

MINUTE ITEM

This Calendar Item No. 24
was approved as Minute Item
No. 24 by the State Lands
Commission by a vote of 2
to 1 at its 3/6/86
meeting.

CALENDAR ITEM:

A)
) Statewide
S)

24

02/27/86
W 5077
Pace

ACTUAL REVENUES FOR THE
FIRST SIX MONTHS OF 1985-86
AND REVENUE ESTIMATES FOR
1985-86, 1986-87, 1987-88

Supplemental language to the 1981-82 Budget for the State of California affects Item 232, giving the following directive to the State Lands Commission:

"The State Lands Commission shall report semiannually to the Legislature and the Governor on its actual revenue during the past fiscal year; revenue to date in the current year, and estimated revenue in each of the next two years. For each major oil, gas or geothermal property or producing zone, the reports shall include production levels; prices; costs, taxes or payments deductible from gross revenue; and the percentage of net profits or royalty to the State. The report shall state important assumptions and discuss any factors which may significantly affect revenue for the next five years."

In compliance with this directive, the staff has prepared a report for these years as shown on the attached Exhibit "A".

AB 884: N/A.

EXHIBIT: A. Revenue Detail - Actual and Forecast

IT IS RECOMMENDED THAT THE COMMISSION:

1. APPROVE THE REPORT COVERING ACTUAL REVENUES FOR THE SIX MONTHS OF 1985-86, AND THE ESTIMATES FOR FUTURE YEARS, AND AUTHORIZE ITS PRESENTATION FOR THE STATE LANDS COMMISSION REVENUE REPORT TO THE STATE LEGISLATURE AND THE GOVERNOR.

EXHIBIT "A"

ESTIMATED REVENUE

	<u>Actual Revenue</u> <u>July-Dec 1985-86 FY</u>	<u>Est. Revenue</u> <u>1985-86 FY</u>	<u>Est. Revenue</u> <u>1986-87 FY</u>	<u>Est. Revenue</u> <u>1987-88 FY</u>
<u>Oil and Gas</u>				
Statewide	46,161,551	80,000,000	45,000,000	40,000,000
L.B. Operations Ch. 138/64	206,472,096	345,000,000	140,000,000	120,000,000
Total (Subject to Section 6217 PRC)	252,633,647	425,000,000	185,000,000	160,000,000
<u>Geothermal</u> (General Fund)	6,262,067	11,300,000	7,000,000	6,000,000

The revenue estimates are based on extrapolated oil, gas and geothermal steam production rates, prices and operating costs. Applicable royalty percentages are adjusted for projected production rates. For net profits sharing contracts, expenditures are included for anticipated investment projects, increases in fluid production and injection rates and the level of support activity.

Major assumptions are:

1. That crude oil prices used in the revenue forecast are adjusted from a base price of \$13 per bbl. for 18° API Wilmington Field crude and a \$0.15 per barrel gravity differential. There is a real potential of even lower crude prices during the 1986-87 year and a possibility of higher crude prices in 1987-88. The uncertainty in crude oil and petroleum product prices generates a low confidence factor in the revenue forecast.
2. That retroactive payback adjustments resulting from Seventh Interim Equity Area Assignments will be prolonged because of lower crude prices.
3. That the production decline on other oil and gas leases will be controlled by oil pricing with continued drilling approved by the Commission.
4. That electrical-generating prices utilizing geothermal steam will decline under the steam sales provisions due to declining fossil fuel prices and to a greater share of PG&E's power being generated with nuclear fuel.
5. That gas prices will continue to decline in competition with lower fuel oil prices.

6. That only bonuses over posted price on the sale of royalty oil to the highest bidder on existing contracts are included in revenue estimates.
7. Long Beach Operations revenues do not reflect a potential \$60 million expenditure for electrical cogeneration facilities in 1986-87. A third party financing arrangement may be considered.

The factors that could have the most significant impact on revenue in the next five years would be:

- A. Changes in future oil, gas and geothermal steam prices and the relationship between oil prices and costs in the Long Beach net profits contracts.
- B. Coal Oil Point Development, PRC 308-309, PRC 3242 and PRC 3120, being placed on production. This is presently projected to be in 1989 because permitting of the project is being delayed by State and local agencies.
- C. Development plans being completed for PRC 2879, Cojo Field, and the project being placed on production. Delays in the permitting process by State and local agencies have pushed production back to, at least 1989.
- D. Development plans being completed for the Hercules Project, PRC 2920, and the project being placed on production. Delays in permitting by State and local agencies will delay production until at least 1989.
- E. Leasing of quit-claim parcels, Santa Barbara County offshore, and successful exploration on those leases.
- F. Reduction in oil or gas production rates, sliding scale royalty rates or net profit payments from offshore Santa Barbara County leases. Actions by the board of Supervisors, Santa Barbara County Air Pollution Control District or Coastal Commission, which would place a production limit in the area could result in proration of production and State royalty percentage reduction.
- G. Oil and gas exploration and development on Statewide leased lands which currently are not producing.
- H. The leasing of State Tidelands from Point Conception to Point Arguello with attendant bonuses, successful exploration and discoveries, and development of known resources resulting from offsetting discoveries on the federal OCS. This will be successful only if a jurisdictional dispute with the Coastal Commission is resolved.

- I. The leasing of State Tidelands from Point Arguello to Point Sal with attendant bonuses, successful exploration and discoveries. It is unlikely that these lands will be leased before the 1990's.
- J. Leasing and development of Statewide lands with geothermal potential in 1989-90.
- K. Additional geothermal electrical generating plants coming on line utilizing State steam.
- L. Resolution of the Elk Hills indemnity problems so that royalties from either the Elk Hills parcels themselves or parcels acquired in lieu thereof are received by the State.
- M. Contract renewal in 1989 for Long Beach Tidelands Prior Development Parcel and Parcel "A".
- N. Settlement of approximately \$30 million in the contested Windfall Profit Tax Case. The State and City of Long Beach have won in the Federal District Court but the decision will likely be appealed.