

**CALENDAR ITEM
C37**

A 57, 58

12/03/08
W 17102
D. Mercier
A. Hager

S 29

**CONSIDER APPROVAL OF AN AMENDMENT TO THE AGREEMENT
FOR IMPLEMENTATION OF AN OPTIMIZED WATERFLOOD
PROGRAM FOR THE LONG BEACH UNIT,
LOS ANGELES COUNTY**

APPLICANT:

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

BACKGROUND:

Section 1 of Chapter 941 of the Statutes of 1991 authorized the California State Lands Commission (Commission) to negotiate and execute a contract with a private contractor and the City of Long Beach (City) for the implementation by the contractor and the City of an Optimized Waterflood Program for the Long Beach Unit. Acting pursuant to this authorization, the Commission, the City and the City's contractor for Tract 1 of the Long Beach Unit, Atlantic Richfield Company and its subsidiary, ARCO Long Beach, Inc., entered into the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit (OWPA) on November 5, 1991. The OWPA provides incentives for the contractor to make investments in drilling and development to increase oil production from the Long Beach Unit. Occidental Petroleum Corporation, through its subsidiary OXY Long Beach, Inc., has acquired all contractor interests in Tract 1 of the Long Beach Unit and the contractor interest in Tract 2 and has succeeded to the contractor interest in the OWPA. The Optimized Waterflood Program has been a resounding success in providing substantial additional revenues to the State, the City and the contractor.

Chapter 941 and the OWPA contemplated enhancing the waterflood, a secondary oil recovery procedure and a means of preventing subsidence that

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had been used in the Long Beach Unit since its inception. Other enhanced recovery methods have been developed and refined with new technology that may be appropriate for use in the Long Beach Unit but were not made part of the Optimized Waterflood Program. For this reason, the Legislature enacted section 6 of Chapter 446 of the Statutes of 2008. Section 6 of Chapter 446 states:

“The Contractor under the contract authorized in Section 2 may use any means of enhanced oil recovery consistent with good oil field practice to develop additional oil reserves. Notwithstanding anything to the contrary in Chapter 941 of the Statutes of 1991, the contractor under the contract authorized by Section 1 of Chapter 941 of the Statutes of 1991 may use all types of enhanced recovery applications that are consistent with good oil field practice to increase oil recovery in the course of implementing the optimized waterflood program for the Long Beach Unit.”

The City, OXY Long Beach, Inc., and the Commission’s staff have prepared an amendment to the OWPA giving the contractor permission to use other enhanced oil recovery applications by incorporating into the OWPA the language of section 6 of Chapter 446 quoted above. A copy of this amendment is on file in the Commission’s Long Beach office (see Exhibit A).

STATUTORY AND OTHER REFERENCES:

- A. Chapter 446, Statues 2008, section 6

OTHER PERTINENT INFORMATION

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

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

EXHIBIT:

- A. Amendment to the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit.

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PERMIT STREAMLINING ACT DEADLINE:

N/A (not a development project under the Act)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. APPROVE THE AMENDMENT TO THE AGREEMENT FOR IMPLEMENTATION OF AN OPTIMIZED WATERFLOOD PROGRAM FOR THE LONG BEACH UNIT PERMITTING OTHER ENHANCED RECOVERY APPLICATIONS.

2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

Exhibit A

W 17102

AMENDMENT TO THE AGREEMENT FOR IMPLEMENTATION OF AN OPTIMIZED WATERFLOOD PROGRAM FOR THE LONG BEACH UNIT

THIS AMENDMENT TO THE AGREEMENT FOR IMPLEMENTATION OF AN OPTIMIZED WATERFLOOD PROGRAM FOR THE LONG BEACH UNIT (this "Amendment") is made and entered into as of the _____ day of December, 2008, by and among the State of California (the "State"), by and through the State Lands Commission (the "SLC"), the City of Long Beach (the "City"), and Oxy Long Beach, Inc. ("OLBI"), collectively referred to herein as the "Parties."

RECITALS

- A. Pursuant to Section 1 of Chapter 941 of the Statutes of 1991, the Parties or their predecessors in interest entered into the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit, dated as of November 5, 1991 (the "OWPA") which, *inter alia*, provides for the Parties to implement an optimized waterflood program in the Long Beach Unit ("LBU").
- B. The Parties believe that it is in their respective interests for OLBI to explore the viability of other methods of enhanced oil recovery that could potentially increase the volume of oil recovered from the LBU. If realized, the increased production would benefit all of the stakeholders in the LBU, as well as the State, which has the largest financial interest in the LBU.
- C. The California legislature has enacted enabling legislation to authorize this Amendment on behalf of the State in order to allow OLBI and the City to use other means of enhanced oil recovery at the LBU.

NOW, THEREFORE, in consideration of the foregoing, the mutual promises herein set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is agreed as follows:

1. Defined Terms: All terms defined in or for purposes of the LBU Agreements shall have the same meanings as used in this Amendment.
2. Use of Enhanced Oil Recovery. Notwithstanding anything to the contrary in the OWPA, OLBI, pursuant to the terms and conditions set forth in the OWPA, may use all types of enhanced oil recovery consistent with good oil field practice in order to increase oil recovery in the course of implementing the optimized waterflood program for the LBU.
3. Enabling Legislation. The legislation attached hereto as Exhibit I (the "Enabling Legislation") adopted by the California Legislature and approved by the Governor of the State of California authorizes the State to enter into this Amendment. The Enabling

Legislation shall be deemed to be a part of this Amendment and is hereby incorporated herein by reference.

4. Effectiveness of this Amendment. This Amendment shall become effective upon the date that is executed by all the Parties.

5. Full Force and Effect. Except as modified hereby, the OWPA remains in full force and effect.

IN WITNESS WHEREOF, each of the following Parties has executed this Amendment upon the date set forth opposite its name.