

**CALENDAR ITEM
C66**

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W 12001
A. Reid
A. Hager

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**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.