

**CALENDAR ITEM  
C66**

A 54, 55

04/06/11  
W 12001  
A. Reid  
A. Hager

S 25, 27, 28

**CONSIDER CONSENT TO THE TENTH AMENDMENT  
TO THE LONG BEACH HARBOR TIDELANDS  
PARCEL AND PARCEL "A" OIL CONTRACT,  
LONG BEACH TIDELANDS, WILMINGTON OIL FIELD,  
LOS ANGELES COUNTY**

**APPLICANT:**

City of Long Beach  
Long Beach Gas and Oil Department  
Attn.: Mr. Christopher Garner, Director  
211 E. Ocean Blvd., Suite 500  
Long Beach, CA 90802

**BACKGROUND:**

The City of Long Beach (City) has requested California State Lands Commission (Commission) consent to the Tenth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract (Tidelands Contract) between the City and its Contractor. This amendment would repeal Section 6.4 of the Tidelands Contract prohibiting the Contractor from using the surface of the lands subject to the Tidelands Contract for drilling and operating wells for the production of crude oil from lands that are not subject to the Tidelands Contract. This restriction was imposed when there were multiple operators in the tidelands and the adjacent lands not granted by the Legislature but acquired by and under the jurisdiction of Long Beach Harbor Department (Port Lands). Now that there is a single operator, higher efficiency and cost savings will result from eliminating this restriction that, in turn, will result in a benefit to the State. Under section 10(b) of Chapter 29, Statutes of 1956, 1st Extraordinary Session, amendments to a contract for the production of oil from the Long Beach tidelands must receive the advance consent of the Commission. Staff recommends that the Commission give its consent to this amendment. In its meeting of December 7, 2010, the Long Beach City Council approved the Tenth Amendment conditional

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upon consent of the Commission.

Over seven decades ago, oil production began in the tidelands portion of the West Wilmington field. This area is within the Long Beach Harbor District and subject to the Tidelands Contract. There have been several contracts between the City and oil company contractors providing for the development and production of oil from these lands. The current contract became effective in 1989. In 2006, Oxy Tidelands, Inc. acquired the contractor's interest pursuant to assignment from the previous holder of that interest. Oxy Tidelands is also the operator for the adjacent portlands.

Because of expansion of the Long Beach Harbor shipping operations, surface area for drill sites is limited. The field is old, and many production and injection wells already have been drilled. Much of the area has been unitized, resulting in units containing both tidelands and portlands. The State receives a share of the oil produced from these units based upon the City's participating interest in the tidelands portions of these units. Obtaining more oil requires drilling into areas where access is more difficult. The contracts and other agreements governing oil operations in the uplands and tidelands segments in the Harbor District, an area operated solely by Oxy Tidelands, allow drilling from one area to any other area, with one exception. That exception is section 6.4 of the Tidelands Contract that prevents the operator from drilling production wells, but not injection wells, from the tidelands into the adjacent portlands.

Providing more flexibility for accessing oil deposits will permit the operator to drill wells to more optimal bottom-hole locations resulting in more recovery from both the tidelands and uplands areas. The goal of the City and its operator is to maximize the quantity of oil, gas and other hydrocarbons ultimately recoverable from the reservoirs. No additional cost burdens will be borne by the tidelands operations by allowing wells to be drilled from surface locations on the tidelands to bottom-hole locations on the portlands and vice versa. Costs and production will be allocated between the tidelands and uplands parcels based on the quantity of oil, gas and other hydrocarbons produced from the deposits beneath the surface of the respective parcels. The plugging and abandonment costs of the wells will be allocated to each working interest owner based on their bottom-hole locations within unit and non-unit areas, not their surface locations.

The impetus for this Tenth Amendment is the replacement of approximately 60 wells due to the construction of the new Gerald Desmond Bridge and the building of the Middle Harbor container terminal. The costs of replacing the wells and associated production facilities will be borne by the Long Beach Harbor Department. The well replacements include wells drilled into the tidelands. Furthermore, each replacement well will be drilled to the same reservoir and

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located within the same unit as its respective original well. Accordingly, the State's interests will not be diluted. The Tenth Amendment will enable the City and its Contractor to drill replacement wells to the most optimal locations, which should result in the production of more oil at less cost. A portion of these benefits will accrue to the tidelands operations and thus to the State's revenues from tidelands oil operations. The restriction in section 6.4 is an anomaly from the past that impedes operations in this area where oil operations are unitized and conducted by a single operator and should be eliminated.

The City and the Harbor Department have agreed in a memorandum of understanding that, whenever feasible, each replacement well will be drilled prior to the abandonment of the well it replaces. This procedure should minimize the disruption of production and cash flow. Otherwise, the Harbor Department would be obligated to compensate the owners for the lost production that would occur by abandoning active producing wells prior to drilling replacement wells.

**STATUTORY AND OTHER REFERENCES:**

- A. Section 10(b), Ch. 29, Stats. 1956, 1st E.S.

**OTHER PERTINENT INFORMATION**

- 1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060(c)(3) and 15378.

**EXHIBITS:**

- A. Letter from the City of Long Beach requesting approval of the Tenth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract.
- B. The Tenth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract.

**PERMIT STREAMLINING ACT DEADLINE:**

N/A

**RECOMMENDED ACTION:**

It is recommended that the Commission:

**CEQA FINDINGS:**

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Find that the activity is not subject to the requirements of CEQA pursuant to Title 14, California Code of Regulations, section 15060(c)(3) because the activity is not a project as defined by Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15378.

**AUTHORIZATION:**

1. Consent to the Tenth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract.
2. Authorize the Executive Officer or his designee to execute any document necessary to implement this consent.

# EXHIBIT A

W 12001

CITY OF LONG BEACH



DEPARTMENT

CHRISTOPHER J. GARNER  
DIRECTOR

2400 EAST SPRING STREET • LONG BEACH, CA 90804  
(562) 570-2000 • FAX (562) 570-2008

[www.lbgo.org](http://www.lbgo.org)

March 3, 2011

REVISED

Mr. Greg Scott  
Chief, Mineral Resources Management  
California State Lands Commission  
200 Oceangate, 12<sup>th</sup> Floor  
Long Beach, CA 90802-4331

SUBJECT: **10<sup>th</sup> AMENDMENT TO THE LONG BEACH HARBOR TIDELANDS PARCEL AND PARCEL "A" OIL CONTRACT WITH CALIFORNIA STATE LANDS COMMISSION**

Dear Mr. Scott:

We are seeking to execute the 10th Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract (Contract) with the California State Lands Commission, allowing for drilling of oil production wells from subject lands into adjacent West Wilmington oil producing areas. The subject lands are those lands described within the Contract, and lie south of Ocean Blvd. within the Harbor District of the City of Long Beach.

The original contract, executed in 1989, under Section 6.4, currently does not allow the City of Long Beach as Unit Operator (City) to drill oil producing wells from the subject lands into adjacent West Wilmington oil producing areas, though the opposite condition is allowed. Due to Harbor development and the 2004 Memorandum of Understanding between the Harbor Department and Long Beach Gas and Oil Department, the City has limited areas to drill from within the Harbor District.

The City of Long Beach Harbor Department is currently developing and modifying some of the surface areas within the Harbor District. The two major projects under way are the replacement of the Gerald Desmond Bridge and the creation of the Middle Harbor container terminal. These two projects will cause approximately 60 wells to be replaced due to bridge footings, off ramps, and other facilities designed to be installed over existing oil operating areas. The cost of the replacement wells and associated facilities will be borne by the Harbor Department. Replacement wells will be completed into the same fault block and reservoir as the original well.

The 10th Amendment to the Contract would eliminate the provision restricting the drilling of oil producing wells from subject lands into adjacent West Wilmington oil producing areas allowing the City the ability to drill into areas that may not be accessible otherwise. Additionally, the 10th Amendment would allow for flexibility, cost savings, and optimization, increasing the maximum economic quantity of oil, gas and other hydrocarbon substances ultimately recoverable from the reservoirs.

The Long Beach City Council approved the Contract on December 7, 2010 (see enclosed council letter, minutes, and Contract). Final approval of the 10th Amendment to the Contract is conditional upon approval of the California State Lands Commission.

Sincerely,

A handwritten signature in black ink that reads "Christopher J. Garner".

CHRISTOPHER J. GARNER  
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:CPH:lld



December 7, 2010

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager to execute the 10<sup>th</sup> Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract with the California State Lands Commission, allowing for drilling of oil production wells from subject lands into adjacent West Wilmington oil producing areas. (District 2)

**DISCUSSION**

Tidelands Oil Production Company (Tidelands OPC) is the contractor to the City for the West Wilmington oil operations, including the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract (Contract) for the State of California tidelands interests.

The Contract, under Section 6.4, currently does not allow Tidelands OPC to drill an oil producing well from the contracted areas into adjacent West Wilmington oil producing areas, though the opposite condition is allowed. Due to Harbor development and the 2004 Memorandum of Understanding between the Harbor Department and Long Beach Gas and Oil Department, Tidelands OPC has limited areas to drill from within the Harbor District. The 10<sup>th</sup> Amendment to the Contract would eliminate the provision restricting the drilling of oil producing wells from subject lands into adjacent West Wilmington oil producing areas, giving Tidelands OPC the ability to drill into areas that may not otherwise be accessible.

Final approval of the 10<sup>th</sup> Amendment to the Contract is conditional upon approval of the California State Lands Commission.

This matter was reviewed by Deputy City Attorney Richard Anthony and by Budget Officer Victoria Bell on October 21, 2010.

HONORABLE MAYOR AND CITY COUNCIL  
December 7, 2010  
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TIMING CONSIDERATIONS

City Council action is requested on December 7, 2010.

FISCAL IMPACT

There is no fiscal impact and no local job impact associated with this action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER  
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:CPH:lld

APPROVED:

  
\_\_\_\_\_  
PATRICK H. WEST  
CITY MANAGER

Councilwoman Gabelich spoke.

**A motion was made by Councilmember DeLong, seconded by Councilmember O'Donnell, to approve recommendation. The motion carried by the following vote:**

**Yes:** 8 - Garcia, Lowenthal, DeLong, O'Donnell, Andrews, Johnson, Gabelich and Neal

**Absent:** 1 - Schipske

[see media](#)

29. [10-1297](#)

Recommendation to authorize City Manager to execute the 10th Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract with the California State Lands Commission, allowing for drilling of oil production wells from subject lands into adjacent West Wilmington oil producing areas. (District 2)

Councilmember O'Donnell spoke.

**A motion was made by Councilmember DeLong, seconded by Councilmember Garcia, to approve recommendation. The motion carried by the following vote:**

**Yes:** 8 - Garcia, Lowenthal, DeLong, O'Donnell, Andrews, Johnson, Gabelich and Neal

**Absent:** 1 - Schipske

#### NEW BUSINESS (6:12 PM)

[see media](#)

30. [10-1322](#)

Recommendation to respectfully request City Council to receive and file the Cambodia Water Festival Disaster and adopt a motion encouraging residents to support the Long Beach Chapter of People to People International Disaster Relief in support of the disaster victims.

Councilman Andrews spoke.

Representative from the Cambodian community spoke.

Councilmember O'Donnell spoke.

**A motion was made by Councilman Andrews, seconded by Councilmember O'Donnell, to approve recommendation. The motion carried by the following vote:**

**Yes:** 8 - Garcia, Lowenthal, DeLong, O'Donnell, Andrews, Johnson, Gabelich and Neal

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## EXHIBIT B

W 12001

### Tenth Amendment to Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract

This Tenth Amendment to the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract ("Tenth Amendment") is made and entered into on this \_\_\_\_\_ day of \_\_\_\_\_ by and between the City of Long Beach, a municipal corporation ("City") and Tidelands Oil Production Company, a Texas general partnership, by its partners, OXY Wilmington, LLC, a Delaware corporation and OXY Tidelands, Inc., a Delaware corporation ("Contractor").

#### RECITALS

- A. Effective March 1, 1989, the City entered into the Long Beach Harbor Tidelands Parcel and Parcel "A" Oil Contract ("Contract") with several entities that comprised the Contractor. Through a series of assignments, the current Contractor is Tidelands Oil Production Company, which is owned by OXY Wilmington, LLC and OXY Tidelands, Inc.
- B. The parties desire to amend the Contract to allow drilling from Segment 1 to Segment 2.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, it is agreed as follows:

1. Section 6 of the Contract (Drill Site and Other Areas) shall be amended by deleting Section 6.4 in its entirety.
2. Except as specifically amended by this Tenth Amendment, all terms and conditions of the Contract, as previously amended, shall remain in full force and effect.
3. This Tenth Amendment shall be effective on the date first written above..

This Tenth Amendment may be executed in counterparts, and each executed counterpart copy shall have the same force and effect as an original and shall be enforceable to the same extent as if all parties had executed the same.