

MINUTE ITEM

This Calendar Item No. 35
was approved as Minute Item
No. 35 by the State Lands
Commission by a vote of 2
to 1 at its 4-2-81
meeting.

CALENDAR ITEM

35

4/81
Thompson

APPROVAL OF THE 1981-1982 PLAN OF DEVELOPMENT
AND OPERATIONS AND BUDGET, 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, 1981, through June 30, 1982, to the State Lands Commission for approval.

The proposed Plan provides for continued development of the Long Beach Unit and the orderly operation and maintenance of necessary facilities. In order to accomplish the proposed development and to manage, operate and maintain the various existing facilities, a Budget totalling \$181,142,000 has been proposed. The Budget provides \$47,983,000 for capital investment, \$126,847,000 for expense and \$6,312,000 for administrative overhead.

Investment funding includes \$32,235,000 to drill 59 new wells, \$2,285,000 for other well work and \$13,463,000 for field and well facilities. Investment for facilities includes \$9,563,000 for new well cellar construction. The remaining \$3,900,000 in funding is distributed to pumps, vessels, pipelines, and electrical, drilling and production equipment.

Expense funding provides \$104,036,000 for operating, \$7,559,000 for administrative and \$952,000 for other expense. \$14,300,000 is provided for taxes, licenses and assessments.

Exhibits C-1 through C-4 of the Plan and Budget are estimates of production and injection rates and economic projections prepared by the City of Long Beach. It was not possible to submit a joint projection because of the differences between City and State estimates of future fluid volumes. A comparison of estimated fluid volumes for the fiscal year is shown on Attachment "A". The State Lands Commission staff believes its estimates are realistic, based on past performance, and that the City's estimates are worthwhile goals, to be achieved if possible.

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Based on the economic projections, Exhibits C-3 and C-4 in the proposed budget, oil and gas income for the Unit is estimated to be 660 million dollars. The estimate of net revenue, after deduction of proposed budget expenditures and without consideration of windfall profits tax, is 480 million dollars.

The 1981-1982 Budget that is submitted by the City for Commission approval is essentially the same as the preliminary estimates prepared by the Field Contractor.

The principal elements of the budget are approximately as follows:

	<u>Funds</u> <u>(\$ Million)</u>	<u>% of Budget</u>
Drilling operations	54	20
Electrical energy	33	18
Personnel expense	21	12
Well maintenance	19	11
Taxes	14	8
New facilities	14	8

The drilling expenditures are intended to reduce the rate of oil decline and increase the ultimate oil recovery. The Plan provides for the drilling of an estimated 59 new wells and the potential redrilling of 26 existing wells. The actual drilling rig activity between new wells and redrilling may vary by the end of the fiscal year. Funds are provided for 8½ rig-years of activity. The fractional rig year was provided because of the anticipated time of delivery of one of the two new drilling rigs purchased under the current fiscal year Budget. There are indications of earlier delivery for both new rigs. If additional drilling funds are required, the matter will be brought back to the Commission at the appropriate time.

The funds for electrical energy are primarily for the purpose of lifting to the surface almost 190,000,000 barrels of oil and water, and for the injection of a comparable volume of water as a part of the pressure maintenance program.

The proposed expenditures for personnel are for 524 employees of the Field Contractor. A schedule of the number of such employees and their salaries and benefits must be approved

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by the Long Beach City Manager. He is required to give due regard to the requirements of good oil field engineering and operating practices and the compensation and other benefits normally allowed to comparable employees by the Field Contractor and by other responsible Persons engaged in comparable oil field operations. The selection of employees used by the Field Contractor in conducting operations, their hours of labor, their conditions of employment, and their supervision is the responsibility of the Field Contractor.

The proposed well maintenance expenditure for subsurface pump changes, tubing and electrical cable replacement, well stimulation and workover of the more than 800 existing wells in the Unit is approximately \$19,000,000. This includes an estimated 500 well pulling jobs.

The taxes, estimated at \$14,300,000 are primarily for mining rights taxes levied by the Los Angeles County. Actual amounts of taxes will not be known until November 1981. The proposed funding is at the 1980-81 level. If additional funds are required, the matter will be brought back to the Commission at the appropriate time.

The major portion of the \$14 million in funds for new facilities is for construction of 160 additional well locations with associated piping on Island White.

Our review of the funding provided in this budget indicates there is adequate funding and potentially a surplus of up to \$5 million in Operating Expense. This is based primarily on the Commission staff's lower estimate of future electrical energy unit cost and lower volumes of fluid to be handled. Whether there are surplus funds can be evaluated throughout the year by reviewing the actual fluid volumes produced and injected and energy rate increases. Since these funds cannot be transferred and used elsewhere without approval of the Commission or its staff, revision of this Budget is not necessary at this time.

Surplus funds normally may be transferred from one Budget item to another within the same Budget Category by the Director of the Department of Oil Properties, City of Long Beach with the written approval of the Chief or Deputy Chief, Long Beach Operations, State Lands Commission. However, if surplus funds become available in the predominantly electrical energy Budget item accounts, numbers 911, 914, 915 and 925, the Commission staff does not intend to approve transfers from these Budget items without specific direction from the Commission.

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Currently there are 6 Unit owned drilling rigs and two contract drilling rigs in operation. The two drilling rigs that were approved by the Commission in December 1980 for delivery in 1982 possibly may be delivered earlier. Reservoir engineering studies, currently in progress and expected to be completed in the third or fourth quarter of 1981, should provide resolution to the question of the total number of drilling rigs that will be required to complete the timely development of the Long Beach Unit.

The City Council of the City of Long Beach, at its meeting of March 17, 1981, adopted this proposed Plan of Development and Operations and Budget, and authorized its submittal to the State Lands Commission for consideration and approval. The Plan and Budget was submitted to the State by the City on March 17, 1981.

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, 1981 THROUGH JUNE 30, 1982" 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 15076(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, 1981, THROUGH JUNE 30, 1982."

ATTACHMENT "A"

	<u>3rd Quarter 1981</u>	<u>4th Quarter 1981</u>	<u>1st Quarter 1982</u>	<u>2nd Quarter 1982</u>
Estimated Oil Production - B/D				
City	62,900	63,700	64,700	64,300
THUMS	63,000	66,000	69,000	70,000
State	63,000	62,700	62,400	62,100
Estimated Water Production - B/D				
City	427,000	441,000	467,000	480,000
THUMS	417,000	436,000	453,000	459,000
State	418,000	423,000	428,000	432,000
Estimated Water Injection - B/D				
City	511,000	523,000	550,000	559,000
THUMS	508,000	527,000	544,000	550,000
State	501,000	505,000	510,000	514,000