

**MINUTE ITEM**

This Calendar Item No. C80 was approved as Minute Item No. 80 by the California State Lands Commission by a vote of 3 to 0 at its 5/12/97 meeting.

**CALENDAR ITEM  
C80**

A 57, 58  
S 29

05/12/97  
W 17113  
B. Landry

**CONSIDER APPROVAL OF THE SECOND AMENDMENT OF THE 1996-97 ANNUAL PLAN, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY**

**BACKGROUND:**

The City of Long Beach has submitted to the Commission the Second Amendment of the 1996-97 Annual Plan, Long Beach Unit, covering the period July 1, 1996 through June 30, 1997, providing updated economic projections and major planning assumptions. This report provides the actual performance for the second quarter of Fiscal Year 1996-97 and revised projections for the remaining quarters of the Fiscal Year. There were no changes to the latest approved budget of \$170,900,000 or to the distribution to the five budget categories. The revised economic projections are illustrated in Exhibits A and B, attached hereto. Revisions to oil production projections are illustrated in Exhibit C, attached hereto.

The average oil and gas rates for the second quarter of the 1996-97 Fiscal Year were reported to be 41,876 bbls/day of oil (1,265 bbls/day less than originally estimated) and 8,737 MCF/day of gas (323 MCF/day less than forecast). The lower than planned oil and gas rates are primarily due to producing wells being shut-in due to loss of offsetting water injection capacity, a backlog of routine well work, delays in completing new wells, and fewer wells being drilled. The cumulative recoveries and injection through December, 1996 are as follows:

Oil Production	824,736,211 Barrels
Gas Production	218,381,314 MCF
Water Production	3,941,651,847 Barrels
Water Injection	5,560,298,822 Barrels

Cumulative Injection - Gross Production Ratio is 1.167 Bbls/Bbl.

**CALENDAR ITEM NO. C80 (CONT'D)**

The revised economic projections reflect the net combined effects of lower produced fluid volumes, higher costs, and higher oil prices. Higher than planned oil prices resulted in an increase in the Second Quarter Net Profit of +\$19.9 Million. Original major planning assumptions were based on an average oil price of \$12.75/bbl and an average gas price of \$1.75/mcf. Revised oil and gas prices, expenditures, and net profits for Fiscal Year 1996-97 are shown in the table below. Although substantially higher oil prices were experienced for the first two quarters of the fiscal year, the originally projected oil price of \$12.75/bbl will remain unchanged for the final two quarters. The number of active drilling rigs has been increased from one to two. The second drilling rig is expected to remain active for the remainder of the fiscal year.

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 96-97	ACTUAL SECOND QUARTER FY 96-97	ESTIMATED THIRD QUARTER FY 96-97	ESTIMATE D FOURTH QUARTER FY 96-97	FISCAL YEAR 96-97
Oil Revenue	64.8	72.3	49.4	51.8	238.3
Gas Revenue	1.5	1.9	1.4	1.5	6.3
Expenditures	(43.5)	(38.4)	(47.2)	(41.8)	(170.9)
Net Profit	22.8	35.9	3.6	11.5	73.7
Original	13.0	16.0	14.6	14.9	58.5
Change	+9.8	+19.9	(11.0)	(3.4)	+15.2
Oil Price/BBL	\$16.41	\$18.73	\$12.75	\$12.75	\$15.18
Gas Price/MCF	\$1.96	\$2.42	\$1.75	\$1.75	\$1.94

Commission staff has reviewed the Second Amendment, including the estimated production, injection, expenditures, and revenue and has prepared the attached Exhibits A, B, and C to represent graphically the changes covered in this amendment.

**PERMIT STREAMLINING ACT DEADLINE:**

N/A

**CALENDAR ITEM NO. C80 (CONT'D)**

**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), Commission staff has determined that this activity is exempt from the requirements of 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.

**EXHIBITS:**

- A. Fiscal Year 1996-97 Financial Projections
- B. Second Quarter Fiscal Year 1996-97 Financial Performance
- C. Fiscal Year 1996-97 Oil Rate Projections
- D. Letter Requesting Approval of Second Amendment of the Annual Plan, Long Beach Unit, (July 1, 1996 - June 30, 1997)

**IT IS RECOMMENDED THAT THE COMMISSION:**

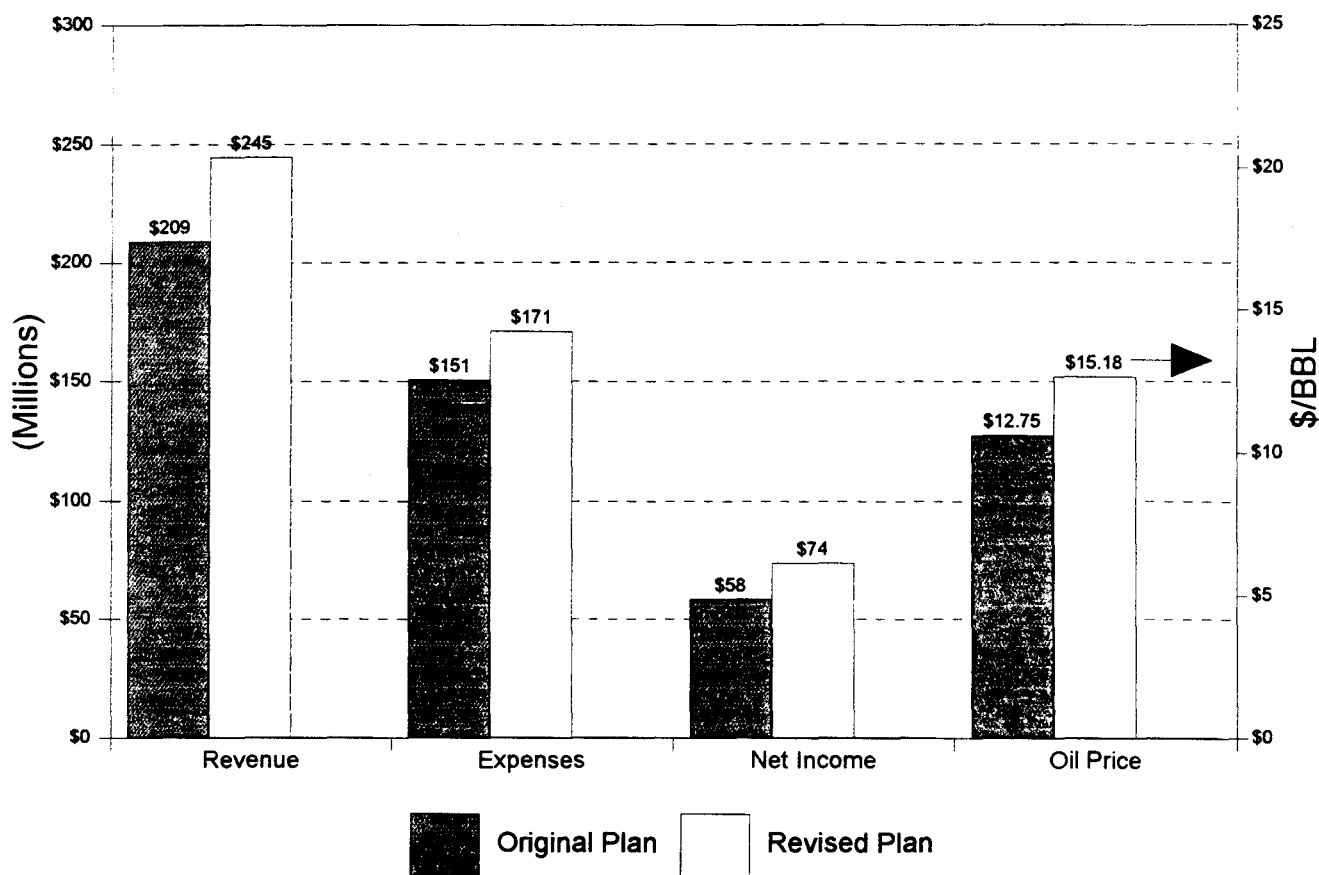
1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.
2. APPROVE THE SECOND AMENDMENT OF THE LONG BEACH UNIT ANNUAL PLAN, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, FOR THE PERIOD JULY 1, 1996 THROUGH JUNE 30, 1997.

# LBU FINANCIAL PERFORMANCE

## FISCAL YEAR 1996-97 ANNUAL PLAN

Exhibit A

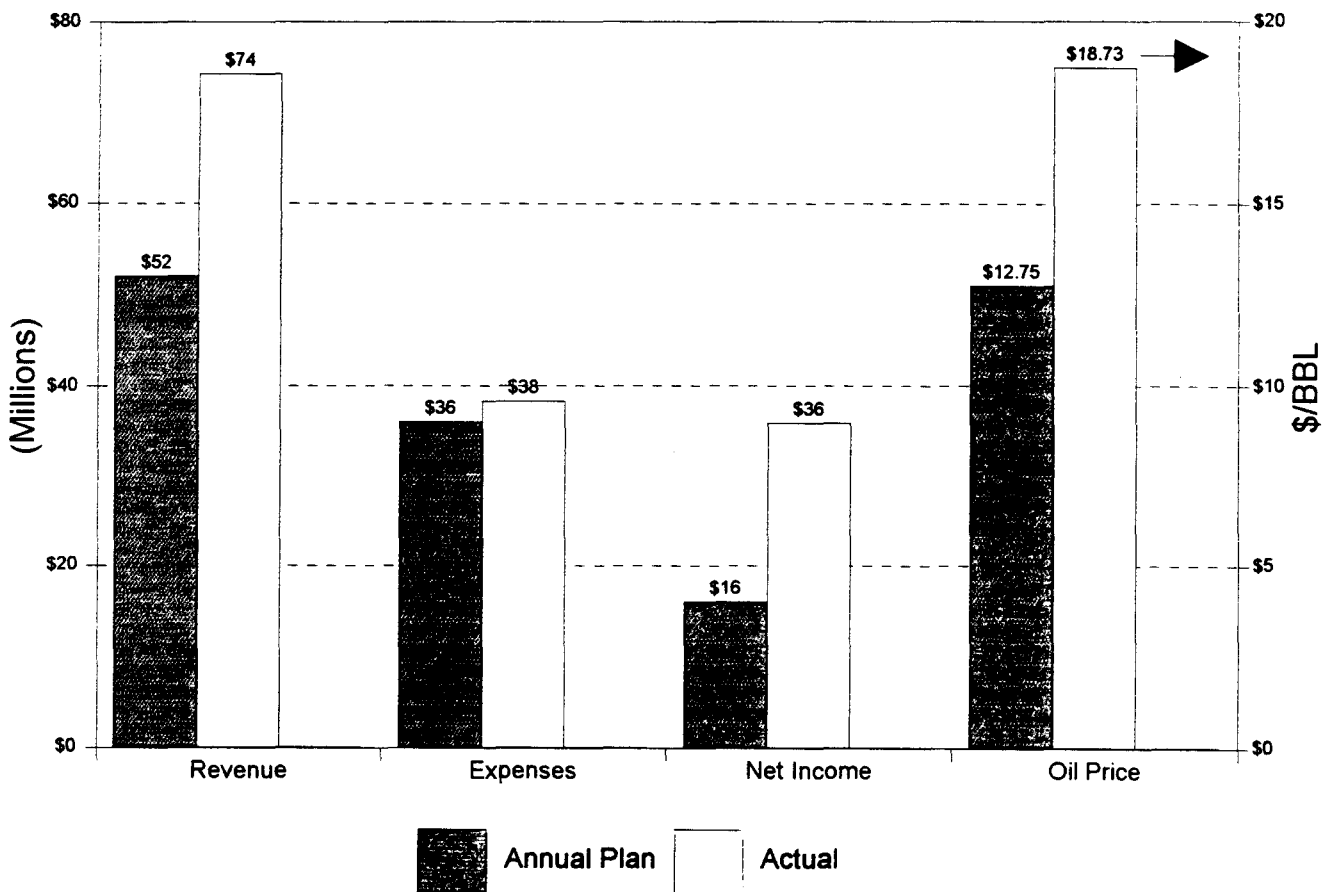
Revised Dec-96



# LBU FINANCIAL PERFORMANCE

## SECOND QUARTER FY 1996-97

Exhibit B

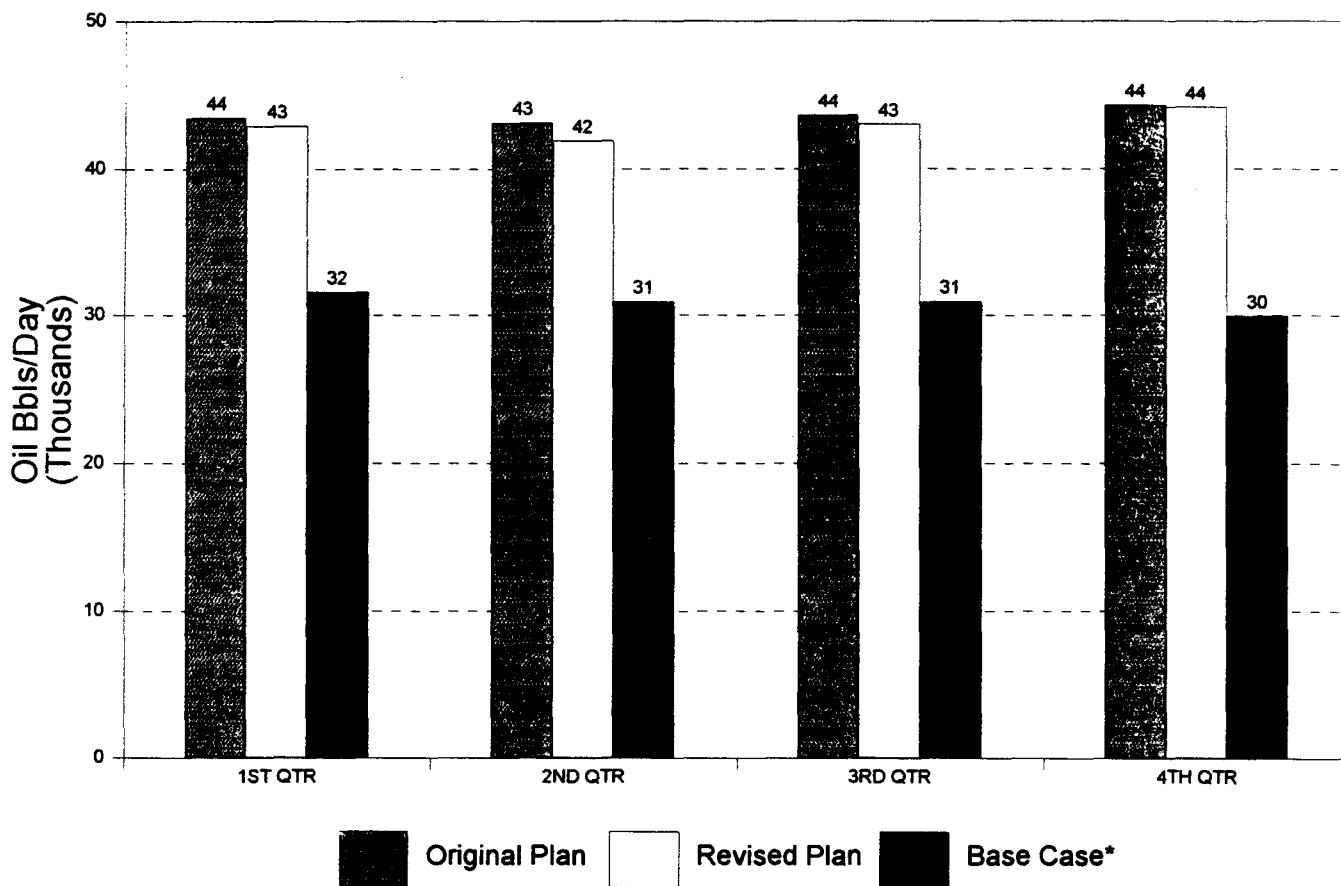


# LBU OIL RATE PROJECTIONS

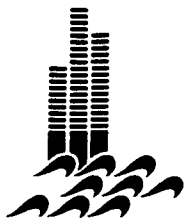
## FISCAL YEAR 1996-97 ANNUAL PLAN

Exhibit C

Revised Dec-96



\*Prediction if Optimized Waterflood Not Implemented

**CITY OF LONG BEACH**

DEPARTMENT OF OIL PROPERTIES

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

February 26, 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 SECOND AMENDMENT  
OF THE ANNUAL PLAN, LONG BEACH UNIT  
(JULY 1, 1996 THROUGH JUNE 30, 1997)**

Dear Mr. Mount:

In accordance with provisions of Part IV, Section A, of the Annual Plan, we are submitting for your approval this Second Amendment of the Annual Plan covering the period July 1, 1996 through June 30, 1997.

This report reviews second quarter operations and includes revised Economic Projections and Major Planning Assumptions tables. Later revisions of the tables may be required to reflect changing conditions. Also attached is statistical data for wells, and production and injection volumes.

An analysis of Unit activities and the status of funds in each of the five budget categories is presented below.

**DEVELOPMENT DRILLING**

The Development Drilling category provides funding for all drilling and re-drilling activity, as well as maintenance and replacements for drilling equipment within the Unit.

**Operations Review**

Highlights for drilling operations during the quarter include:

- A second drilling rig began operations at the beginning of the quarter.
- Seven wells were completed in the period. Three new producers, one new injector, and one re-drilled producer were completed in the Union Pacific Ford zone; two re-drilled injectors were completed in the Ranger zone.

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On December 31, 1996, the total number of wells was 1,322, of which 877 were producers and 445 were injectors. Excluded from these totals are 32 abandoned wells - 9 producers and 23 injectors.

### **Budget to Actual Variance**

The Development Drilling Category has a budget of \$22,445,000, of which \$10,099,869, or 45.0 percent, is expended. The Plan originally provided funds for approximately 40 new and redrilled wells.

The latest estimate for expenditures in this category through the end of the fiscal period is \$31.0 million. A Plan Modification, as required by Part IV, Section B of the Annual Plan, was approved on February 12, 1997 by the State Lands Commission. The increased spending level anticipates that 50 wells will be drilled. This will be accomplished by operating two rigs for four months during the fiscal period, and scaling back to one for the remaining months.

## **OPERATING EXPENSE**

The Operating Expense Category provides funding for the ongoing cost of day-to-day well production and injection operations necessary for producing, processing, and delivering crude oil and gas, and for all electric power costs.

### **Operations Review**

During the second quarter the Unit oil production rate averaged 41,876 bbls/day, which was 1,265 bbls/day less than originally estimated, and gas production averaged 8,737 mcf/day, which was 323 mcf/day less than originally estimated in the Major Planning Assumptions section of the Annual Plan.

Water injection averaged 607,305 bbls/day, which was 98,665 bbls/day less than originally estimated in the Major Planning Assumptions section of the Annual Plan. Water production averaged 515,852 bbls/day, which is 78,590 bbls/day less than originally estimated.

Production and injection volumes during the Plan period were lower than estimated in the Annual Plan, and below expected ranges in the Program Plan. Lower than estimated volumes are a result of: 1) lower injection due to the new policy to shut-in all injectors with casing pressure and due to lower overall water injectivity; 2) a backlog of maintenance well work due to a pressure incident at Island Chaffee; 3) the pace of new completions lagging the forecast by about one month; and 4) actual number of wells drilled and completed were less than budgeted.

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**Budget to Actual Variance**

The Operating Expense Category has a budget of \$50,106,000, of which \$30,547,375, or 61.0 percent, is expended. The latest estimate for expenditures in this category through the end of the fiscal period is \$54.8 million. A Plan Modification requesting approval to spend at this level was approved February 12, 1997. The higher spending level is primarily related to an increase in investment type well work activity, primarily fracturing, profile modifications, recompletions and conversions.

There were no significant non-well project expenditures in this category for the quarter.

**OTHER PLANT**

The Other Plant Category provides funds for maintenance, repairs, upgrades, additions of surface facilities and pipelines, and costs for general field services.

**Operations Review**

Projects with significant expenditures during the quarter include the following:

- Replace water injection totalizers and wiring;
- Skin basin vapor recovery on Island White;
- Convert Unit vent to flare;
- Installation of a gas processing facility (includes installation of a hydrogen sulfide removal system, and installation of gas liquids removal system);
- Replace piping on Island Freeman;
- Replace piping on Island White;
- Piping replacement design on Island White;
- Installation of a Unit gas sales meter and odorizer system;
- Repair and routine maintenance of oil treating vessels; and
- Repair and routine maintenance to water injection pumps and motors.

**Budget to Actual Variance**

The Other Plant Category has a budget of \$30,378,000, of which \$15,374,596, or 50.6 percent, is expended. The latest estimate for expenditures in this category through the end of the fiscal period is \$32.1 million. A Plan Modification requesting approval to spend at this level was approved February 12, 1997. The higher spending level is a result of increased maintenance activity.

## UNIT FIELD LABOR AND ADMINISTRATIVE

The Unit Field Labor and Administrative Category provides funding for salaries, benefits, training and other expenses of all Unit personnel, and costs for other Unit support activities. Unit support activities include costs for professional and temporary services, data processing and general office equipment and materials, Unit Operator billable costs, ARCO Long Beach, Inc. billable costs, management projects, extraordinary losses and claims, and prior year adjustments.

### Budget to Actual Variance

The Unit Field Labor and Administrative Category has a budget of \$33,601,000, of which \$16,151,923, or 48.1 percent, is expended. It is anticipated that expenditures in this category will exceed budget. The latest estimate for expenditures in this category through the end of the fiscal period is \$33.8 million. A Plan Modification requesting approval to spend at this level was approved February 12, 1997.

The Unit Field Labor and Administrative category had significant project expenditures during the quarter for a 3-D Seismic interpretation.

## TAXES, PERMITS, AND ADMINISTRATIVE OVERHEAD

The Taxes, Permits and Administrative Overhead Category provides funding for specific taxes, permits, licenses, land leases, and all administrative overhead costs for the Unit.

### Budget to Actual Variance

The Taxes, Permits, and Administrative Overhead Category has a budget of \$14,020,000, or which \$9,687,045, or 69.1 percent, is expended. Fiscal year expenditures for this category are now estimated at \$19.2 million. A Plan Modification requesting approval to spend at this level was approved February 12, 1997. 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, which has been appealed.

Additionally, unanticipated costs for the 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.

### SUMMARY

The Unit has a budget of \$150,550,000, of which \$81,860,808, or 54.4 percent, was expended through December 31, 1996. The latest estimate for expenditures through June 30, 1997, is \$170.9 million. A Plan Modification was approved February 12, 1997 to spend at this higher level.

Second quarter profit of \$35.9 million is \$19.9 million more than originally estimated. Greater than anticipated first quarter profit is attributed to higher than anticipated oil and gas prices.

The City of Long Beach, as Unit Operator of the Long Beach Unit, approves this proposed Amendment. In accordance with Section 5 of Chapter 138, 1964 First Extraordinary Session, your approval of this proposed Amendment is requested.

Very truly yours,



Xenophon C. Colazas  
Director

XCC:slg

FIN 312.003

Attachments

**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
<b>ESTIMATED REVENUE</b>											
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%
<b>TOTAL REVENUE</b>	<b>\$66,259</b>	<b>\$52,496</b>	<b>\$74,249</b>	<b>\$52,063</b>	<b>\$50,820</b>	<b>\$51,565</b>	<b>\$53,314</b>	<b>\$52,903</b>	<b>\$244,642</b>	<b>\$209,028</b>	<b>17.04%</b>
<b>ESTIMATED EXPENDITURES</b>											
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%
<b>TOTAL EXPENDITURES</b>	<b>\$43,502</b>	<b>\$39,499</b>	<b>\$38,359</b>	<b>\$36,049</b>	<b>\$47,220</b>	<b>\$37,000</b>	<b>\$41,820</b>	<b>\$38,002</b>	<b>\$170,900</b>	<b>\$150,550</b>	<b>13.52%</b>
<b>NET PROFIT</b>	<b>\$22,757</b>	<b>\$12,997</b>	<b>\$35,890</b>	<b>\$16,014</b>	<b>\$3,601</b>	<b>\$14,565</b>	<b>\$11,495</b>	<b>\$14,902</b>	<b>\$73,742</b>	<b>\$58,477</b>	<b>26.10%</b>

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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
<b>OIL</b>											
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%
<b>GAS</b>											
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%
<b>WATER PRODUCTION</b>											
(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%
<b>WATER INJECTION</b>											
(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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## NUMBER OF WELLS

As of December 31, 1996

	Producers	Injectors	Total
Grissom	181	93	274
White	148	91	239
Chaffee	215	113	328
Freeman	228	87	315
Pier J (Inc. THX)	105	61	166
<b>Total</b>	<b>877</b>	<b>445</b>	<b>1322</b>
Tar V	11	2	13
Ranger (All Areas)	663	347	1010
Upper & Lower Terminal VI,	62	34	96
Terminal (Blocks VIII, 90)	59	35	94
Union Pacific-Ford (All Areas	79	27	106
237 (All Areas)	3	0	3
<b>Total</b>	<b>877</b>	<b>445</b>	<b>1322</b>

(Figures exclude 9 abandoned producers and 23 abandoned injectors)

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PRODUCTION - OIL

	AVERAGE B/D 10/1/96 - 12/31/96	CUMULATIVE Bbls. 12/31/96
Grissom	9,170	148,196,796
White	7,772	140,445,897
Chaffee	10,447	175,481,526
Freeman	10,739	229,607,024
Pier J (Inc. THX)	<u>3,748</u>	<u>131,004,968</u>
<b>TOTAL</b>	<b>41,876</b>	<b>824,736,211</b>
Tar V	140	1,336,199
Ranger (All Areas)	27,535	623,635,526
Upper Terminal & Lower Terminal VI, VII	4,801	67,668,104
Terminal (Blocks VIII, 90)	4,135	44,701,447
Union Pacific-Ford (All Areas)	5,265	83,536,324
237 (All Areas)	<u>0</u>	<u>3,858,611</u>
<b>TOTAL</b>	<b>41,876</b>	<b>824,736,211</b>

PRODUCTION - GAS

	AVERAGE MCF/D 10/1/96 - 12/31/96	CUMULATIVE mcf 12/31/96
Grissom	704	20,986,621
White	3,194	34,668,309
Chaffee	1,667	58,096,471
Freeman	1,930	80,974,528
Pier J (Inc. THX)	<u>1,242</u>	<u>23,655,385</u>
<b>TOTAL</b>	<b>8,737</b>	<b>218,381,314</b>
Tar V	58	561,085
Ranger (All Areas)	6,189	138,530,165
Upper Terminal & Lower Terminal VI, VII	1,039	8,970,989
Terminal (Blocks VIII, 90)	588	12,780,088
Union Pacific-Ford (All Areas)	863	53,273,718
237 (All Areas)	<u>0</u>	<u>4,265,269</u>
<b>TOTAL</b>	<b>8,737</b>	<b>218,381,314</b>

MDW

**PRODUCTION - WATER**

	AVERAGE B/D 10/1/96 - 12/31/96	CUMULATIVE Bbls. 12/31/96
Grissom	124,809	936,191,618
White	105,360	740,464,280
Chaffee	88,668	593,547,182
Freeman	124,761	918,560,148
Pier J (Inc. THX)	<u>72,254</u>	<u>752,888,619</u>
<b>TOTAL</b>	<b>515,852</b>	<b>3,941,651,847</b>
Tar V	581	5,754,000
Ranger (All Areas)	428,706	3,414,638,180
Upper Terminal & Lower Terminal VI, VII	47,081	297,808,831
Terminal (Blocks VIII, 90)	22,204	82,859,285
Union Pacific-Ford (All Areas)	17,280	137,403,661
237 (All Areas)	<u>0</u>	<u>3,187,890</u>
<b>TOTAL</b>	<b>515,852</b>	<b>3,941,651,847</b>

**INJECTION - WATER**

	AVERAGE B/D 10/1/96 - 12/31/96	CUMULATIVE Bbls. 12/31/96
Grissom	149,549	1,315,418,739
White	119,931	1,098,772,543
Chaffee	110,070	1,156,739,265
Freeman	148,256	1,013,949,219
Pier J (Inc. THX)	<u>79,499</u>	<u>941,755,769</u>
<b>TOTAL</b>	<b>607,305</b>	<b>5,526,635,535</b>
Tar V	1,394	14,055,145
Ranger (All Areas)	498,409	4,775,548,965
Upper Terminal & Lower Terminal VI, VII	52,365	374,232,309
Terminal (Blocks VIII, 90)	29,539	176,878,839
Union Pacific-Ford (All Areas)	25,598	219,583,564
237 (All Areas)	<u>0</u>	<u>0</u>
<b>TOTAL</b>	<b>607,305</b>	<b>5,560,298,822</b>

607,305	5,560,298,822
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