

1 should take at this point?

2 MR. CARR: I think I'd like to hear what further Mr.
3 Cranston has to say, because he has seen them in Washington.

4 MR. CRANSTON: I have nothing else to say on that.

5 MR. CARR: Would it be in order for us to write a
6 letter back there and see if we are getting along all right?
7 Now, Admiral James set up a timetable that was pretty defin-
8 ite -- the first of December certain things were to be hap-
9 pening at that time. I have a little note here from Mr.
10 Horig which would raise some doubt as to whether the City
11 of Long Beach and the repressurization program is going to
12 meet that deadline. So, would it be in order to confirm --
13 write the Bureau of Ships and ask Admiral James or whoever
14 is the proper person for our information -- what the inten-
15 tion of the Navy is?

16 GOV. ANDERSON: I would certainly think that is in
17 order.

18 MR. CRANSTON: It is not merely speculation that there
19 will be cutbacks in Naval shipyards. It is an absolute cer-
20 tainty. It certainly is a problem if this Long Beach prob-
21 lem is not solved or if we do not have progress toward the
22 objectives set forth. The principal matter, of course, is
23 whether or not repressurization is proven to work effectively.
24 The second matter is this controversy and who owns what, and
25 the feeling of the Navy if there is no solution of this prob-
26 lem that will upset the whole apple cart and, therefore, they

1 will have to move out.

2 MR. CARR: Mr. Chairman, I move we take appropriate
3 action to determine, if possible, whether as of now (not
4 waiting until the first of December) -- as of now the Navy
5 is satisfied with the progress being made. We know they have
6 their reservoir engineers and experts working on this. We
7 know the City of Long Beach has theirs. We know they are
8 drilling water injection wells. But whether it is meeting
9 the time table, I think we should know -- because if it is a
10 hopeless cause, I think that's something we should know about
11 because it would change our tactics.

12 I move we write to whoever the appropriate authorities
13 are in Washington and find out if we are meeting the time
14 table in that regard, and ask for an early reply and maybe
15 we could get them to call a meeting of the City Council.

16 MR. CRANSTON: I second the motion. Is this fair to
17 you, Mr. Hortic?

18 MR. HORTIG: It is. I think Admiral James, Chief of
19 Ships, with whom the Commission has had prior correspondence,
20 particularly with reference to the Long Beach area, and
21 particularly as Admiral James is the representative of the
22 Navy who specified certain criteria to be accomplished by
23 certain deadlines as conditions precedent to maintenance of
24 the shipyard and heads the agency which employs all the
25 reservoir engineers who are studying the problem for the Navy
26 Department, I would suggest the inquiry be made of the Chief

1 of Ships.

2 MR. CARR: Could we possibly include in that motion
3 that we send a copy of this letter to Admiral James to the
4 Long Beach Harbor Department, or whoever is in charge of oil
5 production down there, and ask them to report to us what
6 their attitude is, because I have conflicting opinions as to
7 the problems on this water injection.

8 MR. HORTIG: We have been handed here this morning a
9 letter dated October 4, 1959 from the Port of Long Beach ...

10 MR. CARR: May we hear it?

11 MR. HORTIG: which I received as I sat down here
12 and consequently my analysis has not been detailed, but with
13 reference to your prior comments on rates of water injection
14 program for Long Beach, I had reported to the Commissioners
15 and to you, Mr. Carr, that as of the subsidence bulletin of
16 September 25, 1959 the present projects indicate the following
17 table (This is for proposed water injections, particularly
18 now directing attention to City tidelands shipyard area, the
19 critical area):

20 "Proposed September barrels per day - 34,450; October
21 barrels per day - 58,500; November barrels per day - 77,400,"
22 which gave concern because this, as to the end of November
23 proposing an injection of 77,400 barrels per day, would appear
24 to fall 100,000 barrels a day (approximately) short of the
25 estimate required by Admiral James of 175,000 barrels per day.

26 I now quote from the tabulation accompanying the letter

1 of October 4 just received and herein it is indicated that
2 the proposed operating program, which is distinctly at
3 variance with the estimates as of September 25th, will be
4 for the same months I read: September, previously 34,450,
5 now estimated to go to 72,629 -- almost double, and this is
6 a change in the estimates in the last two weeks; October
7 increased from 58,500 to 136,100; and November increased
8 from 77,400 to 189,200 barrels per day.

9 However, I must hasten to point out that if this is
10 accomplished this certainly would achieve the desired solu-
11 tion numerically, but the letter transmitted also points out
12 difficulties that have been experienced in increasing this
13 injection program in the future and the one quoted here:
14 "This is illustrated by the considerable drop in injection
15 volume between the end of June and the end of July." Actually,
16 due to program difficulties, instead of an increase it was a
17 decrease. So achievement of this volume of injection, which
18 is certainly to be desired, will require superhuman effort
19 and the very best of luck.

20 MR. ZWEIBACK: Mr. Chairman, this indication we have
21 received here today, which I have not had a chance to read,
22 kind of bothers me. As of last week, after receiving the
23 September 25th subsidence bulletin and the figures that Mr.
24 Horig just read there, it became quite obvious that we were
25 way behind on meeting the schedule that the Navy had laid
26 down for us; and I asked Mr. Vickers, general manager of the

1 port authority what our problems were and what hopes we might
2 have for achieving the 175,000 barrel quota the Navy had laid
3 down, for, I believe, December first. As of last Thursday,
4 he advised me it was true they were lagging behind, but
5 rather than offering the solution which this letter indicates --
6 that they will step up this program -- he advised me the Navy
7 had rescheduled their quotas downward, so they were meeting
8 them but in a reverse kind of way. Now today we get a letter
9 which reverses what Mr. Vickers said last week. I don't
10 understand this.

11 MR. CARR: Mr. Chairman, I'd like to call attention to
12 the fact that if the Navy abandons that ship yard, most of
13 the rest of the property in the subsidence area is either in
14 the hands of the City or in people who are privately produc-
15 ing oil, in which case there is no urgency on their part as
16 far as repressurization for the purpose of halting subsidence.
17 That puts quite a different aspect on the oil market problem
18 and whether or not some other steps need to be taken. This
19 is a very complicated thing, so we need to know whether there
20 is any chance to keep that shipyard. We need to know it very
21 badly, very soon.

22 GOV. ANDERSON: You have heard the motion before us --
23 that the communication be directed to the Admiral and a copy
24 to the Port Commissioner of Long Beach. Is that where you
25 wanted that to go, Mr. Hortig?

26 MR. HORTIG: The general manager of the Port of Long
Beach.

1 MR. CARR: I think send one to the Board of Harbor
2 Commissioners, to Charlie Vickers, general manager, and also
3 one to the City Council.

4 GOV. ANDERSON: Any objection? If not, the motion is
5 passed unanimously.

6 The next one you wanted to comment on was the Federal
7 trial, the law suit.

8 MR. CARR: Yes, we know the original suit was asking
9 for some damages and I understand now that that suit has
10 either been set for trial or is going to be set for trial,
11 so I suggest that we find out what we can about that. I
12 understand the Department of Justice, Mr. Merton of Washington
13 has charge of that, but that Mr. Gray is handling the case
14 in California. Does anybody know anything about that?

15 GOV. ANDERSON: Mr. Hortig, do you, or the Attorney
16 General's office?

17 MR. HORTIG: Specifically, we do not have any informa-
18 tion on that. Inquiry, of course, could be made to Mr. Gray.
19 Apparently from the stirring behind me there may be some
20 information from the Attorney General's staff.

21 GOV. ANDERSON: Does the Attorney General's office have
22 anything?

23 MR. SHAVELSON: That matter is being handled by Howard
24 Goldan. My personal knowledge as to the last step in that
25 is the State filing answers. I will ask Mr. Goldan to give
26 you a progress report on that litigation tomorrow or sometime

1 this week, if you like. I hadn't heard that report myself,
2 but I am not working actively on the Anchor case, so it is
3 possible Mr. Golden has some information on that.

4 MR. CARR: I think we would be in order to run this
5 down and find out what we can ahead of time. I've gotten this
6 from two reliable gossips now -- they might both be wrong.
7 I'll make a motion to that effect. Let's ask somebody and
8 let's find out. Can the Attorney General's office handle
9 that? I move we request them to do that.

10 MR. CRANSTON: Second.

11 GOV. ANDERSON: You have heard the motion. It has
12 been moved and seconded, and will be so ordered. The Attorney
13 General's office will be asked to give us a report on this as
14 soon as possible.

15 The third item you brought up was the problem of uniti-
16 zation in the area there.

17 MR. CARR: Yes. I'd like to hear from the attorneys
18 on that. Is the procedure that is proposed, or what I under-
19 stand is proposed, to wait until a unitization agreement is
20 to be signed and then to raise the question as to whether Long
21 Beach can legally do this or not? I'd like to hear our own
22 attorneys, the State attorneys, express themselves as to
23 whether this is the right way to approach this. In all these
24 things there is delay and in all these things do they satisfy
25 the Navy or not. We are working on the theory we are going
26 to satisfy these Navy requirements and the Navy has gone on

1 record that this Long Beach shipyard is the most desirable
2 shipyard to keep. Naturally, it should be the last one closed
3 instead of the first one, but if it is going to sink out of
4 sight, there is no hope. I am still hoping we can save that
5 shipyard for the State of California, and the State of Cali-
6 fornia has an interest in this because it is part of our
7 economy -- a source of taxes and that sort of thing. I think
8 we need an answer.

9 GOV. ANDERSON: Mr. Hortig, do you have anything?

10 MR. HORTIG: I have no comment with respect to the
11 legal propriety of Mr. Carr's question. I believe Mr. Brady
12 is fully informed on the program of the City of Long Beach
13 and the Harbor Department with respect to this operation and,
14 I assume, would be willing to comment on the outline of the
15 program as to its completeness and possibly why this course
16 was chosen.

17 MR. BRADY: Mr. Chairman, if I might make an observa-
18 tion in that regard, I believe it was in the 1957 session of
19 the Legislature the City sponsored certain legislation which
20 is now entitled Section 6879 of the Public Resources Code
21 and also Section 7058 of the Public Resources Code by which,
22 with the making of certain determinations by the local legis-
23 lative body that it was necessary that tide and submerged
24 lands be unitized with other lands for the purpose of arrest-
25 ing subsidence, repressuring, protecting against waste, and
26 with the prior approval of the State Lands Commission, the

1 tide and submerged lands could be unitized with other lands
2 for the production life of the unit. The City was willing to
3 go ahead on that basis. Some of the principal primary operators,
4 however, felt that this being a first instance where tide and
5 submerged lands would be unitized with private lands, and
6 since the tide and submerged lands were subject to a public
7 trust, that it would be advisable to have a test case made
8 with respect to the validity of unitizing tidelands with
9 private lands -- which, in effect, would permit private opera-
10 tors to participate to the percentage of equity presently
11 assigned to them in ratio to the total. It was decided as a
12 precedent to the unitization that the unit agreement would be
13 worked out; it would be ready for signature; all the upland
14 operators would execute the subject agreement; the agreement
15 would then be submitted to the City for signature and in order
16 to form the basis for a court having jurisdiction, the City's
17 representative would refuse to execute, raising the legal
18 issue as to the right to unitize the tidelands and submerged
19 lands with other lands. It is hoped, due to the unique con-
20 stitutional question involved, it being one of first impres-
21 sion, and also the importance of the problem involved due to
22 the subsidence aspects, that the Supreme Court might be
23 prevailed upon to take original jurisdiction of the matter --
24 which would eliminate the necessity of having a trial in the
25 lower court, in the Superior Court, and then going through
26 the long mechanics of an appeal.

1 Now, the way the matter is set up right now, Block
2 II and III units are nearing their conclusion. They are in
3 the final drafting processes, and it is hoped as soon as
4 that is accomplished the parties would become signatories
5 to the agreements and the ground work will be laid for the
6 test case. That is the present thought on the subject and
7 that is the manner in which the unit agreements have been
8 drafted.

9 Incorporated in the unit agreement is a provision
10 whereby those parties included in the geographic area set
11 forth in the unit have a certain period of time within which
12 to elect to become members of the unit and if they exercise
13 that privilege within a certain period of time they become
14 members of the unit; and it's anticipated these procedures
15 will be over from a legal standpoint and the City, if the
16 court is favorable, will immediately execute the agreement.

17 MR. LINGLE: Gentlemen, I am from Long Beach too, and
18 have been working on this -- the legal drafting. I am Harold
19 Lingle, another City attorney from the City of Long Beach,
20 and for nine months I have been working on the legal drafting
21 committee for these units and we have been meeting with delay.
22 It won't necessarily entail a year's delay. In addition to
23 drafting the unit agreement, from time to time there has come
24 before you gentlemen what we call a cooperative agreement,
25 whereby the City producers on their side and the upland opera-
26 tors repressure on their lands, and these operations are going

1 on currently. That's the way we are drilling and repressur-
2 ing the wells now, because we are aware there is the possi-
3 bility of delay. So prior to the time -- or if we are delayed
4 getting into the unitization, the City is doing everything on
5 its lands that would be done under the unit agreement and in
6 the time they are going ahead with the test case it is proposed
7 the program will be finalized and the uplands will be able to
8 go ahead on the unit program if there should be a favorable
9 decision at that time. So, the way it has been worked out,
10 we don't think it will delay the water that goes into the
11 ground. Excuse me for interrupting.

12 MR. HORTIG: If I may say in summary for the Commis-
13 sion, I believe Mr. Carr's point is and has been for several
14 months over which this question has been raised, that as long
15 as there is an unresolved question and it is at least a
16 psychological hazard, it hasn't aided in expediting the uniti-
17 zation plans and has even delayed cooperative agreements
18 those just referred to by Mr. Lingle. I think this is, again,
19 a question that the Commission has raised before and that is
20 all questions which can be resolved and must be resolved in
21 order to focus complete attention on the critical nature of
22 subsidence alleviation -- is everything in that direction be-
23 ing done at the present time and in the most efficient manner?

24 MR. CARR: Mr. Chairman, because of the differences
25 of opinion that have been voiced over a period of years as to
26 the legal and engineering complications of water flooding, it

1 would seem to me that until this adjudication is accomplished
2 that at almost any time any of the parties could come into
3 court and enjoin other parties from continuing their water
4 flooding and repressuring program if they could give good
5 reason as to why it was injuring their interests in the oil
6 field. That is the reason unitization has to be done. So
7 I think it is a question that needs early resolution. Do
8 you agree with that, Mr. Hortig?

9 MR. HORTIG: With only one qualification, Mr. Carr.
10 As Mr. Lingle pointed out, in those areas that are already
11 committed to and are operating under cooperative plans,
12 there is no one who can possibly contend or could successfully
13 contend there is potential damage. However, as to those
14 areas that are not subject to cooperative agreement, the
15 hazard you propose could be an actuality any moment.

16 GOV. ANDERSON: Is there any comment from the Attorney
17 General's office?

18 MR. BRADY: Mr. Chairman, may I make one observation
19 supplementing what Mr. Lingle said -- that by virtue of the
20 interim protection of these cooperative agreements between
21 the City's tideland operators and the upland operators, it
22 is the City's intention to go ahead and they are going ahead
23 at the present time with the water injection well drilling
24 program, which has been approved by the State Oil and Gas
25 Supervisor, and the completion of the large water injection
26 supply system to the extent that when and if the City is

1 permitted by judgment to enter the unit, the City's tidelands
2 will be fully developed insofar as repressuring operations
3 are concerned. It won't be a question of them being six or
4 eight months down the line joining the unit and then starting
5 repressurization operations. Those are already being devel-
6 oped in accordance with the repressuring plan.

7 GOV. ANDERSON: Along this same line, I'd like to ask
8 a question. During the last session, the City of Long Beach
9 asked that we support A.B. 2400 because of the extension to
10 upland operators. Now I am informed you cannot proceed on
11 that because there are charter amendments

12 MR. BRADY: Mr. Chairman, that presents a very practical
13 problem which we are certainly hoping we can find an answer
14 to. When the State demand for accounting was filed with the
15 City the latter part of last year, the upland operators (and
16 they are located in Fault Block IV, which is not in the imme-
17 diate area involving the Naval shipyard; however the westerly
18 portion of the lower zones of Fault Block IV should be eventu-
19 ally repressured in order to cover the entire shipyard area.
20 The principal areas so far as the shipyard are concerned are
21 Fault Blocks I, II and III) -- the upland operators in Fault
22 Block IV felt that not knowing where the proposed boundary
23 line or the area where the City and State's rights laid, that
24 they were placed in jeopardy in that they were asked to extend
25 their contract for another 25 years for the purpose of entering
26 a unit agreement for the purpose of entering Fault Block IV,

1 and 1. the area in question was eventually decided to be
2 State tidelands and submerged lands rather than in the City's
3 own right, it would place them in this dilemma: Under our
4 charter, there would be a restriction on their operations --
5 the charter requires that any contract be submitted to public
6 bid. That was one problem. The second was -- if these lands
7 be resolved to be tidelands, then under the act enacted in
8 1955 those particular lands would partake of the tideland
9 character and would be the same as the existing tidelands
10 under development with the Long Beach Oil Corporation.

11 So we worked out this A.B. 2400, which in effect
12 declared there were certain operators who had certain leases
13 presently in effect, which would expire within the next five
14 years or thereafter; that without conceding the character of
15 the property, whether it be tideland or upland, that these
16 leases or contracts should be negotiated and extended 25
17 years with the prior approval of the State Lands Commission --
18 the purport of that being that in the event the areas down the
19 line were some time determined to be tidelands, the operators
20 would be protected insofar as the State was concerned because
21 the State Lands Commission was given the right of prior re-
22 view of the contract.

23 Now we are faced with this situation -- and we certainly
24 want to give A.B. 2400 as liberal an interpretation as we can --
25 but the question we are considering right now is: If an
26 understanding is arrived at between the City of Long Beach

1 and the State of California with respect to the area in
2 dispute and if it is determined that the tideland boundary
3 line should be moved further landward than it presently is
4 and has been recognized, as a consequence of which certain
5 of these operators whom we have contracts with are transferred
6 from an upland status to a tideland status, whether or not
7 A.B. 2400 could then be used to afford them the same protec-
8 tion that it would have given them had the contracts been
9 entered into prior to compromise agreement with the State of
10 California. To make myself clear, if the contract extensions
11 were entered into between the City and the upland operators
12 prior to the time the agreements were entered into between
13 the City and State, A.B. 2400 would afford that protection
14 because the problem would not have been resolved prior to
15 the time the contracts were entered into. However, if the
16 contract were not made prior to the time this decision was
17 made between the City and State, then it becomes a question
18 of whether these lands become of the same character as tide-
19 lands, which would necessitate public bidding just as the
20 presently recognized tideland areas do.

21 GOV. ANDERSON: Why couldn't you give them an extension
22 at the present time under A.B. 2400? Would you need a charter
23 amendment to be able to do this?

24 MR. BRADY: No sir. If they are upland in character,
25 we can give them an extension at the present time. However,
26 the matter is not that simple due to the fact that these

1 contracts that were entered into with these upland operators
2 were basically of the royalty type, you might say, where the
3 City received a certain percentage, the upland operator re-
4 ceived a certain percentage and paid all of the costs of
5 operation and capital outlay out of his retained percentage.
6 We are now moving into a unitization where you have capital
7 outlay and cost involved in the drilling of these water
8 injection wells and the like, and the upland operators do not
9 feel they can sustain that type of capital outlay and cost
10 on the same type royalty arrangement. They would need a
11 higher type royalty arrangement than under the existing con-
12 tracts so they could get this reimbursed, or the character
13 of the contract would have to be changed.

14 The present thinking along that line is that the best
15 approach would be to change the character of the contracts
16 so the upland operators would not be absorbing all of the
17 cost of capital outlay in operation, or transfer it to a
18 working interest type of contract where the City would take
19 a certain percentage of royalty -- and I am picking terms
20 here as an example -- wherein the City might take a seventy
21 per cent royalty of the oil and gas produced and bear seventy
22 per cent of the cost of capital outlay and operation, and
23 the operator would take a reduced royalty of thirty per cent
24 but to that same extent would only participate in thirty per
25 cent of the cost; so whereas you would be reducing the royalty,
26 you would reduce his costs in the unit operation.

1 MR. ZWELBACK: Mr. Brady, the other day in our discus-
2 sion in Los Angeles I had the distinct impression from you
3 that these upland extensions, the extensions to the upland
4 operators which were envisioned by A.B. 2400, could not be
5 implemented except by amendment to the charter of Long Beach.
6 Now you say they could be without an amendment.

7 MR. BRADY: Maybe I could clarify that. They do not
8 need a charter amendment to extend the contracts at the present
9 time under our charter. However, what the upland operators
10 feel they should have and which we don't have at the present
11 time in our charter, is the fact that they do not have the
12 same protection in our charter as they have been given under
13 A.B. 2400 and that is this: That if we enter into an exten-
14 sion of the upland contracts with the operators, which we can
15 do under our charter, and then maybe a year or so down the
16 road these areas are determined to be in fact tidelands
17 rather than uplands, then the City would have had no authority
18 to have entered into these contracts in the first place be-
19 cause the lands were determined to be tidelands; but the
20 upland operators said if we can obtain the protection on a
21 State level, we would be willing to forego the immediate amend-
22 ment of the charter, anticipating that a special election
23 would be held at which that would be placed on the ballot, to
24 give them the protection so that if later the lands were
25 determined to be tidelands they would have been previously
26 authorized by the charter.