

MINUTE ITEM

3. AMENDED DRILLING AND OPERATING CONTRACT, LONG BEACH HARBOR DEPARTMENT, FAULT BLOCK IV, WILMINGTON OIL FIELD - L.B.W.O. 10,144.

The Executive Officer presented Calendar Item 1 attached, and recommended that it be approved by the Commission. The Chairman asked if there were any comments or questions. There were none.

UPON MOTION MADE BY MR. ANDERSON, SECONDED BY MR. HURLEY, AND PASSED UNANIMOUSLY, THE FOLLOWING RESOLUTION WAS ADOPTED: THE COMMISSION, PURSUANT TO CHAPTER 1551, STATUTES OF 1959, APPROVES, AND AUTHORIZES THE EXECUTIVE OFFICER TO CERTIFY APPROVAL OF, THE AMENDED DRILLING AND OPERATING CONTRACT (AMENDMENT OF 1961) BETWEEN THE CITY OF LONG BEACH AND GENERAL AMERICAN OIL COMPANY OF TEXAS HERETOFORE APPROVED BY THE BOARD OF HARBOR COMMISSIONERS OF THE CITY OF LONG BEACH AND THE CITY COUNCIL OF THE CITY OF LONG BEACH, AND THE EXHIBITS THERETO AND ALL ASSIGNMENTS AND TRANSFERS AUTHORIZED THEREIN; SUBJECT TO THE PROVISION THAT BY SAID APPROVAL THE COMMISSION TAKES NO RESPONSIBILITY CONCERNING THE ACCURACY OF THE VARIOUS RECITALS OF FACT SET FORTH IN THE EXHIBITS TO SAID AMENDED DRILLING AND OPERATING CONTRACT.

Attachment

Calendar Item 1 (2 pages)

CALENDAR ITEM

1.

AMENDED DRILLING AND OPERATING CONTRACT, LONG BEACH HARBOR DEPARTMENT, FAULT BLOCK IV, WILMINGTON OIL FIELD - L.B.W.O. 10,144.

The Harbor Department of the City of Long Beach, in accordance with the provisions of Chapter 1551, Statutes of 1959, has submitted for approval by the State Lands Commission an Amended Drilling and Operating Contract between the City of Long Beach and General American Oil Company of Texas covering lands of which the principal part is located in Fault Block IV, Wilmington Oil Field. (Refer to Exhibits "A" and "B" attached.)

The original permit and agreements between the City and Westgate-Greenland Oil Company, predecessors in interest to General American, were entered into for a term of 24 years and 11 months each on January 12, 1938; February 3, 1939; May 14, 1946; July 11, 1947; July 25, 1949; and August 22, 1950; to provide for the drilling of 14 wells into 4 zones, which wells have been completed. The City's royalty share under present agreements is 50% of the oil and gas produced and saved.

The major portion of lands involved are located in the central area of Fault Block IV, and are a portion of the lands designated by the State Oil and Gas Supervisor on February 29, 1959, as being necessary to the proper repressuring of said Fault Block to arrest or ameliorate subsidence. General American has indicated to the City that it is not feasible for them to commit said lands voluntarily to said Fault Block IV Unit Agreement until its existing contracts with the City are amended. The involuntary commitment of such tracts to the unit agreement would at best involve serious delays in the execution of the unit agreement, and, in any event, would require an involved and as yet untested procedure.

Chapter 1551 of the 1959 Statutes provides for the City, subject to the approval of the State Lands Commission, to amend or modify, without competitive public bidding, such agreements as may be necessary to achieve repressuring of such lands.

The City has found and determined that it is necessary and desirable, in order to institute and effectuate Fault Block IV Unit Agreements, that the existing permit and agreements be superseded entirely by a proposed amended single contract for a term of 24 years and 11 months from the effective date therefor.

The City's interest under the amended contract will be 65% of the working interest in 100% of the production. The contractor's interest will be 35% of 100% of the working interest. The contractor will advance the City's 65% of all capital and operating expenses as a working-interest owner, and will be reimbursed therefor out of 100% of the City's share of lease production. The contractor agrees to obtain, and to have available at all times (before and after unitization) during the term of the proposed contract, a financially responsible oil purchaser.

The City has submitted an evaluation of the comparative estimated revenues. Under the existing permits and agreements, the City's future profit from primary

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oil (to February 1, 1986) would be \$2,670,351 and the contractor's interest would be \$826,024. Under waterflood participation in the Unit Agreement, and pursuant to the proposed amended contract, including secondary oil (to February 1, 1986) the City would receive a profit of \$3,226,000 and the contractor would receive \$1,738,000. There will be no cash adjustment for ownership of unit facilities or general facilities when the City's royalty interest is converted to a working interest. However, the City will purchase the general facilities of this lease on the basis of 10% of replacement cost in accordance with its agreement to purchase and own all general facilities in the Block IV Unit.

Under the terms of the proposed amended contract, the City authorizes the assignment of said contract to the Humble Oil and Refining Company. The contractor under this agreement agrees to execute and enter into the Unit Agreement for Fault Block IV.

The office of the Attorney General has reviewed the proposed contract amendment and assignment and has advised that the Commission may legally approve the amendment, pursuant to Chapter 1551, Statutes of 1959.

The staff has reviewed the economic feasibility of the proposed amended contract and determines that it is desirable and appropriate that, because of the circumstances of urgency of the repressuring program and Fault Block IV Unitization plans, it be considered for approval; however, the staff has not reviewed in detail the several exhibits attached to the proposed amended contract, since it believes that the Commission should not assume the responsibility of approving the factual representations or technical accuracies of the exhibits.

IT IS RECOMMENDED THAT THE COMMISSION, PURSUANT TO CHAPTER 1551, STATUTES OF 1959, APPROVE, AND AUTHORIZE THE EXECUTIVE OFFICER TO CERTIFY APPROVAL OF, THE AMENDED DRILLING AND OPERATING CONTRACT (AMENDMENT OF 1961) BETWEEN THE CITY OF LONG BEACH AND GENERAL AMERICAN OIL COMPANY OF TEXAS, HERETOFORE APPROVED BY THE BOARD OF HARBOR COMMISSIONERS OF THE CITY OF LONG BEACH AND THE CITY COUNCIL OF THE CITY OF LONG BEACH, AND THE EXHIBITS THERETO AND ALL ASSIGNMENTS AND TRANSFERS AUTHORIZED THEREIN; SUBJECT TO THE PROVISION THAT BY SAID APPROVAL THE COMMISSION TAKES NO RESPONSIBILITY CONCERNING THE ACCURACY OF THE VARIOUS RECITALS OF FACT SET FORTH IN THE EXHIBITS TO SAID AMENDED DRILLING AND OPERATING CONTRACT.