

MINUTE ITEM
This Calendar Item No. C67
was approved as Minute Item
No. 67 by the State Lands
Commission by a vote of 2
to 0 at its 7/14/97
meeting.

**CALENDAR ITEM
C67**

A 57, 58

S 29

07/11/97
W 17113
B. Landry

**CONSIDER APPROVAL OF THE THIRD 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 Third 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 Third Quarter of Fiscal Year 1996-97 and revised projections for the last quarter 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 Third Quarter of the 1996-97 Fiscal Year were reported to be 41,013 bbls/day of oil (2,034 bbls/day less than originally estimated) and 8,782 MCF/day of gas (258 MCF/day less than forecast). The lower than planned oil and gas rates are primarily due to producing wells being curtailed or shut-in due to loss of offsetting water injection capacity, a backlog of maintenance well work, delays in completing new wells, and lower than expected performance from new wells. The cumulative recoveries and injection through March, 1997 are as follows:

Oil Production	828,427,379 Barrels
Gas Production	219,171,659 MCF
Water Production	3,989,511,413 Barrels
Water Injection	5,617,046,559 Barrels

Cumulative Injection - Gross Production Ratio is 1.166 Bbls/Bbl.

CALENDAR ITEM NO. C67 (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 Third Quarter net profit of \$23.8 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 three quarters of the fiscal year, the originally projected oil price of \$12.75/bbl will remain unchanged for the final quarter. The number of active drilling rigs was increased earlier in the fiscal year 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	ACTUAL THIRD QUARTER FY 96-97	ESTIMATED FOURTH QUARTER FY 96-97	FISCAL YEAR 96-97
Oil Revenue	64.8	72.3	66.1	51.8	255.0
Gas Revenue	1.5	1.9	2.9	1.5	7.8
Expenditures	(43.5)	(38.4)	(41.5)	(41.8)	(165.2)
Net Profit	22.8	35.9	27.4	11.5	97.6
Original	13.0	16.0	3.6	14.9	58.5
Change	+9.8	+19.9	+23.8	(3.4)	+39.1
Oil Price/BBL	\$16.41	\$18.73	\$17.98	\$12.75	\$16.44
Gas Price/MCF	\$1.96	\$2.42	\$3.67	\$1.75	\$2.40

Commission staff has reviewed the Third 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. C67 (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. Third Quarter Fiscal Year 1996-97 Financial Performance
- C. Fiscal Year 1996-97 Oil Rate Projections
- D. Letter Requesting Approval of Third 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 THIRD 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.

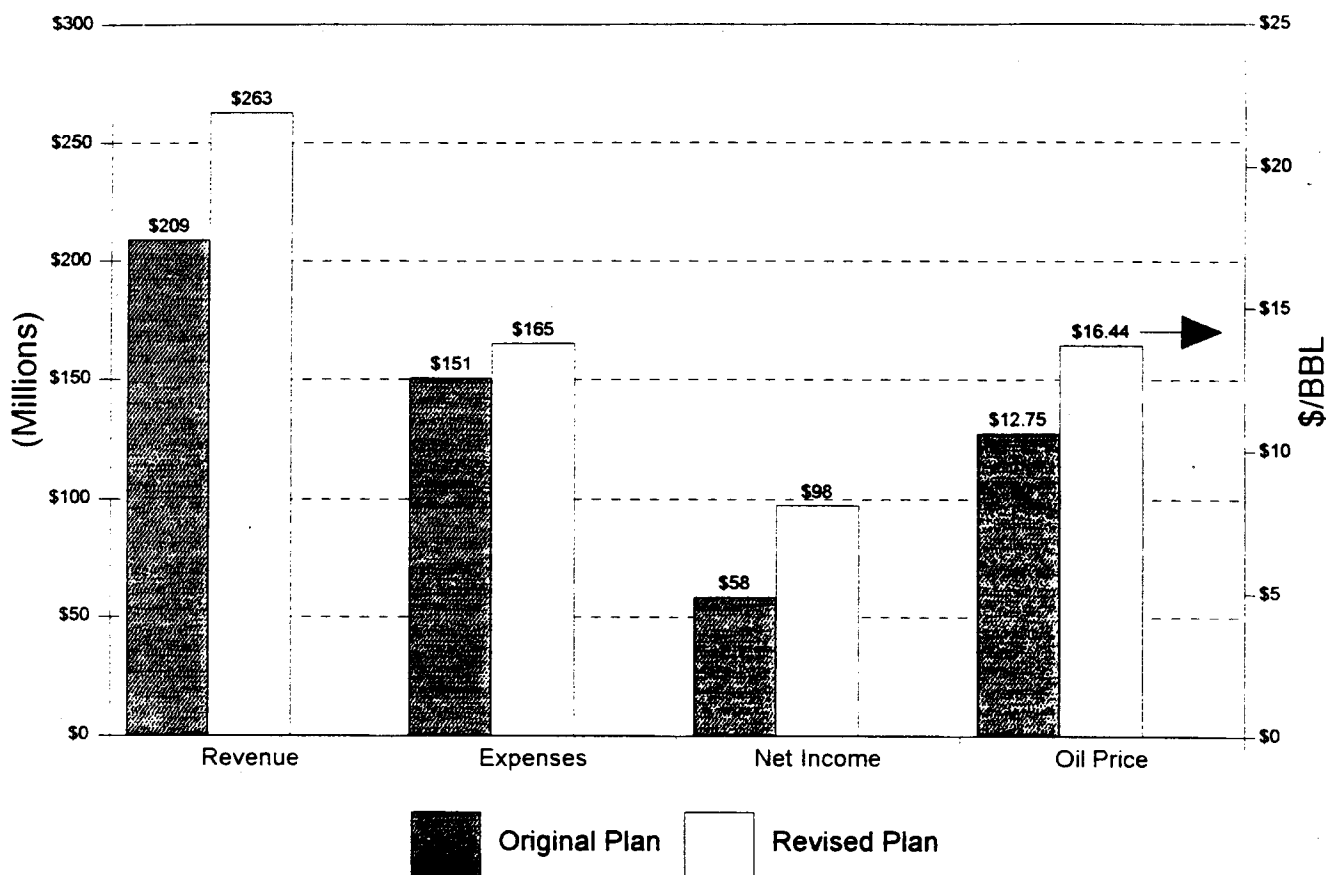
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LBU FINANCIAL PERFORMANCE

FISCAL YEAR 1996-97 ANNUAL PLAN

Exhibit A

Revised Mar-97



W 10431
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EXHIBIT B

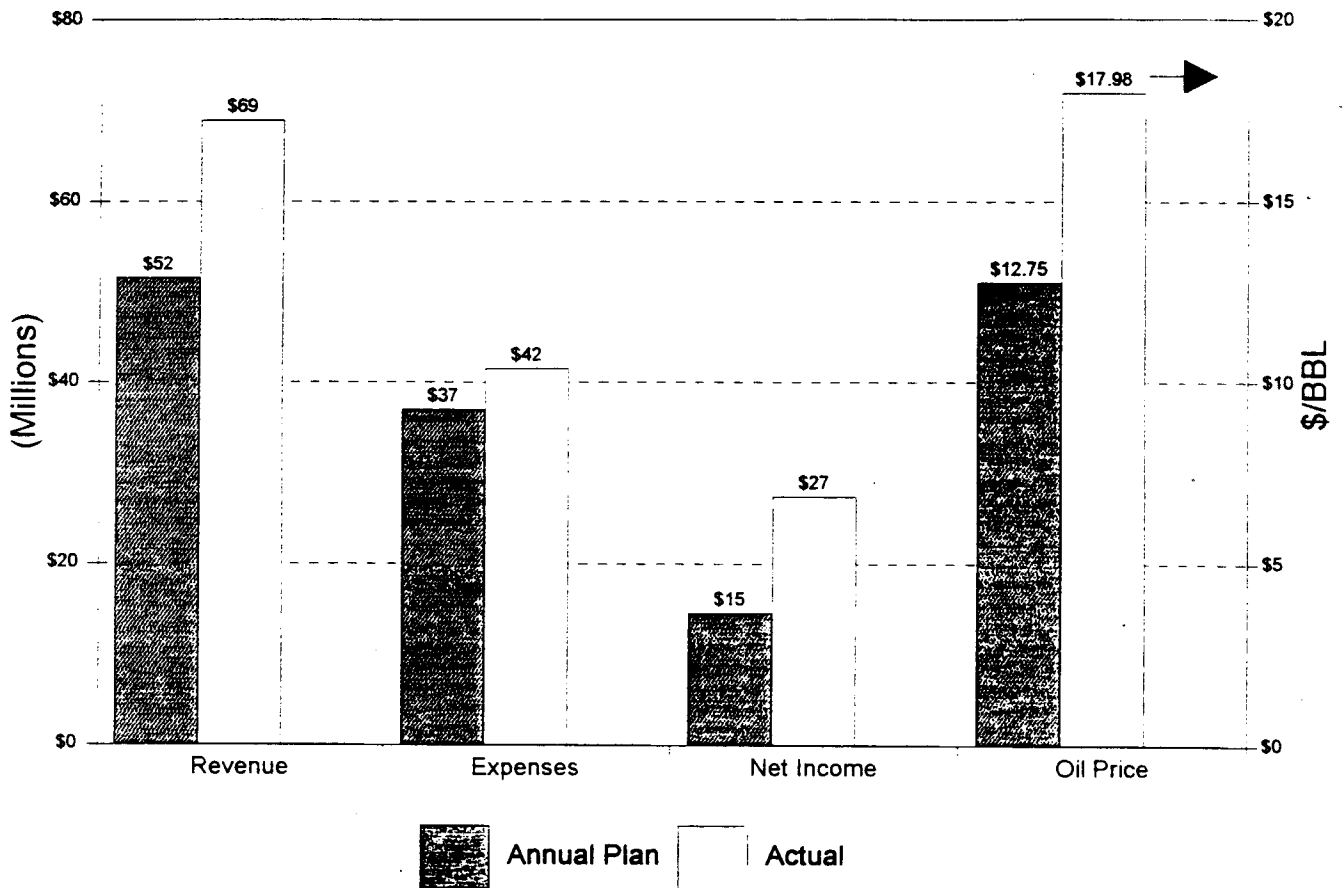
**COST ESTIMATE
LONG BEACH WORK ORDER NO. 10431
Estimates Submitted by Port of Long Beach for
Subsidence Vertical and Horizontal Surveys
1997-98 Fiscal Year**

<u>RECOMMENDED ITEM</u>	<u>PROPOSED WORK</u>	<u>APPROVAL</u>
1.	Vertical Measurements and Studies	\$265,000
2.	Consultants and Contingencies	\$ 50,000
3.	Horizontal Measurements and Studies	<u>\$ 10,000</u>
	Total	\$325,000

LBU FINANCIAL PERFORMANCE

THIRD QUARTER FY 1996-97

Exhibit B

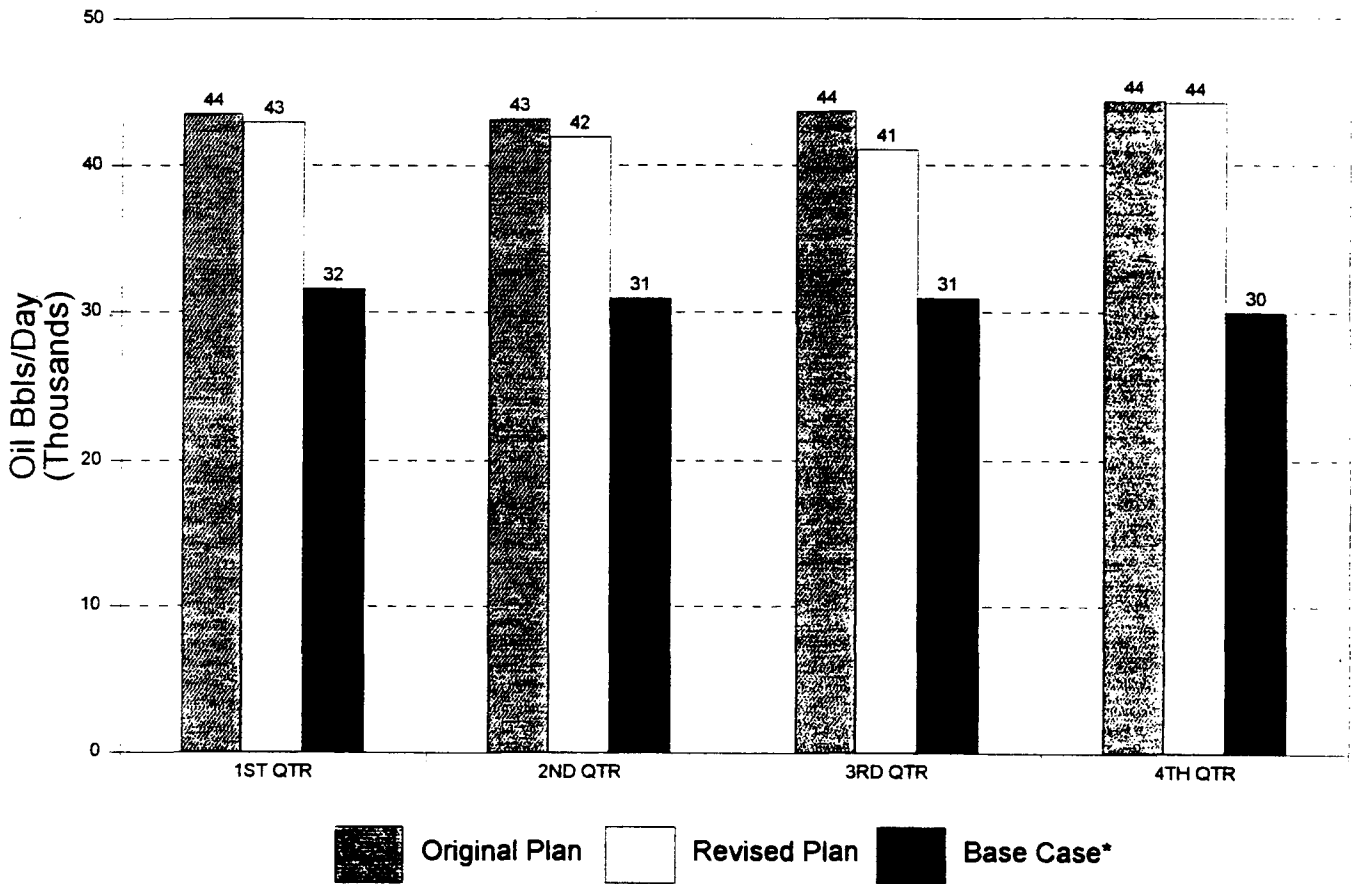


LBU OIL RATE PROJECTIONS

FISCAL YEAR 1996-97 ANNUAL PLAN

Exhibit C

Revised Mar-97



*Prediction if Optimized Waterflood Not Implemented



May 12, 1997

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (310) 570-3900 • FAX 570-3927

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 THIRD 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 Third Amendment of the Annual Plan covering the period July 1, 1996 through June 30, 1997.

This report reviews third 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, maintenance and replacements of drilling equipment within the Unit.

Operations Review

Highlights for drilling operations during the quarter include:

- Two drilling rigs were in operation throughout the quarter.
- Fourteen wells were completed in the period. Four new producers were completed: two in the Ranger zone, and two in the Upper Terminal zone. Seven re-drilled producers were completed: three in the Union Pacific Ford zone, two in the Ranger zone, one in the Upper Terminal zone, and one in the Terminal zone. Three re-drilled injectors were completed in the Ranger zone.

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On March 31, 1997 the total number of wells was 1,326, of which 876 were producers and 450 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 modified budget of \$31,000,000, of which \$18,895,130, or 61.0 percent, is expended. The modified Plan provides funds for approximately 50 new and redrilled wells.

OPERATING EXPENSE

The Operating Expense Category provides funding for the on-going 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 third quarter the Unit oil production rate averaged 41,013 bbls/day, which was 2,034 bbls/day less than estimated in the modified budget. Gas production averaged 8,782 mcf/day, which was 258 mcf/day less than estimated in the modified budget.

Water injection averaged 630,530 bbls/day, which was 39,345 bbls/day less than estimated in the modified budget. Water production averaged 531,773 bbls/day, which is 39,391 bbls/day less than originally estimated.

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 wellwork due to the pressure incident at Island Chaffee, 3) the pace of new completions is lagging the forecast by about one month, and 4) actual wells drilled and completed were less than budgeted.

Budget to Actual Variance

The Operating Expense category has a modified budget of \$54,800,000, of which \$42,180,605, or 77.0 percent, is expended.

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, and additions of surface facilities and pipelines, and costs for general field services.

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Operations Review

Projects with significant expenditures during the quarter include the following:

- Subsea pipeline repairs;
- Relocate facilities at the J6 site to comply with the Port of Long Beach Harbor Redevelopment Plan;
- Installation of a gas processing facility (gas liquids removal system);
- Replace piping on Island White;
- Repair washed out area at Island Grissom's barge ramp;
- Remove idled shipping pumps at the B&M site;
- Installation of piping and controls for reclaimed water;
- 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 modified budget of \$32,100,000, of which \$22,319,548, or 69.5 percent, is expended.

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 \$33,800,000, of which \$25,329,032, or 74.9 percent, is expended.

The Unit Field Labor and Administrative category had significant project expenditures during the quarter for:

- Purchasing personal computer equipment;
- Artificial lift equipment benchmarking system
- Horizontal well modeling; and
- Maintenance management software.

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.

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 modified budget of \$170,900,000, of which \$123,383,271, or 72.2 percent, was expended through March 31, 1997.

Third quarter profit of \$27.4 million is \$23.8 million more than estimated in the modified budget. Greater than anticipated third 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 1st Qtr FY96/97	Modified Budget 1st Qtr FY96/97	Actual 2nd Qtr FY96/97	Modified Budget 2nd Qtr FY96/97	Actual 3rd Qtr FY96/97	Modified Budget 3rd Qtr FY96/97	Latest Est 4th Qtr FY96/97	Modified Budget 4th Qtr FY96/97	Latest Est Total Fiscal Year FY96/97	Original Total Budget FY96/97	Modified Total Budget FY97/97	% Latest Est Over/(Under) Modified Budget
ESTIMATED REVENUE												
Oil Revenue	\$64,762	\$64,762	\$72,314	\$72,314	\$66,082	\$49,396	\$51,821	\$51,821	\$254,979	\$203,172	\$238,293	7.00%
Gas Revenue	1,497	\$1,497	\$1,935	\$1,935	\$2,866	\$1,424	\$1,494	\$1,494	\$7,793	\$5,856	\$6,350	22.72%
TOTAL REVENUE	\$66,259	\$66,259	\$74,249	\$74,249	\$68,949	\$50,820	\$53,315	\$53,315	\$262,771	\$209,028	\$244,643	7.41%
ESTIMATED EXPENDITURES												
Development Drilling	\$5,312	\$5,312	\$4,788	\$4,788	\$8,795	\$13,150	\$7,750	\$7,750	\$26,645	\$22,445	\$31,000	-14.05%
Operating Expense	16,552	16,552	13,995	13,995	11,633	12,126	12,126	12,126	\$54,307	\$50,106	\$54,800	-0.90%
Other Plant	7,826	7,826	7,549	7,549	6,945	8,363	8,363	8,363	\$30,683	\$30,378	\$32,100	-4.41%
Unit Field Labor & Administration	8,471	8,471	7,681	7,681	9,177	8,824	8,824	8,824	\$34,153	\$33,601	\$33,800	1.04%
Taxes, Permits & Admin Overhead	5,340	5,340	4,347	4,347	4,972	4,756	4,756	4,756	\$19,415	\$14,020	\$19,200	1.12%
TOTAL EXPENDITURES	\$43,502	\$43,502	\$38,359	\$38,359	\$41,522	\$47,219	\$41,819	\$41,819	\$165,202	\$150,550	\$170,900	-3.33%
NET PROFIT	\$22,757	\$22,757	\$35,890	\$35,890	\$27,426	\$3,601	\$11,496	\$11,496	\$97,569	\$58,478	\$73,743	32.31%

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C Major Planning Assumptions

(Data in Thousands of Dollars)

	Actual 1st Qtr FY96/97	Modified Budget 1st Qtr FY96/97	Actual 2nd Qtr FY96/97	Modified Budget 2nd Qtr FY96/97	Actual 3rd Qtr FY96/97	Modified Budget 3rd Qtr FY96/97	Latest Est 4th Qtr FY96/97	Modified Budget 4th Qtr FY96/97	Latest Est Total Fiscal Year FY96/97	Original Total Budget FY96/97	Modified Total Budget FY97/97	% Latest Est Over/(Under) Modified Budget
OIL												
ACTUAL SHIPPED (1,000 BBL)	3,947		3,861		3,676							
PRODUCED (1,000 BBL)	3,948	3,948	3,853	3,853	3,691	3,874	4,020	4,020	15,512	15,935	15,695	
(B/D)	42,912	42,912	41,876	41,876	41,013	43,047	44,178	44,178	42,498	43,658	43,000	-1.17%
GAS												
ACTUAL SHIPPED (1,000 MCF)	763		800		781							
PRODUCED (1,000 MCF)	808	808	804	804	790	814	844	844	3,247	3,346	3,270	
(MCF/D)	8,784	8,784	8,737	8,737	8,782	9,040	9,277	9,277	8,895	9,167	8,959	-0.72%
WATER PRODUCTION												
(1,000 BBL)	48,851	48,851	47,458	47,458	47,860	51,405	52,735	52,735	196,904	218,117	200,449	
(B/D)	530,986	530,986	515,852	515,852	531,773	571,164	579,504	579,504	539,462	597,581	549,175	-1.77%
WATER INJECTION												
(1,000 BBL)	58,722	58,722	55,872	55,872	56,748	60,289	61,880	61,880	233,222	258,600	236,763	
(B/D)	638,285	638,285	607,305	607,305	630,530	669,875	679,997	679,997	638,964	708,493	648,666	-1.50%
OIL PRICE (\$/BBL)	\$16.41	\$16.41	\$18.73	\$18.73	\$17.98	\$12.75	\$12.75	\$12.75	\$16.44	\$12.75	15.18	8.28%
GAS PRICE (\$/MCF)	\$1.96	\$1.96	\$2.42	\$2.42	\$3.67	\$1.75	\$1.75	\$1.75	\$2.40	\$1.75	1.94	23.72%

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NUMBER OF WELLS

As of March 31, 1997

	<u>Producers</u>	<u>Injectors</u>	<u>Total</u>
Grissom	184	94	278
White	147	92	239
Chaffee	216	112	328
Freeman	225	90	315
Pier J (Inc. THX)	104	62	166
Total	876	450	1326
Tar V	11	2	13
Ranger (All Areas)	660	353	1013
Upper & Lower Terminal VI, VII	64	34	98
Terminal (Blocks VIII, 90)	60	34	94
Union Pacific-Ford (All Areas)	78	27	105
237 (All Areas)	3	0	3
Total	876	450	1326

(Figures exclude 9 abandoned producers and 23 abandoned injectors)

PRODUCTION - OIL

	AVERAGE B/D 1/1/97 - 3/31/97	CUMULATIVE Bbls. 3/31/97
Grissom	9,022	149,008,820
White	7,341	141,106,568
Chaffee	10,469	176,423,703
Freeman	10,481	230,550,333
Pier J (Inc. THX)	3,700	131,337,955
TOTAL	41,013	828,427,379
Tar V	142	1,348,949
Ranger (All Areas)	26,819	626,049,228
Upper Terminal & Lower Terminal VI, VII	4,786	68,098,904
Terminal (Blocks VIII, 90)	4,115	45,071,798
Union Pacific-Ford (All Areas)	5,151	83,999,889
237 (All Areas)	0	3,858,611
TOTAL	41,013	828,427,379

PRODUCTION - GAS

	AVERAGE MCF/D 1/1/97 - 3/31/97	CUMULATIVE Bbls. 3/31/97
Grissom	729	21,052,228
White	2,706	34,911,883
Chaffee	1,973	58,274,024
Freeman	2,390	81,189,632
Pier J (Inc. THX)	984	23,743,892
TOTAL	8,782	219,171,659
Tar V	59	566,355
Ranger (All Areas)	5,821	139,054,035
Upper Terminal & Lower Terminal VI, VII	1,019	9,062,706
Terminal (Blocks VIII, 90)	874	12,858,792
Union Pacific-Ford (All Areas)	1,009	53,364,502
237 (All Areas)	0	4,265,269
TOTAL	8,782	219,171,659

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PRODUCTION - WATER

	AVERAGE B/D 1/1/97 - 3/31/97	CUMULATIVE Bbls. 3/31/97
Grissom	126,135	947,543,785
White	108,401	750,220,368
Chaffee	90,694	601,709,603
Freeman	129,754	930,238,022
Pier J (Inc. THX)	<u>76,789</u>	<u>759,799,635</u>
TOTAL	531,773	3,989,511,413
Tar V	657	5,813,118
Ranger (All Areas)	439,838	3,454,223,586
Upper Terminal & Lower Terminal VI, VII	50,652	302,367,494
Terminal (Blocks VIII. 90)	22,760	84,907,725
Union Pacific-Ford (All Areas)	17,866	139,011,600
237 (All Areas)	<u>0</u>	<u>3,187,890</u>
TOTAL	531,773	3,989,511,413

INJECTION - WATER

	AVERAGE B/D 1/1/97 - 3/31/97	CUMULATIVE Bbls. 3/31/97
Grissom	163,000	1,330,088,816
White	125,971	1,110,109,906
Chaffee	116,660	1,167,238,649
Freeman	142,066	1,026,735,154
Pier J (Inc. THX)	<u>82,833</u>	<u>982,874,034</u>
TOTAL	630,530	5,617,046,559
Tar V	1,319	14,173,848
Ranger (All Areas)	510,408	4,821,485,693
Upper Terminal & Lower Terminal VI, VII	56,118	379,282,959
Terminal (Blocks VIII. 90)	35,243	180,050,752
Union Pacific-Ford (All Areas)	27,442	222,053,307
237 (All Areas)	<u>0</u>	<u>0</u>
TOTAL	630,530	5,617,046,559