

14. PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1975, THROUGH JUNE 30, 1976, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

During consideration of Calendar Item 12 attached, Mr. W. M. Thompson, Manager, Long Beach Operations, explained to the Commission the proposed 1975-1976 Plan and Budget. His written statement is attached as Exhibit "A" and by reference made a part hereof.

Upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION:

1. DETERMINES THAT THE ACTIVITIES CONTEMPLATED BY THE "PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1975, THROUGH JUNE 30, 1976", FALL WITHIN THE SCOPE OF A PROJECT CARRIED OUT PURSUANT TO AGREEMENTS APPROVED BY THE COMMISSION BEFORE APRIL 5, 1973, AND ARE THEREFORE ONGOING PROJECTS WITHIN THE MEANING OF 14 CAL. ADM. CODE 15070(b)(3), AND DO NOT REQUIRE THE PREPARATION OF EITHER AN ENVIRONMENTAL IMPACT REPORT OR A NEGATIVE DECLARATION.
2. PURSUANT TO THE PROVISIONS OF SECTION 5, CHAPTER 138/1964, 1ST E.S., AND ARTICLE 4 OF THE LONG BEACH UNIT AGREEMENT, APPROVE THE "PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1975, THROUGH JUNE 30, 1976", AS ADOPTED BY THE CITY COUNCIL OF THE CITY OF LONG BEACH.

Attachments:

Exhibit "A" (5 pages)
Calendar Item 12 (2 pages)

12.

PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET,
LONG BEACH UNIT, JULY 1, 1975, THROUGH JUNE 30, 1976,
WILMINGTON OIL FIELD, LOS ANGELES COUNTY

In compliance with Section 5, Chapter 138/1964, 1st E.S., and Article 4 of the Long Beach Unit Agreement, the City of Long Beach has submitted the "Plan of Development and Operations and Budget, Long Beach Unit, July 1, 1975, through June 30, 1976" to the State Lands Commission for approval.

The proposed Plan provides for the drilling of 23 new producing wells, and for water injection and produced water handling facilities necessary to handle increasing rates of water production. This Plan is consistent with orderly development and continuation of necessary operation and maintenance.

In order to accomplish the proposed development and to manage, operate and maintain the various existing facilities, approval of Budget funds in the amount of \$67,602,000 is requested. The value of Long Beach Unit oil and gas production during the fiscal year is estimated to be about \$165 million which is \$97 million in excess of the budgeted expenditures. Of the total budget, \$9,839,000 is provided for capital investment, \$55,760,000 for expense, and \$2,003,000 for administrative overhead.

Investment funds include \$6,706,000 for drilling and development, and \$3,133,000 for field and well facilities. Expense categories are: Unit taxes and licenses \$13,630,000; operating expense \$37,497,000; general administrative expense \$4,168,000, and other expense \$465,000. In addition to the above budgeted funds, a budget contingency fund of \$250,000 is provided.

The proposed Budget of \$67,602,000 is \$5 million above the expected level of expenditures for the 1974-1975 fiscal year. Over \$1 million of this increase is in capital expenditures for field and well facilities. Increases in the expense portion of the budget are about \$4 million, principally the result of additional well maintenance, water handling costs, escalating electrical energy costs, increased fluid volumes, and the continuing inflationary trend.

The Division has worked closely with the City and the Field Contractor to develop this proposed Plan and Budget, and is of the opinion that it represents a reasonable estimate of the work to be accomplished and the necessary funding for the 1975-1976 fiscal year.

CALENDAR ITEM NO. 12. (CONTD)

The City Council of the City of Long Beach, at its meeting of March 11, 1975, adopted this proposed Plan of Development and Operations and Budget, and authorized its submittal to the State Lands Commission for consideration and approval.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT THE ACTIVITIES CONTEMPLATED BY THE "PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1975, THROUGH JUNE 30, 1976", FALL WITHIN THE SCOPE OF A PROJECT CARRIED OUT PURSUANT TO AGREEMENTS APPROVED BY THE COMMISSION BEFORE APRIL 5, 1973, AND ARE THEREFORE ONGOING PROJECTS WITHIN THE MEANING OF 14 CAL. ADM. CODE 15070(b)(3), AND DO NOT REQUIRE THE PREPARATION OF EITHER AN ENVIRONMENTAL IMPACT REPORT OR A NEGATIVE DECLARATION.
2. PURSUANT TO THE PROVISIONS OF SECTION 5, CHAPTER 138/1964, 1ST E.S., AND ARTICLE 4 OF THE LONG BEACH UNIT AGREEMENT, APPROVE THE "PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1975, THROUGH JUNE 30, 1976", AS ADOPTED BY THE CITY COUNCIL OF THE CITY OF LONG BEACH.

EXHIBIT "A"

THIS IS THE PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET FOR THE LONG BEACH UNIT FOR THE FISCAL YEAR 1975-1976 WHICH STARTS JULY 1, 1975.

IT IS COMPRISED OF THREE PARTS:

1. THE PLAN WHICH IS AN OUTLINE OF THE WORK ANTICIPATED TO BE DONE DURING THE FISCAL YEAR,
2. THE BUDGET, WHICH PROVIDES THE FUNDS FOR THE PROJECTS COVERED IN THE PLAN, AND
3. A PROCEDURE SECTION WHICH OUTLINES THE METHODS OF IMPLEMENTING THE PLAN AND BUDGET.

WE ARE RECOMMENDING YOUR ADOPTION OF THE PLAN AND A BUDGET OF 67.6 MILLION DOLLARS.

THE PROPOSED BUDGET IS APPROXIMATELY 6 MILLION DOLLARS OVER THE ANTICIPATED LEVEL OF EXPENDITURES FOR THE CURRENT FISCAL YEAR.

(SLIDE)

WE HAVE HERE A CHART SHOWING THE PAST AND PROPOSED FUTURE REVENUES AND EXPENDITURES FOR THE LONG BEACH UNIT. THE YELLOW AND ORANGE BARS REPRESENT THE COSTS, AND THE GREEN BARS REPRESENT THE NET REVENUE.

THE IMPACT OF THE SHARPLY ESCALATING INFLATIONARY TREND AND ADDED ENERGY COSTS STARTING AT THE END OF 1973 CAN BE SEEN IN THE EXPENDITURE LEVEL INCREASE OF OVER 30% BETWEEN LAST YEAR AND THIS.

IN THE CURRENT FISCAL YEAR WE ANTICIPATE A GROSS REVENUE OF 167 MILLION DOLLARS FROM ABOUT 39 MILLION BARRELS OF OIL PRODUCTION. WE ANTICIPATE THE EXPENDITURES TO BE APPROXIMATELY 62 MILLION DOLLARS, RESULTING IN A NET OF 105 MILLION DOLLARS.

FOR 1975-1976 WE ARE ESTIMATING A DROP IN GROSS REVENUE BY ABOUT 2 MILLION TO 165 MILLION. THIS DROP WILL BE DUE TO A DECLINE IN OIL PRODUCTION. WE HAVE ASSUMED THE CONTINUATION OF PRICE CONTROLS WITH THE UNIT OIL BRINGING \$4.18 PER BARREL.

WITH THE PROPOSED BUDGET EXPENDITURE OF APPROXIMATELY 68 MILLION DOLLARS, THIS WILL LEAVE A NET OF ABOUT 97 MILLION DOLLARS. AS YOU CAN SEE, THE RESULT OF INFLATION AND INCREASED ELECTRICAL ENERGY COSTS, COUPLED WITH FIXED OIL PRICES, WILL RESULT IN REDUCED NET REVENUE BY APPROXIMATELY 8 MILLION DOLLARS.

(SLIDE)

THIS IS A PLOT OF THE OIL PRODUCTION RATE IN THE LONG BEACH UNIT. AS YOU CAN SEE, THE LARGE EXPENDITURES FOR NEW WELLS, REDRILLS, STIMULATION AND SECONDARY RECOVERY HAVE RESULTED IN A FLATTENING OF THE DECLINE IN THE OIL RATE; HOWEVER, THE PROBLEM OF CONTINUING TO MAKE SUCH EXPENDITURES IN THE FACE OF FIXED OIL PRICES CREATES SERIOUS ECONOMIC PROBLEMS. THE CURRENT OIL RATE IS ABOUT 108,000 BARRELS PER DAY.

(SLIDE)

THIS GRAPH SHOWS THE TREND IN INCREASED VOLUMES OF WATER INJECTED AND WATER AND OIL PRODUCED, WHICH REQUIRE INCREASED EXPENDITURES.

(SLIDE)

THIS IS A PLOT OF THE NET REVENUE AS A PERCENTAGE OF GROSS REVENUE. THE UPPER GREEN BARS INDICATE FOR EACH FISCAL YEAR THE PERCENTAGE OF GROSS REVENUE BEFORE TAXES, AND THE RED BARS BELOW SHOW THE NET REVENUE AFTER TAXES. THE DOLLAR AMOUNT OF THE TAXES PAID IS EQUAL TO APPROXIMATELY 8% OF THE GROSS REVENUE OF THE LONG BEACH UNIT.

(CHART)

ON THIS LARGE CHART ARE SHOWN THE EXPENDITURES FOR TAXES IN THE LONG BEACH UNIT. IN THE CURRENT YEAR ALMOST 15 MILLION DOLLARS WILL BE PAID IN TAXES. THE 1975-1976 BUDGET CONTAINS A PROVISION OF 13.6 MILLION DOLLARS FOR TAXES, WHICH IS APPROXIMATELY 20% OF THE BUDGET.

WE MUST ALSO ALERT YOU THAT NEXT YEAR'S BUDGET MAY HAVE TO BE AUGMENTED SOMETIME IN THE FUTURE TO PROVIDE FUNDS FOR ADDITIONAL TAXES. THE CITY OF LONG BEACH IS CONSIDERING INCREASING ITS BUSINESS LICENSE TAX AND THE MINING RIGHTS AND PERSONAL PROPERTY AD VALOREM TAXES MAY BE HIGHER THAN ESTIMATED.

(SLIDE)

ANOTHER LARGE PORTION OF THE EXPENSE IN THE BUDGET IS FOR ELECTRICAL ENERGY. THIS SLIDE IS A PLOT OF THE POWER COSTS PER KILOWATT HOUR PAID BY LONG BEACH UNIT. AS YOU CAN SEE, THE COST FOR ELECTRICAL ENERGY HAS MORE THAN DOUBLED SINCE THE END OF 1973 AND IS STILL CONTINUING UPWARD DUE TO INFLATION AND INCREASED FUEL COSTS FOR THE UTILITIES.

(CHART)

ON THE LARGE CHART ARE SHOWN THE PAST ELECTRICAL ENERGY COSTS BY FISCAL YEAR AND THE ESTIMATE IN THE 1975-1976 BUDGET. AS YOU CAN SEE, OUR ANTICIPATED ELECTRICAL ENERGY COST OF 11.6 MILLION DOLLARS, WHICH COMPRISES OVER 17% OF THE BUDGET, IS ESTIMATED TO BE INCREASED 2.6 MILLION DOLLARS OVER THE CURRENT YEAR LEVEL.

(CHART)

THE NEXT LARGE CHART SHOWS OUR EXPENSES EXCLUDING TAXES FOR THE PAST AND OUR ESTIMATED 1975-1976 LEVEL. YOU WILL NOTE THERE IS AN ANTICIPATED INCREASE NEXT YEAR OVER THE CURRENT LEVEL OF APPROXIMATELY 5 MILLION DOLLARS.

THE PREVIOUS CHART SHOWED THE ELECTRICAL ENERGY INCREASE AS BEING APPROXIMATELY 2.6 MILLION DOLLARS AND THE BALANCE OF THE INCREASE IN EXPENSE IS DUE PRIMARILY TO INFLATION AND THE INCREASED VOLUMES OF WATER AND OIL PRODUCED AND WATER INJECTED.

(OVERLAY)

IF WE TAKE THE PLOT OF ENERGY COST PER KILOWATT HOURS AGAINST TIME WE SHOWED ON THE LAST SLIDE AND SUPERIMPOSE THAT OVER THE EXPENSE CHART, THE ORANGE POINTS, YOU CAN SEE HOW THE DRASTIC INCREASES STARTING AT THE END OF 1973 HAVE BEEN REFLECTED IN ADDITIONAL EXPENSES.

IN SUMMARY, WE ARE PROPOSING A 67.6 MILLION DOLLAR BUDGET WITH THE INVESTMENT PORTION BEING A LITTLE LESS THAN 10 MILLION DOLLARS OF WHICH 6.7 MILLION DOLLARS IS FOR NEW WELLS AND CONVERSIONS AND 3.1 MILLION DOLLARS IS FOR FIELD AND WELL FACILITIES.

55.8 MILLION DOLLARS IS PROPOSED FOR EXPENSE WHICH, AS WE POINTED OUT EARLIER, INCLUDES 13.6 MILLION DOLLARS FOR TAXES AND 11.6 MILLION DOLLARS FOR ELECTRICAL ENERGY.

THE BALANCE OF 30.6 MILLION DOLLARS IS FOR THE OPERATIONS INVOLVED IN LIFTING, TREATING, AND DEHYDRATING THE PRODUCED OIL, GAS AND WATER, INJECTION OF PRODUCED AND PURCHASED WATER, SALARY AND WAGES OF THE FIELD CONTRACTOR'S AND CITY OF LONG BEACH EMPLOYEES, OFFICE EXPENSES, AND ENVIRONMENTAL CONTROL.

IN ADDITION, THE CITY OF LONG BEACH AND THE FIELD CONTRACTOR, UNDER THE UNIT OPERATING AGREEMENT, ARE ALLOWED AS AN OVERHEAD ALLOWANCE 1% AND 3% RESPECTIVELY, OF THE EXPENDITURES EXCLUDING TAXES, LICENSES AND INJECTION WATER PURCHASE. THIS ADMINISTRATIVE OVERHEAD EXPENSE COST INCLUDED IN THIS BUDGET IS A LITTLE OVER 2 MILLION DOLLARS.

WE RECOMMEND APPROVAL OF THE 1975-1976 PLAN AND BUDGET. WE BELIEVE IT IS CONSISTENT WITH THE POLICY GUIDELINES YOU HAVE ESTABLISHED FOR THE DIVISION AND WILL ALLOW THE CONTINUED ORDERLY OPERATION OF THE LONG BEACH UNIT.