

MINUTE ITEM

This Calendar Item No. 25
was approved as Minute Item
No. 25 by the State Lands
Commission by a vote of 3
to 0 at its 11/30/77
meeting.

11/77
Thompson

25.
THIRD MODIFICATION OF THE 1977-1978 PLAN
OF DEVELOPMENT AND OPERATIONS AND BUDGET,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY

The Commission's staff, together with representatives of the City of Long Beach, have prepared the Third Modification of the 1977-1978 Plan of Development and Operations and Budget for the Long Beach Unit. This Third Modification revises the Economic Projections, Exhibits C-3 and C-4, in PART V of the subject Plan and Budget based on data available through September 1977, and provides for the redrilling of two additional Ranger Zone injection wells.

Total Unit oil and gas income for the 1977-1978 fiscal year is now estimated to be \$152,563,000. This is \$8,784,000 below the estimate reported to the Commission in July and is due to a revision in the anticipated oil production. The primary reason for this decline is that no oil wells were drilled or redrilled during a seven month period ending in August, 1977. This was caused by an extended strike against a drilling contractor and the need for water injection well repair when the drilling rigs were reactivated.

Estimated expenditures for the Unit remain unchanged at \$82,737,000. Actual expenditures for the year will be determined by an augmentation or transfer of funds necessary for increases in Los Angeles County and City of Long Beach ad valorem taxes, approximately \$5,000,000, and unexpended funds carried out for investment projects to be completed in the next fiscal year, approximately \$3,000,000 to \$4,000,000. The resulting net income for the Long Beach Unit during the 1977-1978 fiscal year is now estimated to be \$69,826,000.

There is still no resolution of the oil pricing dilemma in which the State finds itself. The Federal Department of Energy determines the ceiling price for domestic upper and lower tier oil. The refiners purchase tideland oil and maintain that they cannot pay ceiling prices because of the entitlements program administered by the same Federal Department of Energy. The refiners' actual cost for crude oil subject to price controls is the purchase price of the oil plus a penalty to run the oil, currently \$6.42/bbl for lower and \$0.68/bbl for upper tier oil. The refiners

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contend that, if ceiling prices were paid, the actual cost to them of over \$11/bbl for Wilmington crude would be higher, when adjusted for quality differences, than their actual cost of foreign or Alaska North Slope crude. This is because they receive a bonus, currently \$2.33, for every barrel of foreign or ANS crude that is run.

Appeals to the Department of Energy for relief from the inequity to California producers, when national average entitlement penalties are imposed, have produced no results to date. By year end it is estimated that the price received for Long Beach Unit oil will be 71 cents and 82 cents per barrel below allowable ceiling prices for lower and upper tier oil, respectively. This loss exceeds \$1.7 million per month. These fiscal estimates are for the entire Long Beach Unit. The major portion of the Long Beach Unit is within granted tidelands from which oil revenue is shared between the State and the City of Long Beach pursuant to Chapter 138, Statutes of 1964, 1st E.S.

The Economic Projections, Exhibits C-3 and C-4 shall continue to be reviewed quarterly by the Commission's staff and the City of Long Beach. Any necessary modification will be recommended to the Commission.

In addition to the revision of the Economic Projections, this Third Modification revises the Plan and Budget to provide for the redrilling of two Ranger Zone water injection wells, and for the transfer of the necessary funds, \$550,000, for such redrilling from PART III, A.1.a.(2) Ranger Zone to PART III, B.2.a.(7) Injection Wells-Redrills (Same Zone).

After approval of this Third Modification the affected Budget items will be adjusted as follows:

<u>PART III</u>	<u>CURRENT BUDGET</u>	<u>THIS MODIFICATION</u>	<u>CURRENT BUDGET</u>
A. <u>ESTIMATED EXPENDITURES FOR INVESTMENT</u>			
1. <u>DRILLING AND DEVELOPMENT</u>			
a. <u>Development Drilling</u>			
(2) Ranger Zone	\$7,940,000	(\$550,000)	\$7,390,000

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B. ESTIMATED EXPENDITURES
FOR EXPENSE

2. OPERATING EXPENSE

a. Wells

(7) Redrills \$ 890,000 \$550,000 \$1,440,000
(Same Zone)

The total approved Long Beach Unit Budget remains unchanged.

The Commission's staff has reviewed this proposed Third Modification and is of the opinion that the revised Economic Projections are reasonable and that the Budget transfer for redrilling two water injection wells is necessary in order to properly fund anticipated expenditures.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE THIRD MODIFICATION OF THE PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1977 THROUGH JUNE 30, 1978.

In accordance with PART IV.A.4.c. of the 1977-1978 Plan of Development for the Long Beach Unit, the following Plan Supplements for additional projects under \$100,000 have been approved by the Manager, Long Beach Operations, and are hereby reported to the Commission and incorporated in the Plan. These Plan Supplements do not require action by the Commission.

Plan Supplement

- No. 3 Install a drillable bridge plug in well C-609 above the 237 Zone, perforate the Union Pacific-Ford Zone and return the well to production. The estimated cost is \$64,500.
- No. 4 Incur costs for expert testimony, legal representation and other expenses for the preparation and presentation of appeals on behalf of all Participants requesting such appeals of the 1977 Los Angeles County assessment of the Participants participation shares of the Long Beach Unit. The cost will be limited to \$50,000 unless additional Voting Party approvals are obtained.