of expenditures.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED AUTHORIZING THE EXECUTIVE OFFICER TO APPROVE THE MODIFIED AMENDATORY AGREEMENT TO EACH OF THE RESPECTIVE SIX DRILLING AND OPERATING CONTRACTS HERETOFORE ENTERED INTO BETWEEN THE BOARD OF HARBOR COMMISSIONERS OF THE CITY OF LONG BEACH AND THE LONG BEACH OIL DEVELOPMENT COMPANY RELATING TO TIDELAND OIL DEVELOPMENT ON PARCELS W, X, Y, Z, Z-I AND J TO PROVIDE FOR AN EXPANDED WATER-FLOOD PROGRAM, SUBJECT TO THE FILING OF WRITTEN STATEMENTS BY THE CITY OF LONG BEACH WITH THE STATE LANDS COMMISSION THAT THE CITY AGREES (1) TO REVIEW AND APPROVAL BY THE COMMISSION OF ANY PROPOSED EXPENDITURE IN EXCESS OF \$4,000,000 UNDER THE AMENDED CONTRACT, AND (2) TO REVIEW BY THE COMMISSION OF ANY PROPOSAL TO TERMINATE THE WATER-FLOODING PROJECT.

Attachment

Calendar Item 23 (2 pages)

CALENDAR ITEM

SUPPLEMENTAL

23.

(AGREEMENT AMENDING DRILLING AND OPERATING CONTRACTS, WILMINGTON FIELD, LOS ANGELES COUNTY - L.B. W.O. 10,020.)

On February 19, 1957, in compliance with Section 10(b), Chapter 29, Statutes of 1956, 1st E.S., the Long Beach Board of Harbor Commissioners submitted to the State Lands Commission for approval an amendatory agreement constituting an amendment to each of the respective six drilling and operating contracts heretofore entered into between the Board of Harbor Commissioners of the City of Long Beach and the Long Beach Oil Development Company relating to tidelands oil development on Parcels W, X, Y, Z, Z-1 and J.

The proposed amendment would provide for an extended water injection program within specified fault blocks and productive zones in the Wilmington tideland oil field for the purpose of recovering a greater ultimate production of oil than would result from primary production methods. A comprehensive study of the proposed injection operation has been conducted by Earlaugher Engineering of Tulsa, Oklahoma, specialists in the field of water flooding as a secondary recovery method. A report favorable to the proposed injection operation was submitted by this firm.

The proposed amendment has been reviewed by the staff of the Division and the office of the Attorney General.

The amendment is drafted in broad terms to provide the operating flexibility required by a project of this nature.

In water injection operation it is possible that liability may occur due to water encroaching into adjoining leases. Insurance against such encroachment would probably be economically prohibitive if obtainable at all. In view of this possible liability, a continuous check of all available engineering data will be maintained in order to control the rate of advance of the water drive front. Some form of area unitization will be required before the injected water reaches adjoining land ownerships.

Control of the operation will be in the City and the Contractor. The State will have access to all data and operational information and the control provided by the following requested modifications to the amendment by specification of:

1. A \$4,000,000 limitation upon expenditures which may be made under this project without further approval of the State Lands Commission;
2. A requirement for approval by the State Lands Commission as to any termination of the water flooding project;
3. Definitions of the phrases "maximum economic recovery" and "ultimate maximum economic recovery".

SUPPLEMENTAL 23. (CONT'D)

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE MODIFIED AMENDATORY AGREEMENT TO THE AMENDMENT TO EACH OF THE RESPECTIVE SIX DRILLING AND OPERATING CONTRACTS HERETOFORE ENTERED INTO BETWEEN THE BOARD OF HARBOR COMMISSIONERS OF THE CITY OF LONG BEACH AND THE LONG BEACH OIL DEVELOPMENT COMPANY RELATING TO TIDELAND OIL DEVELOPMENT ON PARCELS W, X, Y, Z, Z-1, AND J TO PROVIDE FOR AN EXPANDED WATER FLOOD PROGRAM, SUBJECT TO THE ADOPTION OF THE FOLLOWING ADDITIONAL AMENDMENTS:

1. ~~A \$4,000,000 LIMITATION UPON EXPENDITURES WHICH MAY BE MADE UNDER THIS PROJECT WITHOUT FURTHER APPROVAL OF THE STATE LANDS COMMISSION;~~
2. A REQUIREMENT FOR APPROVAL BY THE STATE LANDS COMMISSION AS TO ANY TERMINATION OF THE WATER FLOODING PROJECT;
3. DEFINITIONS OF THE PHRASES "MAXIMUM ECONOMIC RECOVERY" AND "ULTIMATE MAXIMUM ECONOMIC RECOVERY".