

MINUTE ITEM

12/21/71
CVB

11. TENTH MODIFICATION OF THE 1971-1972 PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

Action on Calendar Item 14 attached was deferred until the next regular meeting of the Commission, at the request of Chief Deputy Director of Finance James S. Dwight, Jr., who requested a further explanation by THUMS Co. as to the increased project costs.

Attachment:

Calendar Item 14 (2 pages)

14.

TENTH MODIFICATION OF THE 1971-1972 PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

The City of Long Beach has requested approval of the Tenth Modification of the 1971-1972 Plan and Budget for the Long Beach Unit, to provide for an augmentation of \$370,000 in Budget Item III.A.2.b. (10) for the construction of produced water-handling facilities on Island Delta.

These facilities were provided for originally in the First Modification of the 1970-1971 Plan and Budget in July 1970. Construction is now in progress. This modification provides for an additional \$225,000 for the produced water-clarification plant and \$145,000 for the sand-media filter plant.

Division review of this Tenth Modification indicates that the project is necessary because: (1) the facilities are part of a field system that is required to generate oil revenue and (2) the processing of produced water for reinjection is an important part of the environmental protection plan of the Long Beach Unit.

The Division is concerned, however, with the circumstances that have necessitated this modification. The project has exceeded by nearly 50 percent the estimate of cost that originally was submitted to the Division and approved by the Commission, in this Budget item. The Field Contractor has reported the following reasons for this overexpenditure: (1) inflationary conditions during the 18-month delay since the original cost estimate was prepared; (2) added design costs due to the Field Contractor's use of outside engineering personnel; and (3) increased allocated overhead costs unrelated to the engineering design or construction. The Division believes the inflationary increases could have been minimized by more expedient action on the part of the Field Contractor. The other two reasons presented are directly controllable by the Field Contractor.

The Division's original recommendation to the Commission that these water-handling facilities be installed was based on an economic comparison with an alternate plan. Obviously, reconsideration of the alternative is not possible now, as the project is under construction.

By statute, the responsibility for protecting the State's economic interest in day-to-day design and construction operations of Long Beach Unit facilities rests with the Field Contractor, acting under the direction and control of the City of Long Beach. Economic control by the State does not extend to the design and construction phase of a project after it has been approved by the Commission and included in the Plan and Budget.

Although the Division cannot provide justification for this overexpenditure, it recognizes that these additional produced water-handling facilities are needed and that no other alternative exists. Interruption of this project short of completion would reduce future oil production and revenue from the

CALENDAR ITEM 14. (CONTD.)

Unit, and could result in potential ocean pollution if produced water were prevented from being processed for reinjection. Therefore, the Division recommends that the Commission approve this Tenth Modification.

After approval of this modification, the affected Budget Funds will be as follows:

<u>Acct. Code</u>	<u>Current Budget</u>	<u>This Modification</u>	<u>Adjusted Budget</u>
A. <u>Estimated Expenditures for Investment</u>			
2. <u>Field & Well Facilities</u>			
b. Gathering, Treating, Storage & Distribution 414 (10) Produced Water Handling	\$ 1,016,000	\$370,000	\$ 1,386,000
Total Gathering, Treat- ing, Storage & Distri- bution	1,802,500	370,000	2,172,500
Total Field & Well Facilities	4,484,000	370,000	4,854,000
Total Budget (excluding Contingency Fund)	45,089,000	370,000	45,459,000

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE TENTH MODIFICATION OF THE 1971-1972 PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT (JULY 1, 1971 THROUGH JUNE 30, 1972).