

This Calendar Item No. 27
was approved as Minute Item
No. 27 by the State Lands
Commission by a vote of 2
0 at its 4-27-78
meeting.

MINUTE ITEM

4/78
Thompson

27. PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, 1978-1979,
LONG BEACH UNIT, WILLINGTON OIL FIELD, LOS ANGELES
COUNTY.

During consideration of Calendar Item 27 attached,
Mr. W. M. Thompson, Chief, Extractive Development, Long
Beach Operations, reported on this item.

He stated that because the staff does not know the impact
of Propositions 8 and 13 which are on the June 6, 1978 ballot,
the proposed budget does not contain mining rights property
taxes and therefore is not a true budget.

In addition, he stated this budget is a full development-type
budget based on receiving oil prices which are commensurate
with the risk and economic returns. He pointed out that
the staff is depending on prospective actions by the Department
of Energy and the oil purchasers in its recommendation.

Acting Chairman Sid McCausland stated that the Commission
has invested a substantial amount of money in the field
during the last year for the purpose of maintaining production
capability. He asked the staff to advise him how those
expenditures have progressed and whether or not they continue
to be sound economic decisions due to the fact that the
Commission has not received an affirmative response to
its request for major changes in the price for its oil.
Mr. Thompson stated, like other producers in the United
States, the Commission's staff tends to orient its money-spending
towards maximizing the production of higher priced upper
tier oil since the risk is less and the return is greater.
Therefore, of the money available to it the staff gives
highest priority to spending on upper tier development,
stimulation and production acceleration.

Mr. McCausland asked if the staff is monitoring any deterioration
of its ability to extract oil from those lower tier reservoirs.
Mr. Thompson stated if the present oil pricing trend continues,
the State will lose recovery because oil recovery is definitely
tied into oil pricing.

Mr. McCausland also asked if the staff is envisioning a
situation in which the State might actually want to close
down production to a substantial degree in the lower tier
portions of the fields. Mr. Thompson stated if the State

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does not receive crude oil price increases, it will have to make value judgements every time money is spent on lower tier production.

Other questions were asked about the treatment techniques and their cost effectiveness.

Mr. Carl D'Agostino asked what the additional 83 cents per barrel, if ceiling prices were paid, does for the State. Mr. Thompson explained that it actually keeps the State in business because the Commission is looking at the net profits side and operating costs of a lower tier well are from 50 to 100 percent of the price part of the oil.

Upon motion duly made and carried, the resolution as presented in Calendar Item 27 was adopted by a vote of 2-0.

Attachment: Calendar Item 27 (3 pages)

PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET,
1978-1979, LONG BEACH UNIT
WILMINGTON OIL FIELD, LOS ANGELES COUNTY

In compliance with Section 5, Chapter 138, Statutes of 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, 1978, through June 30, 1979, to the State Lands Commission for approval.

The proposed Plan provides for continued development of the Long Beach Unit and the continuing operation and maintenance of facilities. In order to accomplish the proposed development and to manage, operate and maintain the various existing Unit facilities, a Budget totaling \$74,383,000 has been prepared. The budget provides \$11,168,000 for capital investment, \$60,520,000 for expense, and \$2,695,000 for administrative overhead.

Investment funding includes \$10,000,000 to drill 29 new wells and \$791,000 for field and well facilities. It is planned to maintain a 4 drilling rig level of drilling activity for new wells, redrills and workovers. Expense Budget Divisions are: Operating Expense, \$51,956,000; General Administrative Expense, \$5,175,000; and Other Expense, \$739,000. Only \$2,650,000 has been budgeted for Unit Taxes and Licenses. Although it is planned to pay all taxes when due, no funds have been provided at this time for Los Angeles county mining rights taxes and secured personal property taxes, because of present unknowns. These unknown factors include current assessment practices of the Los Angeles County Assessor's office that are used for determination of the fair market value of the Unit, the assessed valuation, tax rates of the various taxing agencies and the overall impact of the prevailing tax measure, Proposition 8 or Proposition 13, which is expected to be decided in the June 6, 1978 election. Funds are provided for unsecured property taxes payable in August 1978. After the full amount of the taxes are known and before they are paid in December 1978 and April 1979, a budget modification will be presented to the Commission for approval.

The Economic Projections, Exhibits C-3 and C-4, show estimated crude oil production of 26.2 million barrels. The range of potential oil prices and income result in a range of

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Unit net income from \$74,903,000 to \$100,634,000, before allowance for payment of additional county mining rights and personal property taxes. Any changes in actual prices paid for Unit crude oil in the future will be reflected in revised economic projections that will be submitted to the Commission.

Almost 80% of Long Beach Unit crude oil is classified as lower tier crude oil under federal Department of Energy (DOE) regulations. The DOE, in September, 1977, resumed monthly increases in the ceiling price for lower tier oil, at a rate of approximately 6% a year. Congressional action in February, 1976 was intended to increase ceiling prices on upper and lower tier oil within the composite price. This was to allow the producer to receive the February, 1976 oil price, plus inflation, in order to maintain a February, 1976 constant dollar position.

The DOE has not provided for inflation back to February, 1976. Also, the current 6% per year rate of adjustment is only an index rate and is not large enough to maintain crude prices in February, 1976, constant dollars. There is sufficient latitude for price expansion within the mandated composite price to accomplish the necessary adjustment, as the current domestic composite price is 80 cents or 9% below the allowable composite price.

Compounding the problem of inadequate ceiling price escalation are the inequities within the DOE's entitlements program. These inequities result in actual prices paid for lower tier oil that are more than 18% below the allowable ceiling prices. If the current pattern of DOE monthly lower tier price increases continue, the ceiling price in July, 1978 and June, 1979 will be \$0.83 and \$1.16 respectively, above prices currently being received. The Commission and its staff are working in conjunction with the Governor's Office and the California Congressional delegation to eliminate this pricing inequity, in order to maximize oil recovery from the granted tidelands and protect the State's economic interest in those tidelands.

From information gathered at a hearing in Huntington Beach on March 30-31, 1978, it is anticipated that the DOE will, in the immediate future, make rule changes that will result in a short term correction of the entitlements bias. Longer range solutions, based on other proposals presented at that hearing also can be expected.

The Commission's Staff, under the assumption that current inequities created by federal action will be rescinded,

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has followed that guideline in working with representatives of the City of Long Beach during the preparation of this 1978-1979 Plan and Budget. Based on the above condition, the staff has determined that each planned project in necessary and that the budget provided represents a reasonable estimate of the cost. During the preparation of the 1978-1979 budget, the Commission's Staff requested a reduction in the Field Contractor's staff to be consistent with the declining need for additional personnel for facilities planning and engineering. As a result, the number of Field Contractor authorized positions has been reduced from 307 to 296.

The City Council of the City of Long Beach, at its meeting of March 21, 1978, adopted this proposed Plan of Development and Operations and Budget and authorized its submittal to the State Lands Commission for consideration and approval. This plan and budget contain projects and funding whose economic justification and risk reduction to acceptable levels are based on anticipated actions by the Federal Department of Energy followed by receipt of upper and lower tier ceiling prices from the purchasers of Long Beach Unit oil. Since both of these actions are prospective --

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, 1978 THROUGH JUNE 30, 1979" ARE PLANNED TO BE 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 EIR OR A NEGATIVE DECLARATION.
2. PURSUANT TO THE PROVISIONS OF SECTION 5, CHAPTER 138, STATUTES OF 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, 1978, THROUGH JUNE 30, 1979."
3. REVIEW WITH THE CITY OF LONG BEACH AT THE COMMISSION'S JUNE 1978 MEETING THE THEN CURRENT CRUDE OIL PRICING AND THE INTERRELATIONSHIP WITH THE 1978-1979 EXPENDITURES IN THE LONG BEACH UNIT.