

1 whole problem.

2 MR. LEVIT: Of course there are at least two dif-
3 ferent types of items involved here. You have mentioned
4 some may require Commission approval. Those items that
5 require Commission approval should be reported to the Com-
6 mission and acted upon just the same way as the matters we
7 have passed on today; except that in addition to the
8 material you have given us, you would advise us that you
9 have already acted on those matters pursuant to delegation
10 of authority and subject to approval of the Commission.

11 MR. HORTIG: If I follow that theory, sir, inasmuch
12 as the Code requires approval by resolution -- technically
13 all the items here require Commission approval The
14 question was whether to have the basic work done under the
15 delegation of authority to the Executive Officer and con-
16 firmed by the Commission or, coming back to your thought,
17 if everything that requires the Commission's approval
18 should come to the Commission as a calendar item, then this
19 agenda is going to be upwards of a hundred pages at every
20 meeting.

21 MR. ANDERSON: Would it be difficult for him to
22 tell us briefly what these are, without going into this
23 too much?

24 MR. LEVIT: It would probably take quite a while,
25 but I would like to suggest a little different procedure.
26 As I understand it, all these items on this portion of the

1 calendar are routine, is that correct?

2 MR. HORTIG: Yes sir, in the sense that they are
3 repetitive and in accordance with standard procedures.

4 MR. LEVIT: Governor, my suggestion would be that
5 instead of taking the time to do that today that we approve
6 these matters as requested by the staff, but that we ask
7 the staff to reconsider the method of handling these matters
8 in toto this way and see if we can't divide them into those
9 matters that require Commission approval and those matters
10 under which you act under delegation of authority, where
11 approval is not required, if there are any such. I am a
12 little surprised by the way you put that

13 MR. HORTIG: Perhaps you do not understand the
14 delegation of authorities. Under the delegation of authori-
15 ties, the Executive Officer is authorized to issue permits,
16 easements, licenses, that can be in accordance with estab-
17 lished policy and rental rates of the Commission.

18 MR. LEVIT: A delegation of authority doesn't mean
19 a thing unless it's binding. What is the use of a delega-
20 tion of authority that says you can do it but the Commission
21 has to approve it? That isn't a delegation of authority.
22 I think we ought to have an opinion from the Attorney General
23 on this point to see where we stand on it. I am not familiar
24 enough with the statutes under which the Commission operates
25 to know whether there can be a delegation of authority on
26 any matter of formal substance; and if it is not a matter of

1 formal substance and therefore does not require Commission
2 approval, then I say it should never be reported to the
3 Commission by the staff and the Commission should not be
4 asked to approve it. My suggestion would be, gentlemen,
5 that we approve this item and that we request the staff
6 and the Attorney General to advise us further as to pos-
7 sible change in this procedure.

8 MR. CRANSTON: I so move.

9 MR. LEVIT: If there is no objection that will be
10 the order.

11 MR. CRANSTON: Let me ask a question. Which por-
12 tion of this document as to the delegation of authority
13 touches upon this?

14 MR. HORTIG: All of it.

15 MR. CRANSTON: I don't find anything in this relat-
16 ing to the size and the scope of the individual actions
17 involved. Is there any limitation on that?

18 MR. HORTIG: There is a limitation as to the
19 amounts of service contracts that may be entered into by
20 the Executive Officer without additional authorization
21 from the Commission; and in paragraph 14 on page 3 of that
22 delegation you will find: "Limitations: The authority
23 granted to the Executive Officer to initiate, execute and
24 issue leases and permits of various kinds or renewals,
25 modifications or terminations thereof, shall be limited to
26 noncontroversial cases involving annual rentals or fees of

1 not in excess of \$600 or appraised valuations not over
2 \$10,000. All other cases shall be submitted to the Com-
3 mission for final action."

4 MR. CRANSTON: That answers my question.

5 MR. LEVIT: Gentlemen, that concludes our calendar
6 this morning. I understand the City of Long Beach desires
7 to present certain matters not on the calendar. Before we
8 proceed to that, I would like to take a five-minute recess
9 and we will reconvene at five minutes to eleven. Am I
10 correct in assuming that we finished the calendar?

11 MR. HORTIG: All except pages 42 and 43, which
12 were merely informative.

13 MR. LEVIT: I am aware of that.

14 (RECESS 10:47-10:58 A.M.)

15 MR. LEVIT: Gentlemen, the meeting will come to
16 order. Mr. Ball, you are here representing the City of
17 Long Beach, are you?

18 MR. BALL: Yes sir.

19 MR. LEVIT: To take up these matters which have
20 not been calendered but which you want to put before the
21 Commission this morning.

22 MR. BALL: Yes, that's correct. Because of the
23 urgency of this matter we ask that it be placed on the
24 calendar and considered this morning. I will briefly
25 sketch the problem and you can see from the statement of
26 the problem that it is urgent today.

1 MR. LEVIT: Do I understand there is just one
2 matter?

3 MR. BALL: One matter.

4 MR. LEVIT: Which is it?

5 MR. BALL: That is a matter which involves the
6 approval of the Commission to an amended cooperative agree-
7 ment between the City of Long Beach, Richfield Oil Cor-
8 poration and Producing Properties Incorporated, and that
9 particular cooperative agreement was approved at a meeting
10 of the Commission December 1958, subject to the Attorney
11 General's opinion that it conformed to the provisions of
12 Chapter 29. That opinion was -- Mr. Goldin stated that it
13 did conform and we thought at that time that the cooperative
14 agreement would be effective so that we could go to work
15 in Fault Block VI and start the water floods.

16 MR. LEVIT: Now, just so I am sure what we are
17 talking about, this doesn't involve modification of the
18 drilling agreement?

19 MR. BALL: No, it doesn't.

20 MR. LEVIT: And it doesn't involve the matter of
21 approving any expenditures?

22 MR. BALL: No, it is not an expenditure. It will
23 eventually mean an expenditure because it involves water
24 flooding in Fault Block VI.

25 MR. LEVIT: We will talk about that later. There
26 was some talk of approving an expenditure of two million
dollars.

1 MR. BALL: No. If I can explain the situation - -
2 The Long Beach field has been arbitrarily divided into six
3 fault blocks. It is very arbitrary, but the southeasterly
4 end of the field which has been developed is called Fault
5 Block VI. Fault Block VI, north of shore line produces --
6 there is production from only the Ranger Zone, which is one
7 of the two zones of this field, and that zone is being
8 developed shorewise under the City of Long Beach by a cor-
9 poration known as Producing Properties, Inc. South of the
10 shore line, on the tidelands and submerged lands, there is
11 production from various zones by the City of Long Beach
12 under the terms of a drilling agreement with the Richfield
13 Oil Company, that was executed in 1947. It's necessary to
14 repressure all zones.

15 We had originally planned a unit for Fault Block VI,
16 a separate unit, and Long Beach submitted repressuring
17 plans to the Oil and Gas Supervisor by means of water injec-
18 tion over on Fault Block VI, contemplating operation under
19 a unit. The Pacific Properties, Inc., who are the group
20 producing beneath the City of Long Beach proper, presented
21 a water repressuring plan to the Supervisor about the same
22 time -- a voluntary plan, which was approved.

23 Long Beach decided that in order to speed up re-
24 pressuring in this Fault Block, they would enter into a
25 cooperative agreement with the Pacific Properties, Inc.
26 They would instruct their contractor, Richfield, to conduct

1 water repressuring in accordance with the plan south on
2 the tide and submerged lands and they would by means of a
3 cooperative agreement control the injection of water in
4 accordance with the plan north of the tidelands or under
5 the City of Long Beach. Now that was accomplished by
6 means of a cooperative agreement between the City and its
7 operator, Richfield, covering the tide and submerged lands,
8 Pacific Properties, Inc. operating on the shore line. At
9 that time Richfield brought up the question of indemnity
10 under Chapter 5.5.

11 MR. LEVIT: Does this all relate to the one matter
12 before the Commission?

13 MR. BALL: It's all the one matter and I am giving
14 you the history of it so you understand it thoroughly.
15 Because P.P.I. controlled the entire field, Richfield
16 asked for an indemnity from the City of Long Beach under
17 Chapter 5.5 of the Public Resources Code. If a unit is
18 organized through the voluntary or compulsory method and is
19 approved by the Oil and Gas Supervisor, then the units have
20 indemnity because of water flooding. Richfield says: "If
21 you go into a cooperative waterflood and do not unitize ..."
22 as Richfield insisted upon a unit -- they said they would
23 insist on it in the interest of saving time -- if they would
24 have the same indemnity under the cooperative as from the
25 City of Long Beach if it was unitized, and they did. It
26 didn't mean much to Long Beach because Richfield's indemnity

1 under its contract is for 94.1% in any case, so that Long
2 Beach was only assuming 5.9% of any possible damage from
3 this waterflooding. It was also this particular area that
4 was to be waterflooded. At that time, Long Beach agreed
5 to amend Richfield's operating contract. As a result of
6 that, a cooperative agreement between P.P.I on the shore,
7 Richfield Oil, and the City of Long Beach was prepared and
8 submitted to the State Lands Commission December 11, 1958
9 and it was approved subject to the Attorney General's
10 opinion, and that was received.

11 Subsequent to this time, Richfield raised a legal
12 point. Their legal department argued that Long Beach had
13 authority under their charter to indemnify; by a charter
14 amendment last year Long Beach was given the right to
15 indemnify its operators under a cooperative water flood.
16 Richfield says "There is charter authority for Long Beach
17 to indemnify us. We insist that be in the cooperative
18 agreement, not in the operating agreement, because we see
19 no reason for Long Beach to indemnify us in the operating
20 agreement." We didn't completely agree with Richfield
21 but we didn't wish to delay the matter, so we agreed to
22 amend the agreement in one particular only and that
23 particular is shown on page 9 of the proposed agreement,
24 and it read as follows (and this is the only difference
25 between the agreement approved by the State Lands Commission
26 and the amended agreement):

1 "City agrees to indemnify and hold harmless
2 Richfield from and against any and all loss, damages,
3 claims, demands, or causes of action of every nature
4 attributable to or occasioned by subsurface trespass re-
5 sulting from repressuring operations ordered or directed
6 by the City and conducted by Richfield under this agreement
7 in the Tar and Ranger Zones of Fault Block VI of the Wil-
8 mington Oil Field west of Pine Avenue or a projection
9 thereof seaward, which indemnity shall be paid by the
10 City without limitation and without reference to oil pro-
11 duction or sales as provided for other payments to Richfield
12 under the drilling and operating contract entered into be-
13 tween the City, its Board of Harbor Commissioners, and
14 Richfield on the 12th day of March 1947, as amended."

15 Now, it's that particular amendment to the coopera-
16 tive agreement for which we ask approval at this time.

17 MR. LEVIT: I assume, Mr. Ball, you are asking for
18 Commission approval subject to approval by the Attorney
19 General?

20 MR. BALL: That's correct.

21 MR. LEVIT: And am I correct in assuming that this
22 is a matter solely between Long Beach and Richfield and
23 does not in any way involve the State or any funds that the
24 State might be interested in?

25 MR. BALL: It might involve the State in the event
26 of a loss.

1 MR. LEVIT: In what way?

2 MR. BALL: If there was a subsurface trespass
3 occasioned by water injection.

4 MR. LEVIT: I mean how would this particular amend-
5 ment involve the State over and above the involvement that
6 it would have with the contract that the Lands Commission
7 has already approved?

8 MR. BALL: Well, it's only indirect. Let's suppose
9 that Long Beach instructed Richfield to waterflood and
10 there was -- we can see no possible damage because we are
11 out there all by ours, but suppose and any water-
12 flood is going to be between the two adjacent owners, P.P.I.
13 and Long Beach ... and then there was a loss that amounted
14 to a thousand dollars due to subsurface trespass and that
15 would be paid by an amount of money. Richfield would
16 deduct it from the percentage that it accounts to the City
17 of Long Beach for, but the State receives a percent of
18 that, so it might indirectly affect the State.

19 MR. LEVIT: Didn't I understand you to say that
20 you feel you have accomplished the same result by an indem-
21 nity agreement that you put into your operating contract?

22 MR. BALL: Now, that's a second problem. They are
23 parallel. We also present to the Commission an agreement
24 supplementing the drilling and operating agreement with
25 Richfield of March 12, 1947, in which we recite

26 MR. LEVIT: You are asking for approval of this?

1 MR. BALL: Yes, they are companion -- one is the
2 amendment to the coop and the other is the amendment to the
3 Richfield contract. They both say the same thing.

4 MR. LEVIT: In either case, the money involved here
5 would be a reduction of the total share that is received
6 by the City and would be divided between the City and the
7 State. Is that correct?

8 MR. FRIEDMAN: Only in the case of a liability which
9 is strictly contingent here. It would amount to one-half
10 of 5.9%, as I see it, which is the additional quantum of
11 liability the City is assuming.

12 MR. BRADY: Mr. Chairman, may I say one word?

13 MR. LEVIT: Who are you?

14 MR. BRADY: I am Mr. Brady, Deputy City Attorney.
15 Under our present drilling and operating contract with
16 Richfield it provides that 94.1% of any damage which might
17 be sustained by third parties as a result of waterflooding
18 will be treated as a reimbursable cost to Richfield under
19 the contract; and based upon the compromise legislation
20 which the City and State entered into, the City pays 50%
21 of any costs attributable to extraction of oil, so presently
22 the State would share in 50% of 94.1% of any damage sus-
23 tained.

24 MR. LEVIT: That is under the contract already
25 approved.

26 MR. BRADY: Under the contract already approved.

1 Now, Richfield will conduct its operations under the co-
2 operative agreement by virtue of its obligations under the
3 drilling and operating contract. In other words, they
4 will perform all their operations in the cooperative agree-
5 ment on the same lands they are presently obligated to
6 perform under the contract at the direction of the City.
7 So, that being the case, in the event of any loss 94.1%
8 would already normally be recoverable and 50% would be
9 charged to the State. Now under this indemnification agree-
10 ment as to the cooperative agreement only, the City has
11 been asked to raise that to 100%, so what we are really
12 speaking of is an excess of 5.9%; and as Mr. Friedman indi-
13 cates, if there were a loss under a 100% indemnification
14 the State might conceivably be picking up 50% of the 5.9%
15 which is a charge attributable to the extraction of oil
16 under this legislation.

17 MR. BALL: There is another matter under this
18 amendment with Richfield. They have chosen a spot on the
19 lands of the City of Long Beach -- you are familiar with
20 Long Beach; it is on the shore westerly of the jack rabbit
21 racer -- where they will have some water sources and this
22 permits them to go on this land, for Richfield to perform.
23 There is also a modification on that.

24 MR. LEVIT: Mr. Hortig, can you express an opinion
25 on that?

26 MR. HORTIG: Only as to the status of this processing

1 of these same matters as presented by Long Beach to the
2 staff.

3 MR. LEVIT: When was this amendment first pre-
4 sented to the staff?

5 MR. HORTIG: January 16th.

6 MR. LEVIT: That's a little less than two weeks ago?

7 MR. HORTIG: Yes sir.

8 MR. LEVIT: And how long do you think it will take
9 before you are able to formulate a recommendation to the
10 Commission?

11 MR. HORTIG: With respect to the cooperative agree-
12 ment amendment, we have only one question pending and that
13 is the opinion of the office of the Attorney General that
14 the modification is still within the purview of the Commis-
15 sion and at least follows largely the previous agreement.
16 We are awaiting the Attorney General's opinion on that.

17 MR. LEVIT: Except for that are you prepared to
18 advise the Commission that is in order?

19 MR. HORTIG: Yes sir.

20 MR. LEVIT: What about the other agreement?

21 MR. HORTIG: There we are not complete with our
22 engineering review because the amendment of the contract,
23 in going on this area that Mr. Ball referred to for Richfield
24 to go to for source wells, there is also a possibility for
25 operating a water plant, which has not yet been discussed,
26 for which water plant we received a basic engineering study

1 this last Monday morning.

2 MR. LEVIT: In other words, your point is that the
3 proposed amendment to the operating agreement One
4 preliminary question -- is that also subject to our approval?

5 MR. HORTIG: Yes sir.

6 MR. LEVIT: All right. Now your point is that in
7 connection with the proposed amendment of the operating
8 agreement there would be required, before you can make a
9 recommendation to the Commission, certain additional engi-
10 neering review that you now have under way?

11 MR. HORTIG: Yes sir.

12 MR. LEVIT: So that you are not prepared to make a
13 recommendation on that. In other words, it may involve
14 additional matters we should know about before you are
15 giving approval?

16 MR. HORTIG: That's right.

17 MR. LEVIT: Mr. Brady disagrees with that, so let
18 us hear from him on it.

19 MR. BRADY: Mr. Chairman, I don't disagree with Mr.
20 Hortig and I know we have asked him to consider many pro-
21 posals, so it might have been a little confusing. The
22 water treatment plant we have been discussing with the execu-
23 tive staff relates to a large water injection treatment
24 plant which relates to Fault Blocks II and III, which are
25 westerly fault blocks. It will have no relation to Fault
26 Block VI. Any activities which are performed in conjunction

1 with the cooperative agreement and on the Richfield con-
2 tracts will be separate and apart from that and those
3 facilities will be installed solely pursuant to Richfield's
4 drilling and operating contract. They will advance the
5 costs and will seek their reimbursement only out of 34%
6 of the revenue, as their contract provides. So this is not
7 a matter of financing something. Richfield will have to
8 pay for this and then seek reimbursement.

9 MR. HORTIG: Mr. Chairman, this is the penalty for
10 oversimplification. There are problems in the same operat-
11 ing programs which relate to the Richfield source wells
12 which would be drilled under your proposed drilling con-
13 tract as also have been raised in connection with your
14 larger program for a larger water plant, which in turn is
15 again only a portion of a fieldwide study which was pre-
16 viously authorized by the State Lands Commission. So that
17 we are actually having difficulty in integrating portions
18 of operations.

19 MR. LEVIT: Are you suggesting, Mr. Hortig, that
20 before any legitimate or logical decision can be reached
21 by the Lands Commission on this matter that's before us
22 now that we would have to make a decision on the entire
23 subject matter of the fieldwide study?

24 MR. HORTIG: Not necessarily, sir, but at least to
25 the extent that the factors involved in this proposed Rich-
26 field relocation are also going to be applicable in principle

1 to other portions of the field. This Richfield contract
2 amendment can well, I believe, be resolved on its own
3 merits.

4 MR. LEVIT: But you are not prepared to say what
5 the answer is today?

6 MR. HORTIG: I don't think we can do so today.

7 MR. LEVIT: There would be no point, I take it,
8 Mr. Ball, to approving an amendment of the cooperative
9 agreement until such time we are willing to approve an
10 amendment to the other agreement?

11 MR. BALL: Yes, there is a great advantage.

12 MR. LEVIT: In what respect?

13 MR. BALL: Well, the cooperative agreement - -
14 if the cooperative agreement is approved, well, then there
15 are certain things that can be done immediately by way of
16 preparing the site.

17 MR. LEVIT: If those things are done, doesn't that
18 in essence commit the Commission to approving the proposed
19 amendment to the operating agreement?

20 MR. BALL: Well, you see the Commission is already
21 committed to the obligations of Long Beach on the coopera-
22 tive agreement.

23 MR. LEVIT: I know, but I am talking about the
24 amendment.

25 MR. BALL: The only difference is that now you
26 would - - is what I read to you - - is that it indemnifies

1 Richfield to the extent of five point

2 MR. LEVIT: I don't make myself clear. If the
3 Commission gives its approval only with respect to the
4 cooperative agreement, I assume, as you say, that you will
5 then go ahead and do work right away. How can we subs-
6 quently come along, if our examiners in a similar situation
7 under the other agreement convince us it shouldn't be
8 approved

9 MR. BALL: Perhaps Mr. Smith can explain to you
10 the urgency of having the cooperative agreement approved.

11 MR. LEVIT: I am not talking to the question of
12 urgency. I am merely talking of the relationship between
13 the two.

14 MR. BALL: Well, let me see now. First of all,
15 under the cooperative agreement Long Beach has agreed to do
16 certain things in cooperation with P. P. I. That's a matter
17 of management policy that has been submitted to the staff;
18 the staff has approved it and the Commission approved it
19 on December 11th; and I understand there is no difference
20 of opinion at this date. The only difference today than on
21 December 11th is that we ask that the indemnity provision
22 be inserted and the staff agrees with our policy.

23 MR. LEVIT: In both agreements?

24 MR. BALL: That's correct, in both agreements --
25 but particularly in the cooperative agreement. Now, the
26 only addition, then, is the problem of policy, as I see it,

1 as Mr. Hortig says, that in the Richfield agreement the
2 City gives Richfield the right to occupy certain lands that
3 now they are not entitled to occupy in order to carry out
4 the obligations of the co-op. As I understand it, that
5 matter of policy has already been decided by the staff under
6 the cooperative agreement.

7 MR. HORTIG: If I may take that as a question, Mr.
8 Ball, possibly this will resolve it. The staff view is
9 that the cooperative agreement is principally something
10 that has to be done in Fault Block VI in repressurization.
11 Your proposal in the operating agreement is the mechanics.
12 As to the principle that something must be done, we are in
13 complete agreement. As to the specific matter of whether
14 it should be done in the specific manner proposed in the
15 original agreement, we are not ready to conclude.

16 MR. LEVIT: So you feel these are definitely inter-
17 related?

18 MR. HORTIG: They are definitely interrelated. One
19 says "We will do it" and one says how. It's the how

20 MR. LEVIT: Does any member of the Commission have
21 a question or comment?

22 MR. ANDERSON: Quite a few, I guess.

23 MR. LEVIT: Do you have something to say, Mr. Goldin?

24 MR. GOLDIN: Yes, Mr. Chairman. Mr. Ball, if I
25 understand correctly, you are only desirous of having the
26 cooperative agreement amended in a single particular relating

1 only to the indemnification feature that you have discussed;
2 but with respect to the operating agreement, you would like
3 to have that modified in two particulars -- one with respect
4 to the indemnification feature and the other with respect
5 to drill sites for water injection.

6 MR. BALL: Water injection.

7 MR. GOLDIN: Now, Frank, am I correct in stating
8 that you feel the staff review is only necessary with
9 respect to the drill site aspect or do you feel the staff
10 has additional work to do with respect to the indemnity
11 feature?

12 MR. HORTIG: No, the indemnity feature of both
13 agreements has been referred to the Attorney General's
14 office for review. The staff review is limited to the
15 engineering features of the proposed amendments.

16 MR. GOLDIN: In other words, Mr. Ball, what you
17 are asking is to clean up one aspect at this time without
18 committing yourself to the drill feature if Mr. Hortig
19 thinks further work is necessary?

20 MR. LEVIT: Is that correct, Mr. Ball?

21 MR. BALL: Yes. I am sure with a very little con-
22 ference with Mr. Hortig I think we can straighten that out.

23 MR. LEVIT: I am not going to put Mr. Hortig and
24 the staff under the gun in making quick decisions of that
25 kind. I think he must take sufficient time to complete his
26 investigation, so he can make a recommendation to us that

1 will be sound and well thought out. Let's pass that for a
2 moment. Do you have something, Governor?

3 MR. ANDERSON: Well, if we just approve this one
4 item what then will the Richfield Oil do that they can't
5 do now? You say they would prepare the sites and things
6 like that?

7 MR. BALL: You see, Pacific Properties, Inc. have
8 certain things they want to do.

9 MR. ANDERSON: They can't do them now?

10 MR. BALL: They are conducting waterflooding now.
11 They have agreed to conduct waterflooding in accordance with
12 plans and instructions from Long Beach, so Long Beach will
13 be in agreement with flooding on the shore line. So they
14 are particularly anxious to have these signed.

15 MR. ANDERSON: Can't they prepare these sites and
16 go ahead without the ratification of this cooperative agree-
17 ment, because they are only going on

18 MR. BALL: They wouldn't be justified unless they
19 had a contract with Long Beach. You see, this is a matter
20 of unitization and it will take some time. In other words,
21 if we go into the cooperative flood they will sign the
22 next day and go ahead.

23 MR. LEVIT: You are prepared to state that if that
24 will be done there will be no moral or other commitment on
25 the part of this Commission to approve the proposed amend-
26 ment to the operating agreement that involves something

1 other than indemnity?

2 MR. BALL: No, because -- I tell you I can't think
3 that. I can't state that to you because the way I view
4 that, under the present cooperative agreement that has
5 already been approved by the Commission -- and it's already
6 been signed by P.P.I. and by Long Beach

7 MR. BRADY: By everybody.

8 MR. BALL: ... by everybody -- both Long Beach and
9 P.P.I. are committed to a certain plan of waterflooding.
10 I think they are already committed. As I view the agree-
11 ment supplementing the drilling and operating contract,
12 all it does is obligate Richfield to carry out what Long
13 Beach is already obligated to do under the agreement of
14 December 11th. That's my view.

15 MR. LEVIT: We do, however, have to approve the
16 amendment to the operating contract?

17 MR. BALL: That's to please Richfield only. P.P.I.
18 is satisfied with it. Richfield is not.

19 MR. LEVIT: I understand that. I mean the proposed
20 amendments to the operating agreement do have to be approved
21 by the Commission?

22 MR. BALL: Oh, yes.

23 MR. HORTIG: Yes, under Chapter 29.

24 MR. ANDERSON: Now, does this proposal of yours,
25 does this have the formal approval of the City of Long
26 Beach and Harbor Commission?

1 MR. BALL: Oh, yes. That's before it comes here.
2 That's the procedure.

3 MR. LEVIT: If that's the case, why can't this
4 party -- what are these initials?

5 MR. BALL: Pacific Producing Properties, Inc.
6 We call them P.P.I.

7 MR. LEVIT: If they have a contract already, what
8 is to prevent them from proceeding with the indemnity
9 agreement?

10 MR. BALL: They want Richfield to be obligated on it.

11 MR. LEVIT: On the cooperative agreement -- I see.
12 And they have not signed it?

13 MR. BRADY: Mr. Chairman, I might make one observa-
14 tion in that regard. Under the cooperative agreement,
15 Pacific Properties, Inc. is going to drill what they call
16 a borderline water injection well, which will be placed on
17 Producing Properties, Inc. property, but will be so located
18 that it will be of mutual benefit in the repressuring of
19 both Producing Properties, Inc. and the City. It will be
20 the same as if the City had drilled the well and got the
21 use of it themselves. Producing Properties, Inc. will pay
22 the entire cost of drilling a well and maintaining it. As
23 a consideration for Producing Properties placing that well
24 in that location as a benefit to both parties, the City has
25 agreed to prepare this drillsite, get it ready for surfacing
26 water injection wells, at no cost to Producing Properties,

1 Inc. Producing Properties will then be permitted to come
2 upon this property which the City has prepared and drill
3 its water injection wells. The City does not feel it is
4 in a position to prepare that property and permit Producing
5 Properties, Inc. to drill its water injection wells until
6 it has received approval of the cooperative agreement be-
7 cause the preparation of that surface location will be a
8 charge attributable to the charge against extraction of oil
9 in which the State shares 50%.

10 It is true that the City might perhaps go ahead and
11 prepare the surface drillsite if the cooperative agreement
12 were approved. However, we feel that in complete fulfill-
13 ment of the cooperative agreement we would like to feel that
14 the Richfield portion would be approved, so that Richfield
15 could likewise, as is contemplated, use this same joint
16 facility for its certain water injection wells back into
17 the tidelands, so we could get this area completely under
18 flood.

19 There are certain ramifications in this from a
20 litigation standpoint, you might say, where we feel that
21 placing this entire fault block completely under flood or
22 having the mechanics for doing it, would have a concern in
23 the project of repressuring the whole field.

24 MR. LEVIT: This, of course, is what Mr. Hortig
25 is concerned about.

26 MR. CRANSTON: What are the urgency factors that

1 lead you to wish Commission approval without full staff
2 study and recommendation to the Commission?

3 MR. BRADY: Well, two things. The State of Cali-
4 fornia and Long Beach are defendants in a law suit brought
5 by the United States Government for damages and they are
6 asking an order of court to require us to do what we are
7 trying to do with all possible speed. Secondly, the rate
8 of subsidence is rather alarming in the City of Long Beach,
9 and we feel that every month of delay in repressuring is
10 of substantial damage to the City.

11 MR. CRANSTON: May I ask Mr. Hortig to comment on
12 this?

13 MR. HORTIG: Of course. We must concur as to Mr.
14 Brady's statement as to being joint defendants, principal
15 joint defendants in the law suit. The fact remains that
16 the City has been proceeding diligently and with tremendous
17 expenditure of effort on getting programs set up...however,
18 not only for this Fault Block VI, but for the majority of
19 the field, not the entire field; and possibly some of the
20 natural enthusiasm for getting ratification of this Fault
21 Block VI program is that it is so near to completion that
22 they obviously desire very much to have the thing fully
23 approved.

24 MR. LEVIT: It would now, if it hadn't been for
25 this amendment?

26 MR. BALL: We would be working on it if it hadn't

1 been for this one amendment.

2 MR. HORTIG: Which amendment came on behalf of the
3 City and Richfield with no knowledge to the State and sub-
4 sequent to the approval by the State Lands Commission, so
5 this whole thing throws us in a position that this just
6 hasn't given us the time where the staff can give the Com-
7 mission an unconditional recommendation; and the staff are
8 hesitant to give the Commission conditional recommendations
9 based on prior recommendations, based on contingencies.

10 MR. LEVIT: Well, how long will it take you to com-
11 plete your staff review as nearly as you can tell?

12 MR. HORTIG: Well, we can make this a matter of
13 special business for the staff. I am certain -- I feel
14 that we could at least have all our questions raised and
15 then depending upon answers from Long Beach -- up to that
16 point within two weeks.

17 MR. ANDERSON: I was wondering if maybe we couldn't
18 approve this first amendment they are asking and defer
19 action on the other until our next meeting, but with the
20 understanding that this amendment wouldn't imply that we
21 necessarily were going to follow their recommendations on
22 the other item.

23 MR. LEVIT: What would be the effect of that as far
24 as Long Beach is concerned, Mr. Ball?

25 MR. BALL: Of course, we are very anxious to get the
26 cooperative agreement, but I want you to understand that if

1 you do approve this cooperative agreement you are approving
2 in principle this amendment.

3 MR. LEVIT: That's what bothers me.

4 MR. HORTIG: We are already tied to it in principle
5 but the place where we need the staff review and recommenda-
6 tion is as to the specifics of implementing it.

7 MR. LEVIT: What is the pleasure of the Commission?
8 It seems to me there are only two things for us to do, one
9 of two theories -- that of giving the approval that is
10 being asked or to table the matter to the next meeting of
11 the Lands Commission, with the understanding that the staff
12 will make this first order of business and get these recom-
13 mendations in as soon as possible.

14 MR. BALL: Mr. Chairman, would it be possible - -
15 I do not know, but my understanding of the facts, I believe,
16 are a little different than Mr. Hortig's; but if I am right
17 perhaps Long Beach could adjust its differences with the
18 staff in just a few moments.

19 MR. LEVIT: Let's do it right here.

20 MR. BALL: Let me state exactly how I feel about it.
21 In the cooperative agreement Long Beach attempted to spell
22 out what they would do and what P. P. I. would do and re-
23 stricting areas for the water injection program, which
24 areas are shown on this Exhibit A here, and also describes
25 the obligation of Long Beach and obligation of P.P.I. and
26 also Long Beach undertakes obligation to drill water

1 injection wells, which are specific. I feel this has
2 already gone to the staff and has been approved by the
3 staff as to this development and has gone to the Commission
4 for approval and this is only a technical, small amendment
5 we ask. With reference to the Richfield agreement, the
6 amendment which supplements the Richfield agreement, we
7 ask first that the increased indemnity be given Richfield
8 and there appears to be no difference of opinion on it.
9 Secondly, we ask that Richfield be given the right to use

10 MR. LEVIT: Excuse me. I want to be sure Mr.
11 Hortig hears this because he's the fellow that has to
12 recommend it.

13 MR. BALL: ... the additional item that they be
14 given the use of lands in order to carry out its instruc-
15 tions are the same lands described in the co-op. That's
16 the reason I said I felt if you again approve this co-op,
17 I felt that if we discussed it with Mr. Hortig maybe we
18 would have some factual differences here, that's all. He
19 has already approved the principle in the cooperative agree-
20 ment. He has already approved the locations which we offer
21 in the amendment to the contract.

22 MR. LEVIT: How about that?

23 MR. HORTIG: The whole staff's opinion, and cer-
24 tainly mine, is that the Commission has, as Mr. Ball says,
25 agreed to the principle. Now, when we come to the matter
26 of the Richfield contract amendment, it has been the

1 staff view that we are still going to have to review and
2 talk about and decide and be in a position to recommend to
3 the Commission if the specific operations to be conducted
4 under that contract are proper and have a sound and economic
5 base. If we do not have this opportunity remaining as a
6 result of the approval of the Commission at the last meet-
7 ing, then I can only cite this as one of the obvious and
8 demonstrated hazards of these crash programs because the
9 basic cooperative agreement was given to the last meeting
10 on practically a last-minute program crash basis to start
11 with.

12 MR. LEVIT: What is the pleasure of the Commission?

13 MR. CRANSTON: Mr. Chairman, I am fully aware of
14 the great problem in Long Beach and the desirability of
15 solution of that problem. However, I am reluctant at my
16 first meeting to recommend action without the recommenda-
17 tion of the staff and I think it is exceptionally necessary
18 to have them review and make their recommendation in this
19 instance, so with reluctance I therefore move that this be
20 taken under advisement and taken up at the next meeting.

21 MR. LEVIT: Instead of taking under advisement
22 would you object to tabling it?

23 MR. CRANSTON: By no means.

24 MR. LEVIT: We have a motion to table until the
25 next meeting. Now, Governor, how do you feel about that?

26 MR. ANDERSON: I am not quite decided on that.

1 I would like to approve item 1 and defer item 2 and 3,
2 and I don't know what there would be in the first approval
3 that you might not agree to at a later date in the engi-
4 neering aspects of the plan. In other words, as he says,
5 you and he will probably get together on the proposal
6 regarding the method Richfield uses.

7 MR. HORTIG: I am certain that there is a rational
8 engineering solution to the questions we have in mind.
9 However, the questions are more extensive than can be dis-
10 posed of in a matter of a few minutes of conference, as
11 Mr. Ball suggests. Now, as I say, I feel the Commission
12 is committed, and properly, on staff recommendation that
13 in principle operations of this general type and principle
14 must be taken in Fault Block VI.

15 MR. LEVIT: But the thing that bothers me is that
16 everybody seems to agree that there is no point to this
17 immediate action unless you are actually going to go ahead
18 on a particular plan of operation; and if you do that, and
19 if we understand you are going to do that, then it seems
20 to me we have inhibited any special staff review.

21 MR. BALL: Mr. Chairman, may I confine this to
22 facts only, so you will understand what we are talking
23 about. The staff has already reviewed our plan in the co-
24 operative agreement and approved it; and as I feel it, the
25 Commission is committed to a principle now with staff
26 approval to a course of action of water repressuring through

1 this cooperative flood. It's all spelled out -- nothing
2 left to imagination.

3 MR. LEVIT: I think everybody agrees that.

4 MR. BALL: If I can read the amendment -- that's
5 the reason I thought a conference might clear it up --
6 this does not commit specific lands to Richfield to work
7 on. It's very general. "It is hereby provided that the
8 contractor shall be permitted, subject to prior approval
9 and authorization by the City Council of City, to use and
10 occupy in such ways or enter upon the said lands which may
11 have been so designated for use by the City Council,
12 provided however that the use thereof shall be confined
13 exclusively to the installation and operation of a water
14 injection plant, the drilling operation of water source
15 wells, water injection wells, and the installation and
16 maintenance of such other related and accessory facilities
17 as are usually considered incident to water repressuring
18 operations. Contractor expressly agrees not to occupy any
19 portion of the surface lands for any purposes whatsoever
20 until permission so to do is given by the City Council."

21 In other words, the lands that are to be committed
22 to Richfield in this amendment to the contract are only
23 lands which the City Council says they are to use and they
24 are no specific lands; whereas in the cooperative agreement
25 Long Beach has committed itself to specific properties to
26 Producing Properties, Inc. to set aside these lands which

1 are specifically described. Now, all this does is enable
2 all the amendment to the Richfield contract does is to en-
3 able the City Council to go to specific lands. I don't
4 know whether I make myself clear or not. This is a very
5 general authorization and it means Richfield will do what-
6 ever the Council tells them to do.

7 MR. LEVIT: This is the point on which you feel if
8 Mr. Hortig agreed that it would resolve the problem?

9 MR. BALL: That's right.

10 MR. LEVIT: How about that, Mr. Hortig?

11 MR. HORTIG: That is true but we don't have a
12 basis for staff review on which to even assert today that
13 we disagree with them. Our problem is we do not have the
14 engineering review. As I view this -- and please correct
15 me if I state it incorrectly, Mr. Ball -- we have the agree-
16 ment in principle; we have the agreement for Richfield to
17 proceed. That will be on the recommendation of the Petroleum
18 Engineering staff of the Harbor Board. Certainly it was
19 the concept of the Lands Division technical staff that
20 there would be opportunity to review and agree or modify
21 the concepts of the Petroleum Engineering Section of the
22 Harbor Board before being relayed to the City Council,
23 being relayed to Richfield. If we do not have that oppor-
24 tunity to review, we certainly did not contemplate nor were
25 we ever intending to recommend to the Commission that any
26 approval of the principle was approval to undertake anything

1 without further review of the staff.

2 MR. BALL: Let me say this. The amendment to the
3 contract does not involve engineering matters at all. It
4 just is as to where it shall put its water source wells.
5 As to the cooperative agreement, it does give the location
6 of the water source wells and water injection wells - -
7 let's see - - and there are certain engineering details
8 that have already been inspected. There also is a plan
9 before the Oil and Gas Supervisor now and hearings have
10 been held, and that plan has been submitted to the staff
11 and has been approved by the staff. So I view the coopera-
12 tive agreement as committed

13 MR. LEVIT: Mr. Hortig doesn't seem to feel that
14 way.

15 MR. HORTIG: The specific nature of the approval
16 of the staff of the plan submitted to the Oil and Gas Super-
17 visor we aren't aware of. Our knowledge of the plan sub-
18 mitted to the Oil and Gas Supervisor is in the terms of
19 having attended the hearings being held by the Oil and Gas
20 Supervisor.

21 MR. BALL: Well, you have copies of the plans.

22 MR. HORTIG: But the staff approval of those you
23 refer to, Mr. Ball

24 MR. BALL: I probably misstated on staff approval.
25 I think there has been cooperation between the State and
26 City

1 MR. HORTIG: We have certainly tried.

2 MR. BALL: ... and actual approval will come from
3 the Oil and Gas Supervisor.

4 MR. GOLDIN: I don't want to appear presumptuous
5 at all, but there are two possibilities I would like to
6 suggest to the Commission for consideration. Is it conceiv-
7 able that if the principle involved seems to be acceptable
8 to everyone but only the methodology is in question -- is
9 it possible that the amendments may be approved subject to
10 the Commission's staff approval of the mechanics and the
11 Attorney General's opinion as to legality?

12 MR. LEVIT: Well, from what has been said, I would
13 say no.

14 MR. GOLDIN: Then I make a second alternative sug-
15 gestion. I was turning pages in the Code and I notice that
16 pursuant to 6104 of the Public Resources Code "The Commis-
17 sion shall meet upon due notice to all members thereof at
18 such times and places within the State as are deemed necess-
19 ary by it for the proper transaction of the business com-
20 mitted to it." If the Commission feels that this is an
21 extraordinary situation and has instructed the staff and
22 the Attorney General's office to give this matter priority,
23 it may be possible, if you gentlemen wish to do so, to
24 take action on this as soon as both the staff and the
25 Attorney General's office can act, at a time convenient to
26 the Commission.

1 MR. LEVIT: Well, there is no question about that.
2 I think the answer to that is simply that if the Commission
3 decides not to act today, that the thing to do would be to
4 have Mr. Hortig advise us if, as and when he feels a special
5 meeting of the Commission is necessary and we will see
6 about calling one. What is your view now, Governor? We
7 have a motion to table until the next meeting of the Com-
8 mission.

9 MR. ANDERSON: Well, I'd like to ask a couple of
10 questions.

11 MR. LEVIT: Certainly.

12 MR. ANDERSON: First, now, this crash program was
13 first presented in December. How much time did you have
14 on that before it was presented -- the original co-op
15 agreement?

16 MR. HORTIG: I can't recall specifically now,
17 Governor.

18 MR. ANDERSON: But then did your staff approve that,
19 the initial co-op? You approved that and the Attorney
20 General approved it?

21 MR. HORTIG: We received it late enough that in the
22 preparation of the recommendation it had to be conditional,
23 that is post-Attorney-General's-review, because it was im-
24 possible to get review prior to the meeting.

25 MR. ANDERSON: Also it has met approval of the staff?

26 MR. HORTIG: Yes.

1 MR. ANDERSON: Has it received both these approvals?
2 Has your staff approved it and the Attorney General's office
3 agreed?

4 MR. HORTIG: Yes.

5 MR. ANDERSON: Then actually we are obligated.
6 It's only the method that would be different?

7 MR. HORTIG: Yes sir.

8 MR. ANDERSON: My feeling would then be that we
9 approve item 1 and not approve items 2 and 3, giving us
10 assurance that the staff and we do have something to say
11 about how it is to be done.

12 MR. LEVIT: The thing that bothers me is that
13 everyone here seems to agree that this type of agreement
14 will carry with it an implied approval of what they intend
15 to go ahead and do right away. If we don't do that - -
16 this particular approval is of no significance if they
17 don't go ahead.

18 MR. ANDERSON: Does not the cooperative plan that
19 was originally presented have the same implication? I
20 don't see that we have changed the implication. We are
21 committed to the original agreement.

22 MR. HORTIG: As the original agreement stands, but
23 there is an application for amendment.

24 MR. LEVIT: Supposing we are not talking about the
25 amendment, just the original; if it weren't for the amend-
26 ment requested by Richfield, there would be no problem?

1 MR. HORTIG: Yes sir, as to the engineering review
2 which the staff has not completed.

3 MR. LEVIT: The approval of the amendment would be
4 meaningless with respect to the implementation of this
5 particular proposal?

6 MR. FRIEDMAN: I want to stick my neck out a little
7 if I may.

8 MR. LEVIT: You may, certainly.

9 MR. FRIEDMAN: Several months ago the then Governor,
10 the then Attorney General, and the then members of the
11 Lands Commission collaborated on a joint policy statement
12 expressing the State's desire to proceed with all urgency
13 on this matter of water repressurization to combat Long
14 Beach subsidence. This plan for repressurization repre-
15 sents the first complete accomplishment, or will represent
16 the first accomplishment of a complete program within any
17 of the fault blocks down in the Wilmington Field. The law
18 suit is of secondary significance. The problem is to get
19 water into the ground and get it in fast. I would hate to
20 see a delay of thirty days in the actual accomplishment of
21 physical work because of this matter, valid as it is, of
22 getting staff review before the Commission acts. Long
23 Beach and the operators there are engaged in feverish
24 negotiations. It's just not in the cards

25 MR. LEVIT: You think we ought to catch the fever
26 too?

1 MR. FRIEDMAN: No, I am not advocating that. I do
2 feel this: If, on this amendment to the operating agreement,
3 the City of Long Beach had come up with two pieces of paper
4 instead of one -- one confined to the indemnification
5 arrangement and the other confined to the drillsites --
6 then the Lands Commission would have two separate matters
7 before it and would then be in a position to proceed on
8 the indemnification phases of the proposal, and then give
9 the staff time for review of the drillsite aspect of the
10 matter.

11 Now, is it possible that the Commissioners may
12 entertain this proposal -- that the Commission may approve
13 the indemnification phases of both of these contracts sub-
14 ject to legal review by the Attorney General, and that as
15 to the drillsite matter, the matter would be held in abey-
16 ance pending staff review and if possible a special meeting
17 of the Commission to pass upon that?

18 MR. LEVIT: Well, but there is no point to immediate
19 action on the one unless they are enabled to proceed with
20 the implementation of the other.

21 MR. BALL: There are certain steps in connection
22 with the drillsite

23 MR. LEVIT: Mr. Ball, you just informed us a few
24 minutes ago that if we approved the amendment only as to
25 the indemnification so that you can proceed, we simply have
26 got to see it through after that -- there is nothing further

1 we can do about it.

2 MR. SMITH: W. A. Smith, I am also with the City
3 of Long Beach

4 MR. LEVIT: In what capacity?

5 MR. SMITH: I am Assistant Subsidence Control and
6 Repressurization Administrator. It would seem to me that
7 approval of the cooperative agreement by the previous Com-
8 mission has already implied approval of this land which is
9 already in the other agreement.

10 MR. LEVIT: Do you agree to that?

11 MR. HORTIG: That is what I say -- this points up
12 one of the results of rapid consideration, without delibera-
13 tion, of such proposals.

14 MR. LEVIT: We have a motion to postpone the matter
15 until the next meeting of the Commission -- and I take it
16 that you make it subject to the thought that if the staff
17 can hurry this up and feels urgency is required, we can
18 arrange for a special meeting of the Commission?

19 MR. CRANSTON: I am available at any time for that
20 purpose.

21 MR. LEVIT: All right. I will for two reasons
22 approve or go along with the motion to table: First,
23 because it seems to be agreed that these things are so
24 linked together that it is difficult to know what we are
25 really getting ourselves in for and as a corollary to that,
26 the staff feels it wants further time for completing its

1 review; and, secondly, because of the very nature of this
2 very last minute presentation. While I don't in any
3 respect wish to criticize Long Beach -- it was probably
4 unavoidable -- I do think we have to take into considera-
5 tion the fact that for this Commission, composed as it is
6 of three people relatively unfamiliar with this problem,
7 to bypass its staff recommendation would to me be unwise.
8 So we now have a motion to table. I'll second the motion.
9 We have a motion to postpone with the understanding that
10 if the staff can complete its review substantially before
11 the next meeting of the Commission and recommends an earlier
12 meeting to dispose of this matter, we will have such a
13 meeting. Are you ready for the question?

14 MR. ANDERSON: That's all three items?

15 MR. LEVIT: All three items, yes.

16 MR. ANDERSON: Well, I am going to vote no, only
17 because I feel they should be separate. I think this first
18 agreement could be approved at this time and the other two
19 deferred.

20 MR. LEVIT: Are you ready for the question, then?
21 Those in favor say "aye".

22 MESSRS. LEVIT and CRANSTON: Aye.

23 MR. ANDERSON: No.

24 MR. BALL: May I say something, Mr. Chairman, as
25 regards future proceedings?

26 MR. LEVIT: Yes.

1 MR. BALL: I am so certain that if we sit down
2 with Mr. Hortig in the noon hour we can thrash this out.
3 I feel confident this is just a difference in facts.

4 MR. LEVIT: There is certainly no objection in do-
5 ing that and if you can do that we could probably have a
6 very early subsequent meeting of the Commission.

7 MR. BALL: I was going to suggest the possibility
8 that you were available in the building this afternoon.

9 MR. LEVIT: No, I am not going to agree to that,
10 Mr. Ball, because I think that puts the staff right under
11 the gun and I want them to feel the Commission is not doing
12 that. If, on the other hand, at any time within the next
13 two or twenty-four or forty-eight hours there is a change
14 in the situation, why we will try to get a very early meet-
15 ing of the Commission, possibly as early as next Monday.

16 MR. BALL: I don't want you to think we are
17 impatient

18 MR. LEVIT: Well, I do.

19 MR. BALL: but we have a very tragic situation
20 in Long Beach. We not only have a law suit but we have a
21 city that is damaged day by day by withdrawal of oil, so
22 much so that there is much sentiment in the City that would
23 ask that all oil withdrawal be stopped. We are trying
24 every day -- our people are trying to accomplish repressur-
25 ing. We have been impatient with delay.

26 MR. LEVIT: I believe that. I am sure there is no

1 intention on my part, and I am sure on the part of Mr.
2 Cranston, to cause delay; and I feel I can say the same
3 for Mr. Hortig and the staff. But I see no reason why,
4 if the matter is so simple as you suggest with respect to
5 clarifying the points between yourselves, the City and the
6 staff, that we can't have a sufficiently early meeting of
7 the Commission to satisfy even your questioned impatience.

8 MR. HORTIG: To implement that, Mr. Chairman, might
9 I suggest if it is possible and feasible for the engineer-
10 ing representatives of the City of Long Beach, who really
11 have the problems and the answers which we seek, to meet
12 with me and my staff in Los Angeles at two tomorrow after-
13 noon, we will have at it.

14 MR. BALL: Sure, we can do that.

15 MR. LEVIT: Very well. Is there anything else to
16 come before the Commission? (No response) If not, the
17 meeting is adjourned.

18

19 ADJOURNED 12:14 P.M.

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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Division of Administrative Procedure, hereby certify that the foregoing ninety-five pages contain a full, true and correct transcript of the shorthand notes taken by me in the meeting of the State Lands Commission of the State of California at Sacramento, California on January 29, 1959.

Dated: Sacramento, California, February 3, 1959.

Louise H. Lillico