

32869

**PRODUCED WATER AGREEMENT**

THIS AGREEMENT is made and entered into pursuant to a minute order adopted by the City Council of the City of Long Beach at its meeting held on the 28 day of August, 2001, by and among:

**City OF LONG BEACH**, a municipal corporation, acting in its capacity as Unit Operator for Unit Segments I and II, under the Unit Agreements, Fault Blocks II, III, IV and V Ranger Zone Units and as operator of certain Ununitized formations in the Wilmington Oil Field, hereinafter collectively referred to as "City";

**TIDELANDS OIL PRODUCTION COMPANY**, a Texas partnership, hereinafter referred to as "Tidelands";

AND

**Oil Operators, Inc.**, a California corporation, hereinafter referred to as "Oil Operators";

**RECITALS**

This Agreement is made and entered into with respect to the following facts and objectives:

- a. The City OF LONG BEACH, in its capacity as owner of General Facilities, Fault Block IV and Fault Block V Ranger Zone Unit, Wilmington Oil Field, Los Angeles County, California, processes makeup water for its operations in Segments I and II of Fault Block Units II, III, IV, and V Ranger Zone Units and certain formations.
- b. Oil Operators desires to send low pressure water produced from its Signal Hill and Long Beach operations ("Oil Operators Produced Water") to the City of Long Beach for processing and injection in connection with its oil operations in the Wilmington Oil Field.
- c. The parties desire to enter into this Agreement to set forth the terms and conditions under which Oil Operators' Produced Water will be used as makeup water by the City for its oil operations through Tidelands, its Field Contractor, for water injection operations conducted in the Fault Blocks II, III, IV, and V Ranger Zone Units and Ununitized formations in the Wilmington Field.
- d. In order to enable Oil Operators to deliver Oil Operators Produced Water to Tidelands; additional capital costs associated with new construction will be incurred by Tidelands and the City. Oil Operators shall pay for these additional capital costs; upon the terms and conditions set forth herein.

## AGREEMENTS

*date?*

### 1. TERM.

This Agreement shall be effective as of Sept. 24, 2001, and shall remain in effect for a period of seven (7) years. The Agreement shall thereafter automatically be renewed for successive one (1) year terms unless any party shall deliver to the other parties written notice of an election to terminate this Agreement not later than thirty (30) days prior to the then-scheduled expiration of the term of this Agreement. All such renewals shall be on the same terms and conditions as contained in this Agreement.

### 2. DELIVERY OF WATER.

Oil Operators shall deliver, and Tidelands shall take, as hereinafter provided, all available Oil Operators Produced Water as may be required by Tidelands or the City for its water injection operations conducted by Tidelands through wells located in the Wilmington Field. The quantity of Oil Operators Produced Water to be delivered pursuant to this Agreement is currently estimated to be 30,000 barrels per day. Notwithstanding the foregoing, nothing contained in this Agreement shall be deemed to obligate Tidelands or the City to (a) take any amount of Oil Operators Produced Water in excess of the amounts Tidelands and the City are obligated to take pursuant to Paragraph 6 hereof; or (b) continue water injection operations in the Wilmington Field. In the event the City or Tidelands discontinue their injection operations in the Wilmington Field, or if Oil Operators shall cease to have Oil Operators Produced Water to deliver to the City, this Agreement shall thereupon terminate, and no party shall have any further obligations hereunder except for any obligations which, by their terms, survive the termination of this Agreement.

### 3. METERING.

The Oil Operators Produced Water delivered under this Agreement shall be measured using calibrated meters as shown on Exhibit "A" attached hereto and made a part hereof (the "Meters"). The parties agree that the Meters shall be calibrated at least quarterly, and under mutually agreeable conditions. Each of Tidelands and Oil Operators shall notify one another at least ten (10) days prior to the calibration of the Meters by either party, and any party so notified may elect to witness said calibration, provided that the presence of the notified party is not a condition precedent to the scheduled calibration. The required notice period for a calibration pursuant to this Paragraph may be reduced by mutual consent of Tidelands and Oil Operators on a case by case basis.

### 4. CONTRACT PRICE AND CAPITAL COSTS; PAYMENT.

(a) Contract Price and Capital Costs. Oil Operators shall pay Tidelands for taking all Oil Operators Produced Water delivered under this Agreement, as outlined in Exhibit "B" attached hereto and made a part hereof. Additionally, Oil

Operators shall pay Tidelands for all capital costs associated with taking the Oil Operators Produced Water. The capital costs as set forth in Exhibit "B" represent a good faith estimate of the capital costs to be incurred by Tidelands in taking the Oil Operators Produced Water; however, Oil Operators agrees to pay all actual capital costs incurred by Tidelands in relation to the Oil Operators Produced Water. The payment to be made by Oil Operators to Tidelands for taking Oil Operators Produced Water as set forth in Exhibit "B" shall be reviewed by the parties and Tidelands annually after the third year and shall be adjusted as may be agreed by Oil Operators and Tidelands. If Tidelands and Oil Operators cannot agree upon any proposed payment adjustments, payments shall be adjusted an amount equal to the current Consumer Price Index.

(b) Payment. Prior to commencing construction work for any item to be reimbursed as a capital cost, Tidelands shall deliver to Oil Operators an invoice for such costs. Oil Operators shall promptly remit such capital costs to Tidelands, and Tidelands shall promptly commence such construction work upon receipt of payment and thereafter prosecute such work to completion. On or before the tenth day of each month, Tidelands shall deliver to Oil Operators an invoice for Oil Operators Produced Water taken during the preceding calendar month, and Oil Operators shall pay each invoice within 30 days after receipt thereof. Oil Operators' payment obligations pursuant to this paragraph shall survive the expiration or earlier termination of this Agreement. Notwithstanding anything to the contrary set forth herein, no delay in delivery of any invoice shall relieve Oil Operators from any obligation to pay Tidelands for taking Oil Operators Produced Water.

##### 5. WATER QUALITY TEST SPECIFICATIONS.

(a) Testing. The quality of the Oil Operators Produced Water shall be monitored and tested by an outside party acceptable to Tidelands and Oil Operators, in accordance with the Water Quality Test Specifications set forth on Exhibit "C" attached hereto and made a part hereof (the "Specifications"). The parties hereby agree that either of (i) Strata Analysts, 2855 Walnut, Long Beach, CA 90806, or (ii) Advanced Technology Laboratories, 1533 E. 33<sup>rd</sup> Street, Signal Hill, CA 90807, are acceptable outside parties for the testing contemplated by this Paragraph.

If any Oil Operators Produced Water does not meet the Specifications, Tidelands may stop taking the Oil Operators Produced Water until such time that Tidelands and Oil Operators agree that the Oil Operators Produced Water meets the Specifications and the cause for the Oil Operators Produced Water not meeting the specifications has been eliminated.

(b) Indemnification. Oil Operators agrees to indemnify, defend, protect (with counsel reasonably acceptable to Tidelands and the City) and hold harmless Tidelands and the City, and each of their respective heirs, representatives, successors and assigns, and each of them (collectively, the "Indemnitees") from

and against any and all manner of actions, causes of action, suits, debts, liens, liabilities, claims, demands, damages, losses, costs, interest or expenses (including attorneys fees and court costs as well as costs and expenses of a remedial and/or investigatory nature) of any nature whatsoever, known or unknown, fixed or contingent, arising out of, based upon or relating to the Oil Operators Produced Water or the taking thereof by Tidelands, including without limitation related to any "Hazardous Materials" (as defined below) contained in the Oil Operators Produced Water. The foregoing indemnity shall not require payment as a condition precedent and shall indefinitely survive the expiration or earlier termination of this Agreement. This obligation shall include, but not be limited to, the burden and expense of defending all claims, suits and/or proceedings (with counsel reasonably acceptable to Tidelands and the City), even if such claims, suits and/or proceedings are groundless, false or fraudulent, and paying and discharging, when and as the same become due, any and all judgments, penalties and/or other sums assessed against any of the Indemnitees. Notwithstanding the foregoing, in no event will Oil Operators be required to indemnify Tidelands or the City for damage to wells or producing zones, unless such damage is caused by the gross negligence or willful misconduct of Oil Operators or its agents, employees, or contractors.

(c) Hazardous Materials. As used in this Agreement, "Hazardous Materials" means any substance: (i) the presence of which requires investigation or remediation under any federal, state or local statute, regulation, ordinance, order, action or policy; (ii) which is or becomes defined as "hazardous waste" or a "hazardous substance" under any federal, state or local statute, regulation or ordinance or amendments thereto including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act or the Resource Conservation and Recovery Act, and any successor statutes thereto; or (iii) which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous and is or becomes regulated by any governmental authority, agency, department, commission, board, or instrumentality of the United States, any State of the United States, or any political subdivision thereof.

(d) Insurance. Oil Operators shall procure at its own cost prior to the commencement of operations under this agreement, and maintain in full force during the term of this agreement, comprehensive general liability insurance from a company or companies with a minimum rating of or equivalent to A:VIII by Best's Rating Guide, naming the City, Tidelands, and the officers agents and employees of each of them, as parties insured. The insurance shall cover claims for injury to persons or damage to property which may arise from or be connected with the operations of Oil Operators, its agents, representatives, employees, or subcontractors, in amounts of not less than Two Million Dollars (\$2,000,000.00) combined single limit per occurrence, or Four Million Dollars (\$4,000,000.00) general aggregate. The policy or policies shall either provide for broad form contractual liability or there shall be attached thereto an endorsement providing for such coverage. The policy or policies shall further provide that they

shall not be canceled until a thirty (30) day notice of cancellation has been served upon the City and Tidelands. In the event of an assured's incurring liability to any of the assureds, the policy shall cover the assured against whom claim is or may be made in the same manner as if separate policies had been issued to each assured. Prior to the commencement of this agreement, Oil Operators shall deliver to the City and Tidelands certificates of insurance with original endorsements evidencing the coverage required by this Agreement. The certificates and endorsements shall be signed by a person authorized by the insurer to bind coverage on its behalf. The City and Tidelands reserve the right to require complete certified copies of all policies at any time. The insurance may provide for whatever deductibles or self-insured retention that are acceptable to the City and Tidelands. In the event the insurance provides for deductibles or self-insured retention, Oil Operators agrees that it will fully protect the City and Tidelands and their officers, agents and employees in the same manner as their interest would have been protected had the policy or policies not contained deductible or retention provisions. Procuring the policy or policies of insurance or self-insured retention shall not be construed to be a limitation upon Oil Operator's liability or as a full performance on its part of the indemnification provision of this contract.

6. **PRIORITY OF WATER ACCEPTANCE.**

(a) **Priority of Water Acceptance.** Oil Operators acknowledges and agrees that while Tidelands will make reasonable, good faith efforts to take Oil Operators Produced Water pursuant to the terms hereof, Tidelands shall have no obligation to take any Oil Operators Produced Water except as set forth in the following priority schedule:

Priority for accepting water at X-Y Tank Farm:

First	Tidelands' produced water and Source Water for the Standard Lease as shown on the map on Exhibit D.
Second	Oil Operators Produced Water
Third	Local source water feeding X-Y Tank Farm

(b) **Order of Reductions in Acceptance.** In the event that water deliveries from all sources exceed the amount that may be taken by Tidelands, Tidelands will reduce the amount of water taken in the reverse order of priority; that is, local source water will be reduced, followed by Oil Operators Produced Water, followed by Source Water for the Standard Lease and Tidelands' produced water.

7. **NOTICES.**

Any notice, request, demand, consent, approval or other communication required or permitted hereunder or by law shall be validly given or made only if in writing and: (a) delivered in person, (b) delivered by a regionally recognized daily or

overnight courier service, or (c) deposited in the United States mail, duly certified or registered (return receipt requested), postage prepaid; in each case addressed to the party for whom intended, at the address set forth below each party's signature of this Agreement. Any party may from time to time, by written notice to the other, designate a different address which shall be substituted for that specified below. If any notice or other document is sent by mail as aforesaid, the same shall be deemed fully delivered and received forty-eight (48) hours after mailing.

8. **PAYMENT OF EXPENSES.**

Each of the parties shall pay all costs and expenses incurred or incurred by it in negotiating and preparing this Agreement, and in closing and carrying out the transactions contemplated hereby.

9. **COUNTERPARTS.**

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which, taken together, shall constitute one and the same instrument.

10. **INCORPORATION OF EXHIBITS.**

All exhibits attached hereto and referred to herein are incorporated in this Agreement as though fully set forth in the body hereof.

11. **AUTHORITY.**

(a) **Oil Operators' Representation and Warranty.** Oil Operators is a duly formed corporation and is qualified to do business and is in good standing in the State of California. The execution, delivery and performance of this Agreement by Oil Operators and the consummation by Oil Operators of the transactions contemplated by this Agreement have been duly and validly authorized by all necessary action on the part of Oil Operators. This Agreement is, or upon execution by Oil Operators shall be, a legal, valid and binding obligation of Oil Operators, enforceable in accordance with its terms, except as such enforcement may be limited by equitable principles or by bankruptcy, insolvency, moratoria or other similar laws generally affecting the enforcement of creditor's rights.

(b) **Tidelands' Representation and Warranty.** Tidelands is a duly formed partnership and is qualified to do business in the State of California. The execution, delivery and performance of this Agreement by Tidelands and the consummation by Tidelands of the transactions contemplated by this Agreement have been duly and validly authorized by all necessary action on the part of Tidelands. This Agreement is, or upon execution by Tidelands shall be, a legal, valid and binding obligation of Tidelands, enforceable in accordance with its terms, except as such enforcement may be limited by equitable principles or by

bankruptcy, insolvency, moratoria or other similar laws generally affecting the enforcement of creditor's rights.

(c) City's Representation and Warranty. The City of Long Beach is a municipal corporation, acting in its capacity as Unit Operator for Unit Segments I and II, under the Unit Agreements, Fault Blocks II, III, IV and V Ranger Zone Units and as operator of certain Ununitized formations in the Wilmington Oil Field. The execution, delivery and performance of this Agreement by the City, and the consummation by the City of the transactions contemplated by this Agreement have been duly and validly authorized by all necessary action on the part of the City. This Agreement is, or upon execution by the City shall be, a legal, valid and binding obligation of the City, enforceable in accordance with its terms.

**12. Pipeline Transfer Agreement.**

It shall be a condition precedent to the effectiveness of this Agreement that the Pipeline Transfer Agreement by and between Oil Operators and Lomita Gasoline Company, Inc., a California corporation ("Lomita"), the form of which is attached hereto as Exhibit "E" (the "Pipeline Transfer Agreement"), shall have been executed and consummated in accordance with its terms. The City hereby irrevocably and unconditionally approves (i) the form of the Pipeline Transfer Agreement, (ii) the transfer of all "Franchises" (as defined in the Pipeline Transfer Agreement) to Oil Operators in accordance with the Pipeline Transfer Agreement; and (iii) the release of Lomita from any and all obligations and liabilities under the Franchises. The City hereby covenants and agrees to execute the Consent to the "Assignment Agreement" (as defined in the Pipeline Transfer Agreement) concurrently with its execution hereof.

**13. MISCELLANEOUS PROVISIONS.**

(a) This Agreement and every provision hereof is for the exclusive benefits of the parties to this Agreement and not for the benefit of any third party.

(b) This Agreement and its exhibits constitute the entire agreement between the parties hereto pertaining to the subject matter hereof, and the final, complete and exclusive expression of the terms and conditions thereof. Prior agreements, representations, negotiations and understandings of the parties hereto, oral or written, express or implied, are hereby superseded and merged herein. No provision of this Agreement may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest that expressly states it is an amendment of this Agreement.

(c) The headings of this Agreement are for purposes of reference only and shall not limit or define the meaning of the provisions of this Agreement.

THIS AGREEMENT is executed on the dates set forth opposite each of the following signatures.

712 West Baker Street  
Long Beach, CA 90806  
Attn.: \_\_\_\_\_

Sept 7, 2001

**OIL OPERATORS, INC.,**  
a California corporation

By: Robert B. Hauer  
Its: President

301 East Ocean Boulevard, Suite 300  
Long Beach, California 90802  
Attn.: Mike Domanski, President

September 5, 2001

**TIDELANDS OIL PRODUCTION COMPANY,**  
a Texas partnership

By: Armen Samanlian  
Its: President

333 West Ocean Blvd.  
Long Beach, CA 90802  
FAX No. (562) 570-6583  
Attn.: \_\_\_\_\_

Sept 24, 2001

**City OF LONG BEACH,**  
a Municipal Corporation,  
acting in its capacity as Unit Operator for  
Unit Segments I and II, under the Unit  
Agreements, Fault Blocks II, III, IV and V  
Ranger Zone Units and as operator of certain  
Ununitized formations in the Wilmington Oil  
Field.

By: [Signature]  
Its: City Manager  
Attest: \_\_\_\_\_

APPROVED AS TO FORM

SEP 18 2001, 19

ROBERT E. SHANNON, City Attorney

By: [Signature]  
DEPUTY CITY ATTORNEY