

MINUTE ITEM

This Calendar Item No. 29
was approved as Minute Item
No. 29 by the State Lands
Commission by a vote of 2
to 0 at its 8/25/86
meeting.

CALENDAR ITEM

29

08/28/86
W 5077
Pace

A)
) Statewide
S)

ACTUAL REVENUES FOR THE FISCAL YEAR 1985-86
AND REVENUE FOR 1986-87 AND 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 revenues 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 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 FISCAL YEAR 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.

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EXHIBIT "A"

ESTIMATED REVENUE

	<u>Actual 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	80,486,323	25,000,000	25,000,000
L.B. Operations Ch. 138/64	344,894,787	57,000,000	64,000,000
Total (Subject to Section 6217 PRC)	425,381,110	82,000,000	89,000,000
<u>Geothermal</u>			
(General Fund)	11,158,821	8,300,000	5,700,000

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, fluid production and injection rates and level of support activity.

Major assumptions are:

1. That crude oil prices used in the remainder of the 1986/87 fiscal year revenue forecast are adjusted from a current posted price of \$8.10 per bbl. for 17° API crude, except for Elwood Field crude where the posting for 21° crude is \$5.75, and a \$0.15 per barrel gravity differential. For 1987/88, the crude prices used in the February, 1986 estimates of \$13 per barrel have been reduced to \$10 and \$7 per barrel. There are indications that crude prices may be stabilizing. If crude prices were to increase in late 1986 or during 1987, these revenue estimates, especially for 1987-88, would be too conservative. However, the longer the current depressed price continues, the greater the impact will be on long term revenue. The impact will be caused by the shutting in of uneconomic and highcut production, abandonments and deferment of well workovers and development drilling. The uncertainty in crude oil and petroleum product prices creates a low confidence factor in the revenue forecast.

2. That the expenditure level in the Long Beach Unit will be reduced from \$152 million to \$138 million through reduced activity and more selective projects.
3. That retroactive payback adjustments resulting from the Seventh Interim Area Assignment will be prolonged because of lower crude prices.
4. That revenue on oil and gas leases will be lower due to the lower oil prices.
5. 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.
6. That gas prices will continue to decline in competition with lower fuel oil prices.
7. That projected revenue from the sale of royalty oil to the highest bidder includes bonuses over the posted price only on existing contracts.
8. Long Beach Operations revenues do not reflect a potential \$30 million expenditure for electrical cogeneration facilities in 1987-88. 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 occur in 1990-91.
- C. Development plans being completed for PRC 2879, Cojo Field, and the project being placed on production. Delays have pushed production back to at least 1990-91.
- D. Development plans being completed for the Hercules Project, PRC 2920, and the project being placed on production. Production will be delayed until at least 1991.
- E. The leasing of quit-claim parcels in offshore Santa Barbara County, and the successful exploration on those leases.

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- F. A reduction in oil or gas production rates, sliding scale royalty rates or net profit payments from offshore Santa Barbara County leases. Actions by the Santa Barbara County Board of Supervisors, and Air Pollution Control District or the California Coastal Commission, which would place a production limit in the area resulting in the proration of production and result in a significant reduction in present State royalty revenue.
- 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 mid 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 has been appealed.