

CGEOIL LLC

# PORT OF LOS ANGELES

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## FAULT BLOCK II OWNERSHIP

Review of the mineral rights ownership of the Port of Los Angeles in the  
unitized area of Fault Block II

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## Contents

Executive Summary .....	2
Terminology .....	3
Discussion.....	3
Overview .....	3
Unitization of Fault Block II and Waterflood .....	4
Unitization of Fault Block 1.....	4
Fault Block II Steamflood .....	5
Past Royalties due to POLA.....	6
Order 2583 .....	6
Steamflood .....	6
Waterflood .....	8
Future – POLA to become a Working Interest Owner or a Royalty Interest Owner.....	9
Implications to POLA .....	9
Conclusions.....	10
Recommendations .....	11
Go Forward.....	11
Discussion of WIO and RIO .....	13
Working Interest Owner (WIO).....	13
Carried Working Interest Owner (CWIO) –.....	13
Royalty Interest Owner (RIO).....	14
Pass-Through Rights Owner (PTRIO) .....	14
Timeline of Events.....	15
Exhibits Referenced .....	18

## Executive Summary

The focus of this paper is the discussion of possible money due from Mobil Oil (Mobil) to the Port of Los Angeles (POLA) for some of its mineral interests within the Wilmington Oil Field.

POLA through acquisitions, court actions, and granting has ownership of oil and gas mineral interests in various areas either within or adjacent to the Port. One such area was originally contracted to General Petroleum under Order 2583 in 1956. General Petroleum was to develop the oil and gas on behalf of POLA and keep some of the profits in exchange for investment to develop the oil field. In 1959, Order 2583 along with other similar agreements (Order 2583 was the only one involving POLA) were merged into the Fault Block II Unit Agreement (FB II Unit). The FB II Unit was created to pool capital from different owners and operates that portion of the Wilmington oil field under one entity to ameliorate subsidence and maximize revenues for all parties. In 1968, a portion of the mineral interests in Order 2583 were approved by POLA to be taken out of the FB II Unit to become part of the Fault Block 1 Terminal Unit. The remaining POLA mineral interests in Fault Block II were also approved by POLA for the same, but instead they still remain in the Fault Block II Unit. Mobil succeeded General Petroleum and continued to make payments to POLA under Order 2583 until the 1980's.

From 1959 to 1989 all of the FB II Unit accounting for revenues and costs were confined to the existing waterflood operations. In 1989, with the approval of the owners of the Fault Block II Unit, the addition of a steamflood to increase oil production was approved. Mobil elected on behalf of itself and POLA not to become part of the steamflood and was excluded from all costs and revenues associated with the steamflood. After 1989, the FB II Unit accounting was divided between the waterflood and steamflood with Mobil and POLA remaining in the waterflood.

Mobil has ceased accepting revenues from the FB II Unit and is no longer paying POLA per Order 2583. Order 2583's term ended on December 31, 1975, and was based on paying POLA as long as the listed wells in the Order were still producing oil. All wells listed in the Order appear to now be abandoned. If an amendment to Order 2583 or a new agreement does not exist between POLA and Mobil, then Mobil does not owe money to POLA. If another agreement exists (none can be found) then Mobil may owe POLA some revenues from the Fault Block II Unit waterflood. Under certain conditions, Mobil could have been allowed back into the accounting for the Fault Block II Unit steamflood, but those conditions have not occurred.

POLA can with the approval of the City of Long Beach, remove Mobil from the Fault Block II Unit waterflood accounting, and if requested by POLA, the City of Long Beach may terminate the accounting of the steamflood and combine all accounting for the

Fault Block II Unit into one. Either condition should allow revenue to flow again to POLA from the Fault Block II Unit.

## **Terminology**

Working Interest Owner (WIO) - an owner within an oil field that has an equitable share of all revenue and all expenses from an oilfield operation based on their percentage of ownership.

Royalty Interest Owner (RIO) - a mineral owner who leases the mining rights to another for development. The Royalty Interest owner receives a negotiated percentage of the total revenue from the development of its lease.

Unitization – the contractual combining of multiple owners of an oil field to develop the oil field under one plan and one entity (Unit Operator). The Unit Operator may employ a field contractor to accomplish the day to day work of the oil field.

Subsidence – the lowering of the surface of the ground usually associated with a decrease in pressure from underlying geologic formations. The decrease in pressure can be from withdrawal of water, oil, and gas from the underlying formations.

Waterflood – the process of injecting water into a petroleum reservoir to extract more oil. A secondary benefit of water injection is increasing or maintaining pressure in the reservoir.

## **Discussion**

### **Overview**

The Wilmington oil field stretches from the Orange County line, northwest through the City of Long Beach, into both the City of Wilmington and the Port of Los Angeles. The field has been in production since 1936 and is owned primarily by the City of Long Beach (in trust from the State of California by granting statutes). POLA owns portions of the Wilmington oil field both within the trust (from the State of California by granting statutes and court action) and outside the trust. POLA has leased/contracted out portions of its mineral interests at times for development of the oil and gas reserves.

One grouping of POLA's mineral interests is described in Order 2583. Order 2583 was created in January 26, 1956, as a Drilling and Operating contract with General Petroleum for the production of oil and gas for POLA-owned Parcels 1, 2, 3, and 4. Order 2583 appears to replace a previous Order, but the actual language for the previous Order has not been located.

## **Unitization of Fault Block II and Waterflood**

During the 1950's, the City of Long Beach, with the aid of the State of California was forcing the unitization of most of the Wilmington oil field to ameliorate subsidence. Subsidence was a significant problem for the Wilmington oil field, with parts of the field subsiding over 2.4 feet per year in the early 1950's. To resolve the issues with subsidence, it was believed that unitization and the implementation of a field-wide waterflood would be the best course of action. Parcels 1-4 and Order 2583 were brought into the Fault Block II Unit in 1959 and both are cited in the Fault Block II Unit Agreement Exhibits with General Petroleum listed as the WIO and POLA is listed as the RIO. The area is listed as Tract 4 – Parcels 1-4 (Tracts within a Unit may listed by numbers to differentiate one area ownership in a Unit from another).

## **Unitization of Fault Block 1**

In 1968, Order 2583 was terminated in part with the creation of both the Fault Block 1 Terminal Unit Agreement and POLA Agreement 794 (Drilling and Operating Contract of 1968, Los Angeles Harbor Department, Patten-Blinn and Mobil-Isco Parcels 2 and 3, Fault Block 1 Terminal Unit Area, Wilmington Oil Field). Both the Agreements cited Parcels 2 and 3 as being in the new Fault Block 1 Terminal Unit and effectively they were removed from the Fault Block II Unit.

Within Agreement 794 the following is stated:

The Premises are adjacent to the eastern boundary of the proposed Fault Block I Terminal Unit Area, which is located in the Los Angeles Harbor Area the Wilmington Oil Field, as shown on Exhibit A hereto, and a portion thereof was previously committed to the Fault Block II Unit Agreement of the Wilmington Oil Field

Concurrently with Agreement 794, Agreement 795 (Drilling and Operating Contract of 1968, Los Angeles Harbor Department, Mobil-Terminal Parcels 1 and 4, Fault Block 1 Terminal Unit Area, Wilmington Oil Field) was created. The intention of Agreement 795 was similar to that of Agreement 794, to remove Parcels 1 and 4 from the existing Fault Block II Unit and include them in the new Fault Block 1 Terminal Unit. Both Agreements 794 and 795 were signed and approved through the State Lands Commission and the Los Angeles Harbor Commission, but apparently Agreement 795 was never implemented as discussed below:

- Agreement 795, section 8, "It is understood and agreed that Contractor will commit its interest in the Mobil-Terminal Parcels 1 and 4 to a cooperative agreement with the operator of the Fault Block 1 Terminal Unit when requested to do so by the Board", whereas Agreement 794, section 8 states "it is understood and agreed that this contract shall be subject to all of the terms and conditions of the Fault Block I Terminal Unit Agreement".

- Fault Block 1 Terminal Unit Agreement - Exhibits, included Parcels 2 and 3, but did not include Parcels 1 and 4.
- The City of Long Beach as Unit Operator of Fault Block II and Tidelands OPC, still maintain Parcels 1 and 4 in the Fault Block II Unit accounting.

The intention of Agreement 795 was clear, though some of the language in the Agreement is ambiguous and could imply that if the Parcels were not removed from the Fault Block II Unit, then the conditions of Agreement 795 would instead pertain to that Unit and not the Fault Block 1 Terminal Unit. This type of default language is not specific, but even so, Agreement 795 would have ended in 2003, 35 years after the signing in 1968.

Documentation was not located stating Mobil replaced General Petroleum (name change) as the WIO on behalf of POLA in Fault Block II, but the assumption is that Mobil did receive revenue and pay the royalty to POLA per Order 2583. Since Agreement 795 was never implemented replacing in part Order 2583 or any other agreement replacing Order 2583 was never approved or has been found for Fault Block II, then it is assumed that the relationship per the Order ended on December 31, 1975. Payments from the Unit Operator of Fault Block II to Mobil would have continued based on the language in the Fault Block II Unit Agreement:

Any Committed Tract subject to a Lease whose term is not measured by production and which has a fixed termination date shall remain subject to this agreement for the full term hereof irrespective of the prior termination of any such Lease.

The Fault Block II Unit is currently operated by the City of Long Beach as Unit Operator, and the day to day operations are accomplished by Tidelands Oil Production Company (Tidelands OPC) – the agent for the field contractor. The City of Long Beach as Unit Operator of Fault Block II has not received a notification of the termination of Order 2583 from POLA; a termination would remove Mobil as the WIO and put POLA as the WIO.

### **Fault Block II Steamflood**

At the onset of the Fault Block II Unit Agreement, the area of Fault Block II was a under a waterflood to ameliorate subsidence and increase oil production. In the 1980s, a steamflood was started in Fault Block II by Union Pacific Resources (UPRC) in an attempt to increase oil production. In 1987, Determination Number 955 for the Fault Block II Unit was approved by the WIO's for the continuation of the steamflood. Mobil did not want to participate in the steamflood, so the Determination did allow for Mobil to participate on a non-consent basis.

A working interest owner electing to participate in a Phase on a non-consent basis shall pay no costs and receive no revenues from the Phase until two hundred fifty percent (250%) of the investment costs and one hundred percent (100%) of the chargeable operating costs from the Phase are recovered by the consenting Working Interest Owner(s). Material and equipment shall be accounted for as stated in Article 6 of Exhibit F accounting Procedure of the Fault Block II Unit Operating Agreement. (Determination Number 955)

Order 2583 and Agreement 795 were silent on POLA retaining voting rights on Determinations; Agreement 794 (Fault Block 1 Terminal Unit) did retain some voting rights for POLA, but Agreement 794 does not pertain to the Fault Block II Unit. Therefore, it is not clear to whether Mobil needed POLA's consent to choose to participate in the steamflood on a non-consent basis.

With Determination 955, accounting separated Mobil from the steamflood project, but allowed Mobil to remain in the waterflood project that had existed before the steamflood. That separation of accounting still exists.

Since about 1989, revenue to POLA ceased because either the agreement with UPRC would not allow future revenues from the steamflood to flow to Mobil until certain conditions existed, then those revenues ceased, and revenue generating from the remaining waterflood was not positive, or revenues versus costs were insufficient for a check to be issued to Mobil.

## **Past Royalties due to POLA**

### **Order 2583**

Order 2583 stipulated POLA would receive royalty payments based on certain wells (those listed in the agreement or any other well bottomed under POLA land). If all of the listed wells were abandoned and no additional wells were drilled under POLA land, POLA would not be due royalty payments from Mobil. Mobil, as the WIO, would still receive revenues and be assessed costs based on Tract 4 (Parcels 1 and 4) at a .46% ownership of the entire Tract II Unit since the allocated revenues and costs are based on equity ownership (amount of calculated oil reserves at time of the creation of the Unit under Tract 4 divided by total Unit oil reserves).

### **Steamflood**

Mobil did agree to become non-consent in Determinations 955 (1987), 1054 (1989), 1115 (1991), 1209 (1992), and LB-11-223 (1994). Within each Determination the following was stated:

A working interest owner electing to participate in a Phase on a non-consent basis shall pay no costs and receive no revenues from the Phase until two hundred fifty

percent (250%) of the investment costs and one hundred percent (100%) of the chargeable operating costs from the Phase are recovered.

Because Mobil was not entitled to any royalties in the steamflood until after these costs were recovered, to determine if Mobil owes POLA any past royalties for the steamflood it is necessary to recreate the steamflood accounting. Tidelands OPC has acknowledged that it does not have the full accounting for the steamflood. Tidelands OPC became the contractor to UPRC in 1989 for the day-to-day operations, but did not do the accounting until the purchase of the UPRC oil operations and land areas by the City of Long Beach in 1994.

To recreate the accounting to determine if the Determination conditions for royalty payout were met, accounting data was acquired where available and estimated where necessary, as follows:

1. Acquired the steamflood accounting from 1997 through July 2011
2. Acquired the waterflood breakdown of expenses and revenues from August 2011 through 2012
3. Acquired the Fault Block II Unit accounting (steamflood and waterflood not separated) from 1991 through 2003
4. Acquired the amounts approved for each Determination (which were assumed to be the actual amount invested as capital in the steamfloods) in the following amounts:
  - a. Determination 955 – \$41,734,000
  - b. Determination 1054 – \$6,994,650
  - c. Determination 1115 – \$6,584,000
  - d. Determination 1209 – \$4,400,000
  - e. Determination LB-11-223 – \$21,265,900 (\$7,917,500 to be reimbursed back from the Department of Energy leaving \$12,469,800 to be paid by the Fault Block II Unit)
5. Estimated the Steamflood accounting from 1991 through 1996 by assuming the same splits in revenues and expenses from 1997-2003.
6. Estimated the revenues and expenses based on oil production from 1987 through 1990 – the ramp up in oil production started in mid-1989.

From the actual and estimated expenditures, the capital expenses were removed, operational expenses were left in and an estimated adjusted net profit was calculated. The first hurdle of paying back the 100% of the operational expenses was determined. The summation shows that the adjusted net revenue amount for the steamflood is approximately \$102 million through July of 2011 with all operational expenses paid. The total capital expense from the Determinations is \$68,082,450. Applying the 250%



payback would yield a \$170,206,125 net revenue hurdle before a non-consent WIO would be allowed back in to share in the Steamflood, which has not yet occurred.

The accounting accomplished for this report has used actual accounting data where available. While further research might uncover additional accounting data, the end result would not be dramatically different from the calculations made using estimates: the 250% hurdle of paying back the steamflood capital investment has not been made, and Mobil remains a non-consent party not entitled to steamflood royalties.

### **Waterflood**

It appears that Mobil does not owe POLA royalties on the waterflood production, as Order 2583 is no longer in force, and while it was in force its royalties were based on production from its listed wells, which are all currently abandoned.

This section reviews the amounts Mobil could owe POLA under the assumption that either Order 2583 remained in place and is no longer contingent on wells, but is instead based on the entire area of Parcels 1 and 4 (royalty at 35%), or under the assumption that an agreement replaced Order 2583 similar to Agreement 795 (royalty at 16% for the area of Parcels 1, and 4). Agreement 795 also retained 16% net profits to POLA, but is not included in this section for simplicity. Neither of the above situations appears to exist; this section has been created only as a check of magnitude of lost revenue due to new agreements not being created. Additionally, since Order 2583 was no longer in force and/or the listed wells within the Order had been abandoned, Mobil would have still received all revenues and costs pertaining to Tract 4 - Parcels 1 and 2 and may not have been bound to distribute royalties to POLA.

The accounting of Fault Block II has been separated between the steamflood and the waterflood due to the election of Mobil becoming non-consent to the steamflood. Some of the production in Fault Block II is still allocated to the waterflood. Tideland's OPC on behalf of the Unit Operator does make payments to the WIO's of Fault Block II. Tideland's OPC's only responsibility for payment is to the WIO's not for the RIO's of a WIO.

Responsibility for Royalty Settlements: Unit Operators shall have no responsibility to make any distribution of Unitized Substances or the proceeds thereof to Persons other than the Working Interest Owners of each Committed Tract... Each Working Interest Owner receiving in kind or separately disposing of all or part of the Unitized Substances allocated to any Committed Tract or receiving the proceeds therefrom shall pay in money or deliver in kind in the manner required by their respective Leases or contracts any and all royalties, overriding royalties, production payments, net profits and any and all other payments ...

An estimate of the loss of is given below based on the beginning assumptions – this is just an estimate on a cursory review of the production amounts and using average yearly oil prices. Also it is assumed that the statute of limitations is four years (January 2009 – December 2012) for this type of situation. If the statute of limitations were not an issue, the amount of revenue would not be significantly greater since the ramp of in oil prices has only occurred over the last five to six years. A 16% and 35% royalty to POLA is shown, but amount is calculated on the entire gross revenue of Tracts 1 and 4.

The following chart was an attempt to estimate the possible loss of revenue to POLA since Order 2583 was not amended or a new agreement was not approved. This loss may not be recoverable.

- The 16% royalty (similar to Agreements 795 and 794) would have been the case if another agreement had been in place of Order 2583.
- The 35% royalty (Order 2583) is based on the entire gross revenue of Tract 4, Parcels 1 and 4 and not on the list of wells within the Order.

Year	Oil	Average	Oil	Gross	POLA Royalty		POLA Royalty
	per day	Oil price	per year	Revenue	Tract % (.46)	16%	35%
	1	2	3	4	5	6	7
			1 x 365	3 X 2	.46% X 4	.16 * 5	.35 X 5
2009	484	\$ 56.96	176660	\$ 10,062,554	\$ 46,288	\$ 7,715	\$ 16,201
2010	444	\$ 73.72	162060	\$ 11,947,063	\$ 54,956	\$ 9,159	\$ 19,235
2011	1000	\$ 105.69	365000	\$ 38,576,850	\$ 177,454	\$ 29,576	\$ 62,109
2012	1390	\$ 97.00	507350	\$ 49,212,950	\$ 226,380	\$ 37,243	\$ 79,233
						\$ 83,693	\$ 176,777

Figure 1

## Future – POLA to become a Working Interest Owner or a Royalty Interest Owner

### Implications to POLA

The decision of becoming a WIO or a RIO for POLA is based mostly on the financial implications. A WIO ultimately has liability for any expenses including abandonment costs at the end of field life. Since in Fault Block II, the ownership of POLA is considered State Tidelands, POLA cannot quit claim or relieve itself from liabilities. Historically POLA has put a WIO in place and put itself in a RIO under the WIO, thereby in theory, eliminating any current or future liability and ensuring a near constant cash flow.

In the short term, a WIO pays its allocated monthly expenses from the oil field and receives its allocated revenues, but Tidelands OPC has in practice not expensed the smaller WIO's in the field but instead (as in the case of Mobil) netted those WIO's and carried a negative balance at times. Currently Mobil as a WIO in Fault Block II has a slight positive balance in its account (though it has not paid POLA a royalty). The following table is the accounting from Tidelands OPC of Mobil's account balance in Fault Block II for 2012.

	Revenue	Costs	Mo Activity	Account Balance
				\$ 121,901.81
	1	2	3	4
			1 - 2	Prior - 3
31-Jan-12	\$ 12,482.59	\$ 40,500.45	\$ (28,017.86)	\$ 93,883.95
29-Feb-12	\$ 15,275.44	\$ 29,569.35	\$ (14,293.91)	\$ 79,590.04
31-Mar-12	\$ 19,874.45	\$ 30,730.12	\$ (10,855.67)	\$ 68,734.37
30-Apr-12	\$ 18,335.39	\$ 19,401.15	\$ (1,065.76)	\$ 67,668.61
31-May-12	\$ 21,086.83	\$ 22,850.22	\$ (1,763.39)	\$ 65,905.22
30-Jun-12	\$ 18,357.88	\$ 25,800.41	\$ (7,442.53)	\$ 58,462.69
30-Jun-12	\$ 20,833.74	\$ 18,712.12	\$ 2,121.62	\$ 60,584.31
31-Aug-12	\$ 20,005.77	\$ 24,680.31	\$ (4,674.54)	\$ 55,909.77
30-Sep-12	\$ 18,630.09	\$ 22,012.68	\$ (3,382.59)	\$ 52,527.18
31-Oct-12	\$ 20,394.77	\$ 28,252.59	\$ (7,857.82)	\$ 44,669.36
30-Nov-12	\$ 18,596.80	\$ 32,059.33	\$ (13,462.53)	\$ 31,206.83
31-Dec-12	\$ 19,586.60	\$ 36,822.24	\$ (17,235.64)	\$ 13,971.19
				\$ 13,971.19

Figure 2

## Conclusions

- Order 2583 appears not to have been amended or replaced and the wells listed within the document have been abandoned. POLA is not due revenue from Mobil in Fault Block II since the agreement is no longer valid and the wells are no longer on production.
- Mobil is still non-consent to the Fault Block II steamflood since the 250% threshold multiplied by the capital investment has not been met, POLA would not be due revenue from the steamflood through Mobil. POLA did not retain voting rights in Order 2583 since the agreement never contemplated unitization.
- POLA could be due revenue from Mobil if Order 2583 had been amended or replaced by a new agreement. The amount of money owed POLA could range

from \$80,000 to \$180,000, but since neither condition seems to have occurred, the actual amount is zero

- POLA could receive revenue from Fault Block II Unit if Mobil is removed as the WIO in Tract 4, Parcels 1 and 4, on both the remaining account balance and on a good forward basis.

## **Recommendations**

On December 11, 2012, there was a meeting with representatives of the City of Long Beach, Tidelands OPC and POLA to discuss Fault Block II.

Since Mobil has stopped accepting revenues from Fault Block II, Tidelands OPC has set up an account on behalf of Mobil. The current account for the waterflood portion due to Mobil was positive at the time of the meeting. In addition to an abandonment fee for future abandonment costs being charged on this account, there will be a large increase in capital invested in the oil field, in part due to the 2010 Optimized Waterflood Agreement signed between Tidelands OPC and the City of Long Beach.

## **Go Forward**

The City of Long Beach as Unit Operator of the Fault Block Unit has agreed in concept to accept the following:

- If requested by POLA, the City of Long Beach will acknowledge that Mobil is no longer the WIO in Tract 4, Parcels 1 and 4 of the Fault Block II Unit.
- Additionally, the City of Long Beach will agree if the above request is made, that it will discontinue the steamflood accounting in Fault Block II and all WIO's, including POLA will be part of the waterflood in Fault Block II. The City of Long Beach will also agree to zero out the steamflood account and not carry a negative balance forward to the Port of Los Angeles. However, as mentioned above if the abandonment fee was reversed, the account would then become positive. The account does change every month with the allocation of costs and revenues.
- The City of Long Beach will also agree that POLA will have the opportunity at any time to contract with a new Working Interest Owner for Tract 4, Parcels 1 and 4.

It is recommended that:

1. A letter be addressed to the City of Long Beach requesting the Unit Operator of Fault Block II acknowledge that Mobil is no longer the WIO in Tract 4, Parcels 1 and 4 of the Fault Block II Unit and that POLA is now the legal WIO. If the letter

is accepted, POLA would become the WIO, and be liable for all allocated expenses, but receive all revenue due on a point forward basis. POLA would also then be liable for end of field life abandonment expenses.

2. If the letter is accepted, then POLA should create a fund for its abandonment liability for Fault Block II. The City of Long Beach creates an abandonment report each year for the projected liability for the State of California and for its own interests. POLA could request that the City also include POLA in its yearly abandonment assessment.

POLA can at any time seek a new WIO for its Fault Block II Working Interest Ownership. Seeking a new WIO would appear to require California State Lands Commission approval; having POLA becoming a WIO would appear not to require approval.

## Discussion of WIO and RIO

### Working Interest Owner (WIO)

A WIO is stakeholder within a Unit that has an equitable share of all revenue and expenses from an oilfield operation.

A single owner of an oil field is in fact a WIO with a 100% ownership. Normally though the use of the term WIO denotes that an oil field has multiple owners, and the amount of ownership of each of the owners is determined usually by the estimated volume of oil under the surface area of each WIO. For example, if there are two WIO's in an oil field and then each owner has 50% of the land surface, but the calculated volume of oil under one land owner is shown to be 80% of the volume and 20% of the oil volume is under the remaining landowner, then the WIO ownership will be 80% and 20% respectively.

Typically with multiple WIO's, each are usually invoiced up to two months in advance of expenses occurring and they are also paid up to two months after the month the oil and gas is sold. Both expenses and revenues are allocated to each WIO based on their respective ownership (equity) in the oil field.

The advantage of a WIO is that they receive their entire percentage of revenues. The downside is that the WIO is also liable for the entire percentage of expenses, and therefore carries the risk if the revenues do not exceed expenses. The WIO also in theory carries the final abandonment liability of the oil field and would need to pay out the abandonment expenses typical after all revenues have ceased.

### Carried Working Interest Owner (CWIO) –

A CWIO is a stakeholder within a Unit that has an equitable share of all revenue, and expenses from an oilfield operation. The CWIO has an additional agreement allowing for expenses never to exceed revenues.

Some WIO's do not want to run the risk or do not have the ability to pay expenses on a monthly basis and decide to negotiate an additional agreement or clause to allow the operator (or similar entity) to carry any negative expenses of the WIO. This type of agreement is negotiable, but commonly the WIO will give 3-5% of its net profits to the operator in exchange for becoming a CWIO.

In the Wilmington Fault Block Units, Tidelands OPC and Thums Long Beach Company (Thums) commonly do not invoice the small WIO's in the oil field because it has become either cost prohibitive to do so, or the WIO's do not pay the invoice. So by default, Tidelands OPC and Thums have allowed the smaller WIO's to become CWIO's for free.

### Royalty Interest Owner (RIO)

A RIO is a mineral owner who leases the mineral rights to another for development. The Royalty Interest Owner receives a negotiated percentage of the total revenue from the mineral development of its lease.

A RIO is paid by an owner or WIO of an oil field. RIO's are different from a WIO in that the RIO receives payment based on gross revenues and is not liable for expenses (some expense can be passed to a RIO, though normally very limited). A RIO receives its royalty as soon as oil/gas is sold; a WIO may not receive net profit until long after the large expenses of developing an oil field (facilities, wells, etc.) are paid. Additionally, since the WIO must pay the RIO out of its gross revenues, the net profits of the WIO decrease (or the accumulated debt of the WIO increases).

### Pass-Through Rights Owner (PTRIO)

A PTRIO is a land owner who allows wells to be drilled under the surface of the land owned by the PTRIO. The PTRIO can ask for payments, royalties, or other compensation for the well to be drilled through their land area.

## Timeline of Events

- Board of Harbor Commissioners, Los Angeles Order No. (unknown)
  - 1936
  - With General Petroleum – to develop the oil rights on behalf of POLA, areas unknown.
- Board of Harbor Commissioners, Los Angeles Order No. 2583
  - January 26, 1956
  - With General Petroleum – to develop the oil rights on behalf of POLA, same as Tract 4 – Parcels 1-4 as shown in the Fault Block II Unit Agreement.
- Fault Block II Unit Agreement
  - December 15, 1959
  - Exhibits
    - Tract 4 – General Petroleum Corp. Terminal – Isco (citing Order (Permit) No. 2583)
      - Parcel 1 – 42.26 acres
      - Parcel 2 – 5.3020 acres
      - Parcel 3 – 15.8185 acres
      - Parcel 4 – 6.192 acres
- Fault Block I Terminal Unit Agreement
  - October 1, 1968
  - Exhibits
    - Tract 29 – Mobil Oil Corporation – Isco Permit (citing Drilling and Operating Contract of 1968, by and between the City of Los Angeles, acting by and through its Board of Harbor Commissioners, and Mobil Oil Corporation)
      - Parcel 1 (land area)
      - Parcel 2 (water area)
        - Total acreage is 21.120 (same as Tract 4 (Parcel 2 and 3) in the Fault Block II Unit Agreement)
- City of Los Angeles (Harbor Department) Drilling and Operating Contract 794
  - November 4, 1968
  - Patten – Blinn and Mobil Isco Parcels 2 and 3
  - Fault Block I Terminal Unit Area
  - Between City of Los Angeles (POLA) and Mobil Oil Corporation
  - Whereas – discussing the cancelling of the existing permit covering the premises and entering into a new agreement with the Board as may be necessary or appropriate to effectuate the Unit Agreements and thereby prevent subsidence and increase the amount of oil...
  - Assignment (section 31)



- Neither the contractor, nor any of its successors or assigns shall have the right or power to assign, hypothecate, pledge, or in any manner dispose of this contract, or any part thereof, or of the whole or any part of the Contractor's rights, privileges or obligation hereunder, without first obtaining the written consent of, and subject to such terms and conditions as may be prescribed by the Board.
    - Approved through California State Lands Commission
  - City of Los Angeles (Harbor Department) Drilling and Operating Contract 795
    - November 4, 1968
    - Fault Block I Terminal Unit Area
    - Mobil-Terminal Parcels 1 and 4
    - Between City of Los Angeles (POLA) and Mobil Oil Corporation
    - Whereas – discussing the cancelling of the existing permit covering the premises and entering into a new agreement with the Board as may be necessary or appropriate to effectuate the Unit Agreements and thereby prevent subsidence and increase the amount of oil
    - Assignment (section 31)
      - Neither the contractor, nor any of its successors or assigns shall have the right or power to assign, hypothecate, pledge, or in any manner dispose of this contract, or any part thereof, or of the whole or any part of the Contractor's rights, privileges or obligation hereunder, without first obtaining the written consent of, and subject to such terms and conditions as may be prescribed by the Board.
    - Approved through California State Lands Commission
  - Fault Block 1 Terminal Unit Agreement and Operating Agreement
    - September 27, 1968
      - Inclusion of Tract 29 (Mobil Oil Corporation – Isco Permit)
        - 21.120 acres
          - Parcel 1 (land area)
          - Parcel 2 (water area)
  - Fault Block II Unit - Steamflood
    - Determination No. 955 – September 1987
      - Mobil “elected” to become a non-consent
        - A working interest owner electing to participate in a Phase on a non-consent basis shall pay no costs and receive no revenues from the Phase until two hundred fifty percent (250%) of the investment costs and one hundred percent (100%) of the chargeable operating costs from the Phase are recovered by the consenting Working Interest Owner(s). Material and equipment shall be accounted for as stated in

Article 6 of Exhibit F accounting Procedure of the Fault Block II Unit Operating Agreement.

- It is unknown if POLA gave its consent for its interests in Fault Block II
- Mobil bid package CA-1075
  - November 30, 1990
  - Fault Block II Unit Tract 4
    - Parcels 1 and 4
  - Terminal Non-Unit
  - Isco Non-Unit
- Termination of Terminal Unit by Exxon
  - 1994
- Assignment of Oil and Gas Leases from Mobil to AERA (attempt of, but never completed)
  - August 3, 2004
- Correspondence
  - November 30, 1990
    - Letter from Mobil Exploration and Producing U.S. Inc. to TOPKO One Limited Partnership
      - Withdrawing the following from the sale due to inability of Mobil to obtain consent to assign (seeking Board of Harbor Commissioners action or letter stating such)
        - Isco Non-Unit
        - Terminal Non-Unit
        - Fault Block II as to .4587 % working interest
        - Fault Block I Terminal Unit, Area II
        - Fault Block I Townlot Unit Royalty (LOR/ORR)
  - October 10, 2001
    - Letter from Tidelands Oil Production Company (Karen Newitt) to Exxon Mobil (Nellie Stewart)
      - Mobil accumulated net revenue in the amount of \$1,975.55 – requesting Mobil if they plan on continuing as a WIO
  - August 3, 2004
    - Letter from AERA – Leona Stark to City of Long Beach
  - October 25, 2004
    - Letter from City of Long Beach (Schoij) to AERA (Stark)
      - Stating Mobil still has a .45947 working interest in Tract 4 – Parcels 1 & 4, positive balance of \$30
  - June 14, 2005
    - Letter from City of Long Beach (Schoij) to AERA (Leona Stark)

## **Exhibits Referenced**

- Board of Harbor Commissioners, Los Angeles Order No. 2583
- Fault Block II Unit Agreement and Exhibits
- Fault Block 1 Terminal Unit Operating Agreement
- Fault Block 1 Terminal Unit Agreement and Exhibits
- City of Los Angeles (Harbor Department) Drilling and Operating Contract 794
- City of Los Angeles (Harbor Department) Drilling and Operating Contract 795
- Fault Block II Unit - Steamflood Determination No. 955
- Various correspondence