REPORTER'S TRANSCRIPT OF THE
MEETING HELD AT 3:00 P.M.,
JULY 13, 1959, IN ROOM 514
OF THE STATE CAPITOL,
SACRAMENTO, CALIFORNIA

JEANNE E. RHEA
HEARING REPORTER
1217 Q STREET
SACRAMENTO 14, CALIFORNIA
BEFORE THE
STATE LANDS COMMISSION
OF CALIFORNIA

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In the Matter of Co-operative
Agreements, Water Injection,
Fault Blocks II and III (Tar,
Ranger, Upper Terminal and
Lower Terminal Zones), Wilmington
Oil Field L.3.W.O. 10,100 and

The above-entitled matter came on regularly
at 3:00 p.m., July 13, 1959, in Room 514,
of the State Capital Building, Sacramento,
California.

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Present:

Lt. Governor Glenn Anderson, Acting Chairman
Alan Cranston, Controller
Fred Zwieback, Executive Secretary
Howard S. Gordin, Deputy Attorney General
Francis J. Hortig, Executive Officer, Lands Comm.
Phillip J. Brady, Deputy Attorney General
Frank J. Hardesty, Chief Petroleum Engineer,
Long Beach Harbor Department.
MR. GOV. ANDERSON: We will call the meeting to order. We only have the one calendar item. Frankly, I would like to have Mr. Hortig explain this a little bit in more detail than which is just in here because there are some points which I would like to ask questions on and if he explains it maybe he will answer them in that explanation.

MR. HORTIG: Would you care to ask specific questions or should I just start at the beginning?

GOV: I would like to know the difference between what this agreement is and what the end agreement would have been. That is a negotiation between the Attorney General of Long Beach and the oil companies? In other words, what will we be approving that differs from the ultimate end that most of us want?

MR. HORTIG: The answer to that, Governor, I think requires, first, a separation of the elements in that we actually have had discussions and reviews with the City of Long Beach over a period of time involving two different sets of subject but overlying the same geographic area. One is that set of requirements imposed on the Commission for a determination of the boundary lines of the tidelands previously granted to the City of Long Beach which is required by Chapter 2000, Statute of 1957, and which, by its terms, however, does not involve any operations in the oil field, as such. It may redistribute, conceivably, the ownership of operations in the oil field by reason of
determining the proper location of the boundary lines, but this does not, per se, pertain to the actual operations for extraction of oil or repressuring operations, which it is hoped may eliminate the land-surface subsidence.

The problem before the Commission today is the consideration for approval of two cooperative operating agreements.

GOV: This is the second portion?

MR. HORTIG: That is correct, which relates specifically to operating requests of the Wilmington oil field, as such, and that is all that is before the Commission for consideration today.

Now, this, in turn, does have some of the elements which you referred to in that the agreements before you today again are not the hoped for ultimate final type of agreement and final type of operation for the field, but the two agreements are interim agreements which will permit operations to go on at an expanded rate. It is hoped, with extended benefits to subsidence alleviation during the period of time that the legal and negotiation problems are being resolved which will generally permit unitized operation of, not only each fault block within the Wilmington field, but the entire Wilmington oil field operation.

GOV: Holding it strictly to the operating question side of this, what is there that we are agreeing to in this interim agreement that would differ from the final one?
What points of difference are there in operation, solely?

MR. HORTIG: Substantially, only the differences in definition between what was normally considered a cooperative operating agreement against a unit agreement for operation within an oil field and that difference can be summarized very simply in this manner: (Indicating on map) If we consider, for a moment, this map, it borders two fault blocks. Fault Block III which, for general purposes, makes it a separate oil field on its own and is a subject for consideration before the Commission today. We consider this as a separate oil field with side boundaries. It is also divided as to ownership to approximately this shoreline, as I am indicating here. Seaward, the area of the field consists of tide mergence land granted by the State of California to the City of Long Beach and currently being operated by an operating contract by the Long Beach Company.

Landward of that same boundary line we have private ownership operating the portion of the field under the cooperative agreements proposed to be considered today, both for Fault Block III and for Fault Block II immediately to the west.

The mechanism is established simply to provide that the City of Long Beach shall continue to operate its lands; the private owners will continue to operate their own lands but they will do it in a manner which is compatible so there will be no pressure differences created which will
drive private oil on the tidelands and, normally, to prevent State and City tideland oil being driven from the tidelands into the privately owned land.

However, again under the terms of this cooperative agreement, in the event that the latter should continue, in that tideland oil actually is driven into and recovered from wells on private owned lands the private operators are obligated to agree to deliver back to the City of Long Beach the excess production which results in the private well by reason of the City's expanded operations.

Now, the essence of the thing is: In a cooperative agreement each operator operates his own property but trying to do it on a mutually satisfactory basis, or, the ultimate type of agreement for operating an oil field is the so-called unit agreement, on which negotiation and studies are proceeding, at which time, for example, the entire operations in Fault Block "II, at some date in the future, will all be thrown into a common pool. One operator will be designated and the entire area will be operated under one set of operating criteria by one operator for the benefit of all land owners rather than having two sets of operators.

GOV: Will he do his own pressurizing as if there was a unitized program where a single operator would be doing the whole thing?

MR. HORTIG: Normally he will not. This is one of the
reasons a cooperative agreement ordinarily isn't as eminently satisfactory as a unit operation because, by definition, in a unit operation the operation, over the entire area, will be conducted in such a manner as to the best interests of the entire area.

However, there are certain legal questions that have to be resolved before the City of Long Beach can designate their granted tideland area to a unit plan; so, while those are being studied and adjudicated it is felt desirable that in the interim, rather than doing nothing, to enter into these agreements which will permit expanded operations.

It is hoped for increased subsidence alleviation but not with the same degree of efficiency or degree of uniformity that will be possible when the entire area can be operated. Less water will be put in under this cooperative agreement than if it were unitized.

GOV: Would it come in from the tidelands side?

MR. HORTIG: It isn't necessarily a case, Governor, of necessarily having less water but the distribution of the water may be such that it isn't distributed and operated as efficiently as though the area could be considered as a complete unit without this boundary division.

On the other hand, as to the second part of your question, under these cooperative agreements there are more engineering programs ready to go and there are
actually wells being drilled on the City's tideland portion, so that there will be more water put into the City's portion sooner than will probably be done on the uplands. We already have that, in balance, that there is more water going to the tideland area in Long Beach than is being injected to the private tideland owners. They would prefer, as far as efficiency and economics, to put most effort into a unit operation although they have taken, in this case, some preliminary steps, putting some additional water into their property under these cooperative agreements although they are not under any obligation to do so. They put the water in and it will be a matter of cooperation and not a matter of contract.

GOV: If we sign this today will this be deterrent to bringing the eventual agreement we want to sign? In other words, will this take care of enough of the problem so people can sit on their hands and not do anything?

MR. HORTIG: I believe not. I don't believe the efficiency can be achieved for both tidelands and, particularly, the uplands under these cooperative agreements which the upland operators recognize has to be achieved and which they feel can and should be achieved under a unit operation.

Therefore, I feel that it is recognized, in all sincerity, by all parties that these agreements which are up for approval today are interim agreements only.
and if the judicial processes could be speeded and a legal
determination could be gotten that these City tidelands
can be appropriately included in the unit agreement, I
think all efforts would be expended on that approach.
This you have before you is only a stopgap but is a step
in the right direction.

GOV: If most of the pressurizing is developed from
the City of Long Beach side are we protected enough, then,
by this balancing whereby they get so much more oil, then,
than they do now? Are we protected on this?

MR. HORTIG: Definitely. The ultimate difficulty
with the program is if the upland operators should decide
to never do anything more than operate under these
cooperative agreements it would be that the upland properties
would probably continue to sink to the extent that the
repressuring does alleviate subsidence. It would be
effective, primarily, only in the tideland area although,
in this instance, they cover particularly the area that is
occupied on the surface by the Long Beach Naval Shipyard,
so, to that extent it is desirable that more operations
take place under that area and immediately.

I think that we have the other very strong
incentive on the part of the upland operator and that is
those water flooding programs which have already been
undertaken and, in general, have indicated...

GOV: Are they in this same area, here?
MR. HORTIG: They are in the same portion here but to a limited extent, but to the extent they have been operated. They indicate that whether or not this is a panacea for subsidence alleviation, it is a way for getting substantially more oil out of the oil field with a handsome profit with estimates ranging from recovering three times as much oil under an effective repressuring program than would be possible if the repressuring were not undertaken.

Now, this is possibly an ultimate and outside figure and might have applied had the program been undertaken full scale possibly as long as ten years ago, but I don't believe there is any engineering doubt that, even today, the oil recovery could be substantially increased to the point where the repressuring costs are met and additional profits are made and it is hoped that, as a side affect, the land-surface subsidence can either be stopped or slowed down.

GOV: The cost of repressuring, when it is done by the individual operator, is paid for by monies of the State Lands Commission and that they, in turn, repay at a future date?

MR. HORTIG: No. This has not been the program, yet. There is an authorization under Chapter 5, Statute of 1958, whereby the State, and through the City of Long Beach, could make monies available for this purpose. No operator, however, has required money on this basis, yet. The City of Long Beach subsequently furnished, from a municipally operated
water supply system where, under the City's arrangement, the funds are now restricted to funding that City Water Supply system and selling the water at a lower rate than the individual operator. The plant is going to pay for itself and the tideland funds are going to be reimbursed and there will not be the necessity for making any loans to private operators.

GOV: Under the cooperative agreement, when these fellows do their own repressurizing they will absorb the cost themselves. They will buy from the City of Long Beach?

MR. ZWIEBACK: Who polices this program? That is, when these wells the upland people develop have more productivity, how will we know that?

MR. HORTIG: By the terms of the agreements. There is complete interchange of operating data on all operations of Fault Block II and III between all signatory parties. This does work cooperatively. All parties have heretofore made their data available to the Harbor Department of the City of Long Beach who police the situation and they have an excellent staff and whose operations, in turn, are reviewed by the technical staff of the State Lands Commission.

GOV: In other words, both the Harbor Commission and yourselves will be a central collecting agency?

MR. HORTIG: The Harbor Commission will be the collecting agency.

GOV: Any one of the signators can drop out of the
program at any time?

MR. HORTIG: No, sir.

GOV: When can they drop out? How long will it go?

MR. HORTIG: May I get one of the men to answer that question who was most active in it? Mr. Brady?

MR. BRADY: Governor, the agreements presently provide the means by which the cooperative agreement will no longer be effective. One is when the lands themselves are formally committed to the unit. Once they are merged into the unit then the cooperative agreement is no longer in force or in effect. The second provision, whereby the agreement would be terminated with respect to the.....

(Mr. Brady studies papers)

MR. ZWIEBACK: Before you leave that point, does that mean this cooperative agreement will be in effect until the realization agreement is concluded or your utilization agreement will be reached? You are supposing that will be reached?

MR. BRADY: Yes, I am. The private companies, I might say, and the City of Long Beach have been working diligently for the purpose of formalizing of both Fault Block II and III units. Several drafts have been made and the legal drafting committee is, at the present time, going over what they hope to be the final draft for submission to Management, so this is something that is not in the thinking stage. It has actually been reduced to writing and I under-
stand there are only one or two questions which remain to be resolved before they will have the formal unit ready for the Commission.

MR. ZWIEBACK: Nobody can get out of this agreement until you...

MR. BRADY: (Reading) "This agreement shall continue for so long as oil or gas is produced from the Tar Zone, Ranger Zone, Upper Terminal Zone or Lower Terminal Zone in Fault Block II underlying the lands of any party hereto except that this agreement shall terminate when Long Beach lands are committed to the Fault Block II units provided, however, that notwithstanding the termination of this agreement, the releases and discharges provided in Section 14 hereof shall thereafter remain in full force and effect until such time as they are specifically abrogated or modified in writing by all the parties hereto, their successors or assigns."

So the answer to your question is that the agreement is binding so long as oil is produced from the respective zones or until such time as the cooperative agreement merges in the unit. That applies both to the Fault Block II and III cooperative agreement.

GOV: What happens if the group just quits repressuring?

MR. BRADY: Let me answer it this way. The agreement will still go on. The other party signatories thereto still have the right to continue their operations and to repressure.
MR. HORTIG: In other words, the City of Long Beach lands could continue to be repressed and in the event repressuring did drive oil into the uplands, that portion of the tidelands is still, in effect, requiring redelivery to the City of Long Beach.

MR. BRADY: If I might interject, there is one other aspect to this which I think lends practical color to the situation and that is this 1958 session of the Legislature where Assembly Bill No. 5 was adopted which added certain sections to the Public Resources Code provisions made in said bill that in the event the repressuring cannot be done through voluntary means, either by cooperative agreements or unit agreement, which agreements have to be filed with the Supervisor of Oil and Gas and meet with his approval.

If this cannot be accomplished then the Supervisor is given the authority to commence proceedings to consider the possibility of ordering the compulsory unit to be formed in that area which would be regulated under State law.

The operators are very cognizant that they may be made subject to the compulsory unit order and I feel they will cooperate in maintaining the operations on a voluntary basis.

MR. GORDIN: Isn't it also true that the cooperative agreement provides that should a water injection well be drilled by any property owner there is an obligation to maintain and to continue to operate such well if located
within three hundred feet of the common boundary between the
uplands and the tidelands and that such wells cannot be
abandoned except by mutual consent?

MR. BRADY: That is correct. There is a definite
protection insofar as the City properties in that some one
of the operators having wells along the common boundary
cannot cease operations without mutual consent of all parties
there to.

MR. ZWIEBACK: We are aware there is a possibility of
litigation between the State and some of the private
operators. Is there anything in this agreement which would
give any more validity or less to any of the claims that
any of the parties now feel they have?

MR. GORDIN: Mr. Zwieback, I believe the answer to your
question is "No" because of a specific provision in Public
Resources Code Section 6879 pursuant to which the State Lands
Commission's approval of today is being sought. That section,
in its concluding paragraph, reads as follows:

"No agreement executed pursuant to this section
shall affect or determine the boundaries of the tide and
submerged lands granted in trust to the City of Long Beach
by certain designated granting statutes."

MR. CRANSTON: I move adoption approving the staff
recommendation that these agreements be approved.

GOV: Seconded, and it will be approved.

MR. CRANSTON: Is that our business? I wonder if the
August 27 meeting of the Commission could be in Los Angeles.
We planned to be there in July but August 27 would suit me
better in Los Angeles.

GOV: I'd like to check my calendar. I think so, too.
I would rather have most of them in Los Angeles.

MR. CRANSTON: I know.

GOV: That would be my general feeling. I didn't bring
a calendar so I don't know.

MR. CRANSTON: Can we do that subject to your approval?

GOV: I think so, yes. Anything else? The meeting is
adjourned.

(The meeting adjourned at 3:35 p.m.)
CERTIFICATE OF REPORTER

I, JEANNE E. REEA, reporter for the State of California, hereby certify that the foregoing 14 pages contain a full, true and correct transcript of the shorthand notes taken by me at the subject hearing on the date hereinbefore specified before the State Lands Commission.

Dated at Sacramento, California, July 31, 1959.

Jeanne E. Reea