

MINUTE ITEM

This Calendar Item No. C83 was approved as Minute Item No. 83 by the State Lands Commission by a vote of 3 to 0 at its 02/12/97 meeting.

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C83

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02/12/97

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**CONSIDER APPROVAL OF THE FIRST MODIFICATION OF THE 1996-97
PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET,
PROPOSING INCREASED EXPENDITURES,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

BACKGROUND:

The City of Long Beach (City) has submitted for State Lands Commission (Commission) approval, the First Modification of the 1996-97 Plan of Development and Operations and Budget, Long Beach Unit, covering the period July 1, 1996 through June 30, 1997, proposing to increase expenditures by \$20,350,000 (+13.5%). This will increase the previously approved expense budget from \$150,550,000 to \$170,900,000. The modification will prevent a disruption in field operations which would otherwise result from an expected depletion of funds during Fiscal Year 1996-97.

Higher than anticipated Oil Prices (currently \$19.85/bbl vs. \$12.75/bbl) have prompted an increase in field activity and spending levels. An increase in drilling activity with higher oil prices will increase State revenue. Unanticipated tax increases and regulatory fees have also been incurred. Additional funds are requested due to a 25 percent increase in drilling activity, a higher number of deep wells being drilled, increased non-rig well work activity, increased facility maintenance activity, a significantly higher Los Angeles County Mining Rights Tax Assessment, as well as an assessment for the "California Oil Spill Prevention and Administration Fee."

A summary of the proposed Budget changes and the distribution to the five Budget Categories is contained in the attached Exhibit "A".

PERMIT STREAMLINING ACT DEADLINE:

N/A

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OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14 California Code of Regulations, Section 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

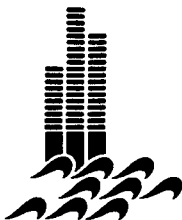
Authority: Public Resources Code Section 21065 and Title 14
California Code of Regulations, section 15378.

EXHIBIT:

- A. Request for Approval of the First Modification of the Annual Plan, Long Beach Unit, (July 1, 1996 through June 30, 1997) received from the City of Long Beach, Department of Oil Properties.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14 CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14 CALIFORNIA CODE OF REGULATIONS, SECTION 15378.
2. APPROVE THE FIRST MODIFICATION OF THE PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, PROPOSING INCREASED EXPENDITURES, LONG BEACH UNIT, FOR THE PERIOD JULY 1, 1996 THROUGH JUNE 30, 1997.



CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (310) 570-3900 • FAX 570-3922

January 21, 1997

Mr. P. B. Mount II, Chief
 Division of Mineral Resources Management
 State Lands Commission
 200 Oceangate, 12th Floor
 Long Beach, California 90802

Subject: **REQUEST FOR APPROVAL OF THE FIRST MODIFICATION OF THE ANNUAL PLAN, LONG BEACH UNIT (JULY 1, 1996 THROUGH JUNE 30, 1997)**

Dear Mr. Mount:

In accordance with the provision of Part IV, Section B, of the Annual Plan, we are submitting for your approval this First Modification of the Annual Plan covering the period July 1, 1996 through June 30, 1997.

This modification is required for expenditures to Plan Categories expected to exceed 120% of the approved budget. Although only two Plan Categories are expected to exceed 120% of budget, this modification will augment funding in each of the five Plan Categories to anticipated expenditure levels for the Plan period.

This request includes revised Economic Projections and Major Planning Assumptions tables. An analysis of significant changes to the Plan is presented below.

SUMMARY

<u>Plan Category</u>	<u>1996-1997 Plan Amounts</u>		
	<u>Original</u>	<u>Augmen- tation</u>	<u>Revised</u>
Development Drilling	\$22,445,000	\$8,555,000	\$31,000,000
Operating Expense	\$50,106,000	\$4,694,000	\$54,800,000
Other Plant	\$30,378,000	\$1,722,000	\$32,100,000
Unit Field Labor and Administrative	\$33,601,000	\$199,000	\$33,800,000
Taxes, Permits, and Admin. Overhead	\$14,020,000	\$5,180,000	\$19,200,000
Total	\$150,550,000	\$20,350,000	\$170,900,000

Because of higher 1st and 2nd quarter oil prices, and assuming 3rd and 4th quarter oil prices at the level originally budgeted, it is expected that net profit will increase by over 26%, from the original budget of \$58.5 million to \$73.7 million.

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DEVELOPMENT DRILLING

Expenditures in this Plan Category are expected to exceed budget by approximately 38%. The anticipated spending level is a result of a 25% increase in drilling activity (from 40 to 50 wells), and a higher percentage of deeper, more expensive UP/Ford zone wells. This will be accomplished by operating two rigs for four months during the Plan period, and then scaling back to one rig for the remaining months.

OPERATING EXPENSE

Expenditures in the Plan Category are expected to exceed budget by approximately 9%. The anticipated spending level is a result of an increase in wellwork, and a decrease in electrical costs due to a rate reduction by the electric company.

OTHER PLANT

Expenditures in this Plan Category are expected to exceed budgeted amounts by approximately 6%. The higher spending level is a result of increased maintenance activity.

UNIT FIELD LABOR AND ADMINISTRATIVE

There are no significant changes to this Plan Category. We anticipate that expenditures in this Plan Category will exceed budget by less than 1%.

TAXES, PERMITS, AND ADMINISTRATIVE OVERHEAD

Expenditures in this Plan Category are expected to exceed budget by approximately 37%. The increased spending level is a result of a significantly higher tax assessment by the Los Angeles County Tax Assessor for Mining Rights and Improvements and Personal Property Taxes. The increased assessment has been appealed.

Additionally, unanticipated costs for the State of California's "California Oil Spill Prevention and Administration Fee" are being paid. Work is underway to determine if this fee is applicable to the Long Beach Unit operations.

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Mr. P. B. Mount II
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The City of Long Beach, as Unit Operator of the Long Beach Unit, approves this proposed Modification. In accordance with Section 5 of Chapter 138, 1964 First Extraordinary Session, and Article 2.06 of the Optimized Waterflood Program Agreement, your approval of this proposed Modification is requested.

Very truly yours,



Xenophon C. Colazas
Director

XCC:slg

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B. Economic Projections

(Data in Thousands of Dollars)

	ACTUAL FIRST QUARTER FY96/97	BUDGET FIRST QUARTER FY96/97	ACTUAL SECOND QUARTER FY96/97	BUDGET SECOND QUARTER FY96/97	LATEST EST. THIRD QUARTER FY96/97	BUDGET THIRD QUARTER FY96/97	LATEST EST. FOURTH QUARTER FY96/97	BUDGET FOURTH QUARTER FY96/97	LATEST EST. TOTAL FISCAL YEAR FY96/97	ORIGINAL TOTAL BUDGET FY96/97	LATEST EST. Over/(Under) Expenditure Percent
ESTIMATED REVENUE											
Oil Revenue	\$64,762	\$51,026	\$72,314	\$50,604	\$49,396	\$50,121	\$51,821	\$51,421	\$238,292	\$203,172	17.29%
Gas Revenue	1,497	\$1,471	\$1,935	\$1,459	\$1,424	\$1,445	\$1,494	\$1,482	\$6,350	\$5,856	8.43%
TOTAL REVENUE	\$66,259	\$52,496	\$74,249	\$52,063	\$50,820	\$51,565	\$53,314	\$52,903	\$244,642	\$209,028	17.04%
ESTIMATED EXPENDITURES											
Development Drilling	\$5,312	\$5,084	\$4,788	\$5,084	\$13,150	\$6,126	\$7,750	\$6,151	\$31,000	\$22,445	38.12%
Operating Expense	16,552	14,135	13,995	11,430	12,126	11,364	12,126	13,178	\$54,800	\$50,106	9.37%
Other Plant	7,826	8,161	7,549	7,671	8,363	7,551	8,363	6,996	\$32,100	\$30,378	5.67%
Unit Field Labor & Administrative	8,471	8,472	7,681	8,472	8,824	8,472	8,824	8,184	\$33,800	\$33,601	0.59%
Taxes, Permits & Admin Overhead	5,340	3,648	4,347	3,393	4,756	3,488	4,756	3,493	\$19,200	\$14,020	36.95%
TOTAL EXPENDITURES	\$43,502	\$39,499	\$38,359	\$36,049	\$47,220	\$37,000	\$41,820	\$38,002	\$170,900	\$150,550	13.52%
NET PROFIT	\$22,757	\$12,997	\$35,890	\$16,014	\$3,601	\$14,565	\$11,495	\$14,902	\$73,742	\$58,477	26.10%

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C. Major Planning Assumptions

(Data in Thousands of Dollars)

	ACTUAL FIRST QUARTER FY96/97	BUDGET FIRST QUARTER FY96/97	ACTUAL SECOND QUARTER FY96/97	BUDGET SECOND QUARTER FY96/97	LATEST EST. THIRD QUARTER FY96/97	BUDGET THIRD QUARTER FY96/97	LATEST EST. FOURTH QUARTER FY96/97	BUDGET FOURTH QUARTER FY96/97	LATEST EST. TOTAL FISCAL YEAR FY96/97	ORIGINAL TOTAL BUDGET FY96/97	LATEST EST. Over/(Under) Expenditure Percent
OIL											
ACTUAL SHIPPED (1,000 BBL)	3,947		3,861								
PRODUCED (1,000 BBL)	3,948	4,002	3,853	3,969	3,874	3,931	4,020	4,033	15,695	15,935	
(B/D)	42,912	43,500	41,876	43,141	43,047	43,678	44,178	44,319	43,000	43,658	-1.51%
GAS											
ACTUAL SHIPPED (1,000 MCF)	763		800								
PRODUCED (1,000 MCF)	808	840	804	833	814	826	844	847	3,270	3,346	
(MCF/D)	8,784	9,135	8,737	9,060	9,040	9,172	9,277	9,307	8,958	9,168	-2.29%
WATER PRODUCTION											
(1,000 BBL)	48,851	54,298	47,458	54,689	51,405	53,943	52,735	55,186	200,449	218,117	
(B/D)	530,986	590,201	515,852	594,442	571,164	599,372	579,504	606,444	549,175	597,581	-8.10%
WATER INJECTION											
(1,000 BBL)	58,722	64,342	55,872	64,949	60,289	63,971	61,880	65,338	236,763	258,600	
(B/D)	638,285	699,372	607,305	705,970	669,875	710,786	679,997	718,002	648,665	708,494	-8.44%
OIL PRICE (\$/BBL)	\$16.41	\$12.75	\$18.73	\$12.75	\$12.75	\$12.75	\$12.75	\$12.75	\$15.18	\$12.75	19.08%
GAS PRICE (\$/MCF)	\$1.96	\$1.75	\$2.42	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75	\$1.94	\$1.75	10.97%

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