

MINUTE ITEM
This Calendar Item No. C67
was approved as Minute Item
No. 67 by the State Lands
Commission by a vote of 3
to 0 at its 11/7/97
meeting.

CALENDAR ITEM
C67

A 57, 58

S 29

11/07/97

W 17113

D. Yuen

**CONSIDER APPROVAL OF THE FOURTH AMENDMENT OF THE
FY 1996-97 ANNUAL PLAN, PROVIDING UPDATED ECONOMICS
WITH REVISED OIL AND GAS PRICES,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

City of Long Beach
Department of Oil Properties
211 East Ocean Blvd., Suite 500
Long Beach, CA 90802

BACKGROUND:

The City of Long Beach has submitted to the Commission the Fourth Amendment of the Fiscal Year 1996-97 Annual Plan, Long Beach Unit, covering the period July 1, 1996 through June 30, 1997, to provide updated economics with revised oil and gas prices. This amendment incorporates the actual performance for the full Fiscal Year 1996-97. There are no changes to the latest approved budget of \$170,900,000 or to the distribution to the five budget categories.

The average oil and gas rates for the 1996-97 Fiscal Year were reported to be 42,083 bbls/day of oil (917 bbls/day less than estimated in the modified budget) and 8,800 MCF/day of gas (159 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, and delays in drilling and completing new wells. The cumulative recoveries and injection through June 1997 are as follows:

Oil Production	832,296,132 Barrels
Gas Production	219,981,395 MCF
Water Production	4,039,942,386 Barrels
Water Injection	5,676,946,826 Barrels

CALENDAR ITEM NO. C67 (CONT'D)

Cumulative Injection - Gross Production Ratio is 1.165 Bbls/Bbl.

Net profits for the 1996-97 Fiscal Year were \$100.0 million, which is \$26.3 million more than estimated in the modified budget and \$41.5 million more than in the original budget. This higher profit resulted from higher oil and gas prices than were forecasted. The original budget assumed an average oil price of \$12.75/bbl and an average gas price of \$1.75/mcf, but the prices actually averaged \$17.08/bbl. and \$2.53/mcf for the fiscal year. The actual oil and gas prices, expenditures, and net profits for Fiscal Year 1996-97 are shown in the table below. During the plan period, a second drilling rig was activated in the second quarter and continued working through the fiscal year.

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 96-97	ACTUAL SECOND QUARTER FY 96-97	ACTUAL THIRD QUARTER FY 96-97	ACTUAL FOURTH QUARTER FY 96-97	FISCAL YEAR 1996-97
Oil Revenue	64.8	72.3	66.1	59.2	262.4
Gas Revenue	1.5	1.9	2.9	1.7	8.0
Expenditures	(43.5)	(38.4)	(41.5)	(47.0)	170.4
Net Profit	22.8	35.9	27.4	13.9	100.0
Original	13.0	16.0	14.6	14.9	58.5
Change	+9.8	+19.9	+12.8	-1.0	+41.5
Oil Price/BBL	\$16.41	\$18.73	\$17.98	\$15.28	\$17.08
Gas Price/MCF	\$1.96	\$2.42	\$3.67	\$2.07	\$2.53

Commission staff has reviewed the Fourth 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.

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),

CALENDAR ITEM NO. C67 (CONT'D)

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

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

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.

AUTHORIZATION:

APPROVE THE FOURTH AMENDMENT OF THE LONG BEACH UNIT ANNUAL PLAN, PROVIDING UPDATED ECONOMICS WITH REVISED OIL AND GAS PRICES, FOR THE PERIOD JULY 1, 1996 THROUGH JUNE 30, 1997.

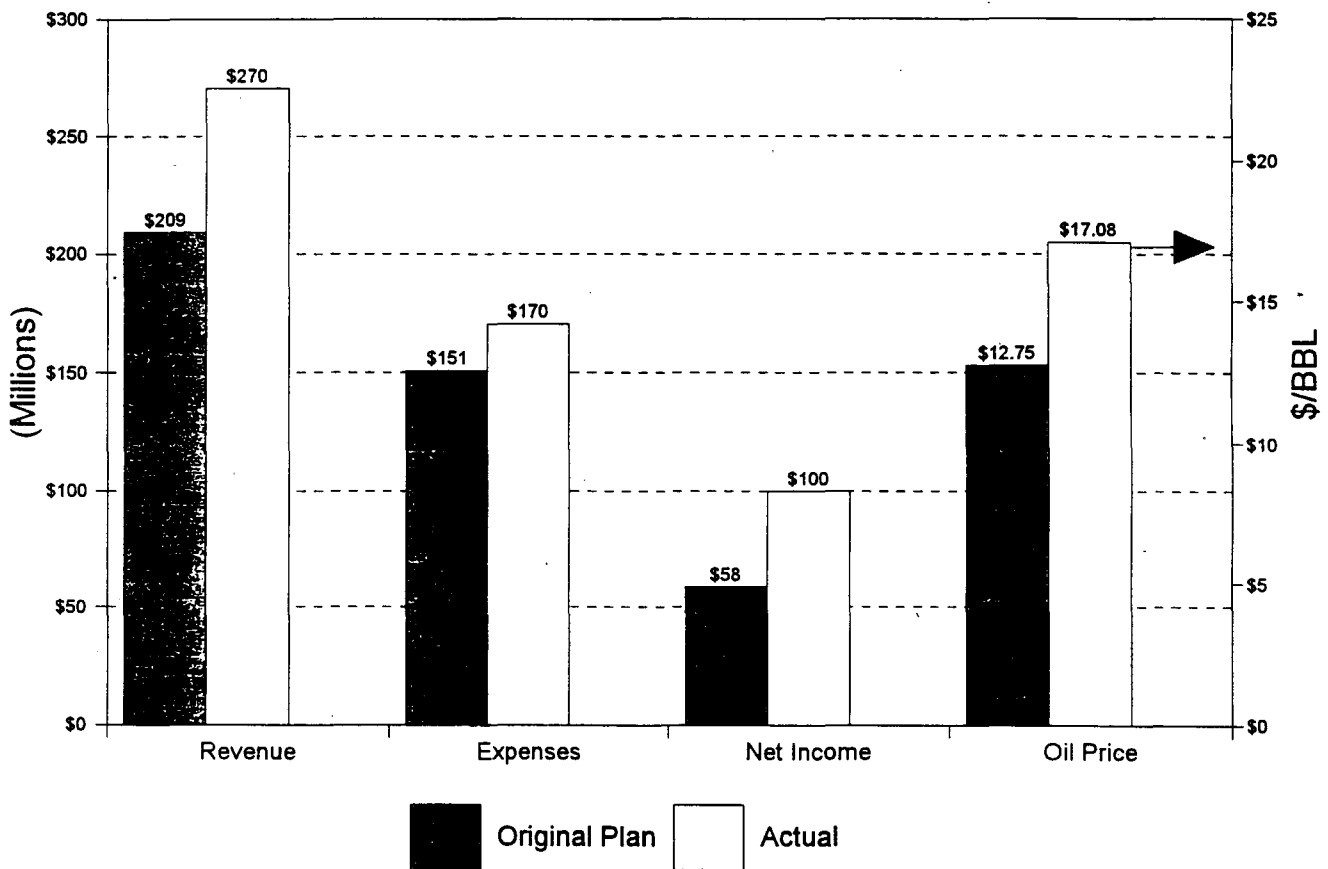
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LBU FINANCIAL PERFORMANCE

FISCAL YEAR 1996-97 ANNUAL PLAN

Exhibit A

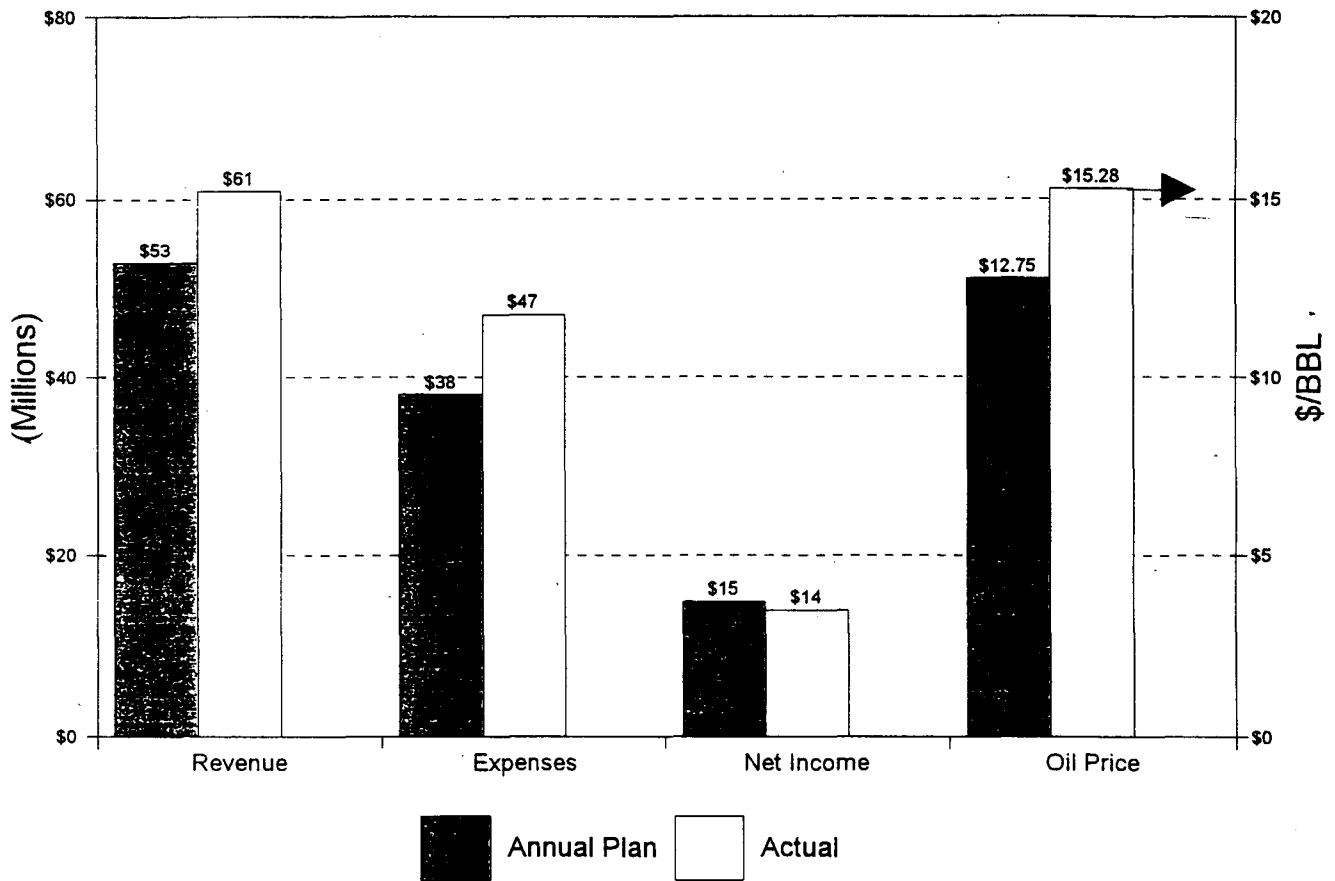
Revised Sep-97



LBU FINANCIAL PERFORMANCE

FOURTH QUARTER FY 1996-97

Exhibit B

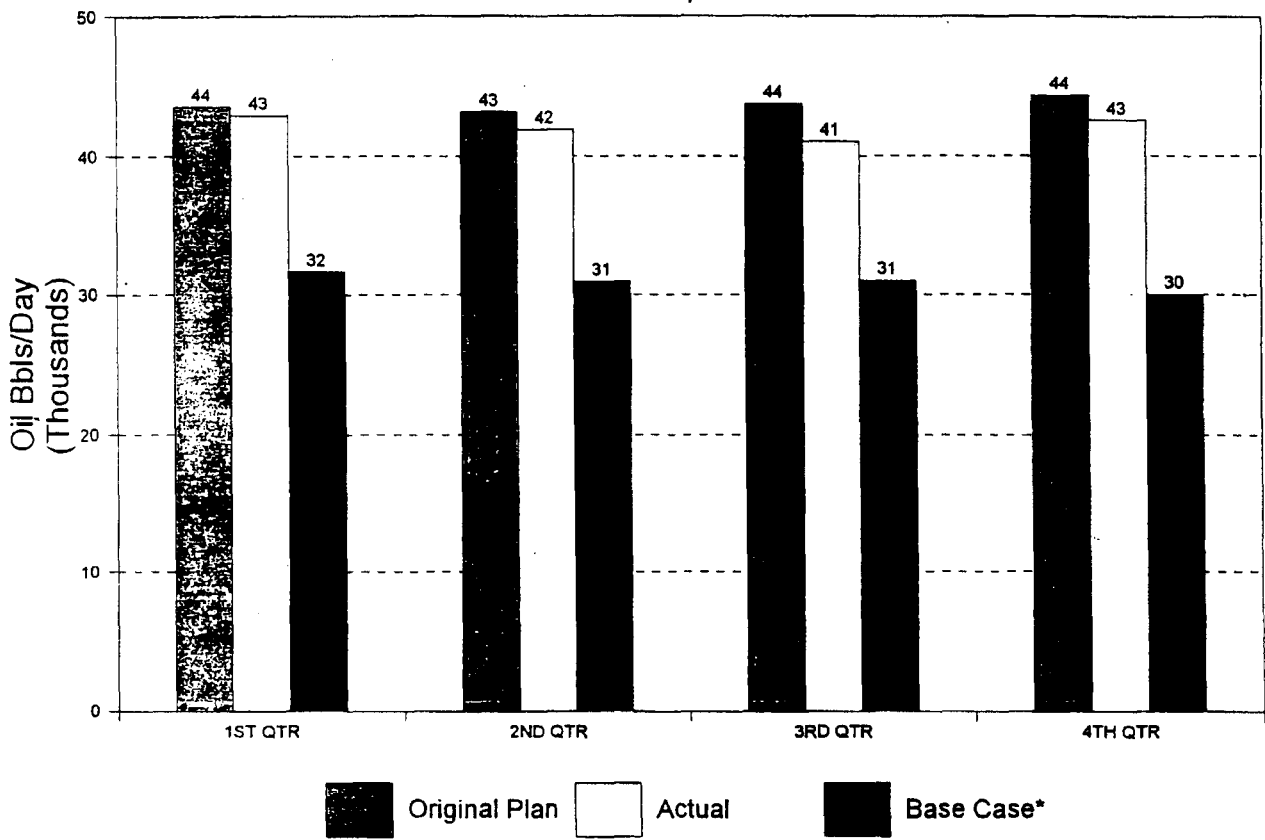


LBU OIL RATE PERFORMANCE

FISCAL YEAR 1996-97 ANNUAL PLAN

Exhibit C

Revised Sep-97



*Prediction if Optimized Waterflood Not Implemented

Zone	New Completions			Redrills		
	Prod	Inj	Total	Prod	Inj	Total
Tar	0	0	0	0	0	0
Ranger	4	0	4	9	7	16
Terminal	0	0	0	1	0	1
Upper/Lower Terminal	4	0	4	1	0	1
UP-Ford	4	0	4	6	1	7
237	0	0	0	0	0	0
Total	12	0	12	17	8	25

On June 30, 1997 the total number of wells was 1,330, of which 875 were producers and 455 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 \$28,477,275, or 91.9 percent, was expended. The modified Plan provided funds for approximately 50 new and redrilled wells. Only 37 new and redrilled wells were completed during the Plan period resulting in the underexpenditure to this category. Additionally, average well completions cost more than planned, mainly as a result of deeper, more complicated completions, e.g., UP/Ford fracture stimulated 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

- Unit oil production during the Plan period averaged 42,083 bbls/day, which was 917 bbls/day less than estimated in the modified budget. Gas production averaged 8,800 mcf/day, which was 159 mcf/day less than estimated in the modified budget.
- Water injection averaged 633,540 bbls/day, which was 15,125 bbls/day less than estimated in the modified budget. Water production averaged 533,149 bbls/day, which was 16,027 bbls/day less than estimated in the modified budget.
- Full production potential was not reached during the period due to:
 1. The pressure incident on Island Chaffee and its related impacts on injection, production, and the backlog of maintenance well work;

2. Slower drilling and completion timing than anticipated, rig competition and the increase in fracturing with attendant longer time to completion; and
3. Forecast base decline did not rigorously model well failure impacts.

Budget to Actual Variance

The Operating Expense Category has a modified budget of \$54,800,000, of which \$56,464,263, or 103.0 percent, was expended. The over-expenditure resulted from higher wellwork expense (\$894,127, or 3.7% over plan) and electric power cost (\$464,662, or 2.1% over plan).

OTHER PLANT

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

Operations Review

Projects with significant expenditures during the Plan period include the following:

- Circuit breaker coordination study;
- Relocate Pico area pipelines to comply with the Port of Long Beach Harbor Redevelopment Plan;
- Replace water injection totalizer and wiring;
- Skim basin vapor recovery system on Island White;
- Convert Unit vent stack to flare;
- Subsea pipeline repairs;
- Relocate J6 maintenance yard to comply with the Port of Long Beach Harbor Redevelopment Plan;
- Installation of a gas processing facility;
- Replace piping on Island Freeman;
- Replace piping on Island White;
- Piping replacement design on Island White;
- Unit seismic retrofit;
- Install Unit gas sales meter and odorizer;
- Repair washed out area at Island Grissom's barge ramp;
- Remove idled shipping pumps at the THX cellar and B&M site;
- Install a barge ramp automation and access system on Island Grissom;
- Process hazards analysis;
- 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 \$30,558,347, or 95.2 percent, was 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 \$35,505,098, or 105.0 percent, was expended.

The Unit Field Labor and Administrative Category had significant project expenditures (see Attachment 2) during the Plan period for:

- Purchasing personal computer equipment;
- 1995 tax appeal;
- Self Generation Deferral Rate Legal Support;
- Artificial lift equipment benchmarking system;
- Nodal analysis;
- 3D Seismic interpretation;
- Arco Exploration and Production Technology (AEPT) services for horizontal well modeling, stimulation services, Terminal 90S study, horizontal well modeling, Ford 98 study, toolbox subscription, and general professional services;
- Purchase and install 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.

Budget to Actual Variance

The Taxes, Permits, and Administrative Overhead Category has a budget of \$19,200,000, of which \$19,374,644, or 100.9 percent, was expended.

Significant variances in this category resulted from higher than anticipated administrative overhead costs (\$430,975, or 7.7% over plan), and unbudgeted costs for the Oil Spill Prevention and Administration Fee of \$374,600. These increases were partially offset by unexpended cost for an anticipated land lease extension of \$500,000.

SUMMARY

The Unit has a modified budget of \$170,900,000, of which \$170,379,625, or 99.7 percent, was expended through June 30, 1997.

Fiscal year profit of \$100.0 million is \$26.3 million more than estimated in the modified budget. Greater than anticipated profit is attributed to higher than anticipated oil and gas prices.

BUDGET RECONCILIATION

Attached is the June 1997 Budget Statement, Field Labor Administrative Projects, Fiscal Year Projects Report, revised Annual Plan Economic Projections and Major Planning Assumptions, and an end of period report of wells, oil production, gas production, water production, and water injection by location and zone.

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.

Sincerely,



Xenophon C. Colazas
Director

XCC:slg

FIN 312.003

Attachments

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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	Actual 4th Qtr FY96/97	Modified Budget 4th Qtr FY96/97	Actual Total Fiscal Year FY96/97	Original Total Budget FY96/97	Modified Total Budget FY96/97	% Actual Over/(Under) Modified Budget	Actual Over/(Under) Modified Budget
ESTIMATED REVENUE													
Oil Revenue	\$64,762	\$64,762	\$72,314	\$72,314	\$66,082	\$49,396	\$59,247	\$51,821	\$262,404	\$203,172	\$238,293	10.12%	\$24,112
Gas Revenue	1,497	\$1,497	\$1,935	\$1,935	\$2,866	\$1,424	\$1,697	\$1,494	\$7,996	\$5,856	\$6,350	25.91%	\$1,646
TOTAL REVENUE	\$66,259	\$66,259	\$74,249	\$74,249	\$68,949	\$50,820	\$60,944	\$53,315	\$270,400	\$209,028	\$244,643	10.53%	\$25,757
ESTIMATED EXPENDITURES													
Development Drilling	\$5,312	\$5,312	\$4,788	\$4,788	\$8,795	\$13,150	\$9,582	\$7,750	\$28,477	\$22,445	\$31,000	(8.14%)	(\$2,523)
Operating Expense	16,552	16,552	13,995	13,995	11,633	12,126	14,284	12,126	\$56,464	\$50,106	\$54,800	3.04%	\$1,664
Other Plant	7,826	7,826	7,549	7,549	6,945	8,363	8,239	8,363	\$30,558	\$30,378	\$32,100	(4.80%)	(\$1,541)
Unit Field Labor & Administra	8,471	8,471	7,681	7,681	9,177	8,824	10,176	8,824	\$35,505	\$33,601	\$33,800	5.04%	\$1,705
Taxes, Permits & Admin Overh	5,340	5,340	4,347	4,347	4,972	4,756	4,716	4,756	\$19,375	\$14,020	\$19,200	0.91%	\$175
TOTAL EXPENDITURES	\$43,502	\$43,502	\$38,359	\$38,359	\$41,522	\$47,219	\$46,996	\$41,819	\$170,380	\$150,550	\$170,900	(0.30%)	(\$520)
NET PROFIT	\$22,757	\$22,757	\$35,890	\$35,890	\$27,426	\$3,601	\$13,947	\$11,496	\$100,020	\$58,478	\$73,743	35.63%	\$26,277

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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	Actual 4th Qtr FY96/97	Modified Budget 4th Qtr FY96/97	Actual Total Fiscal Year FY96/97	Original Total Budget FY96/97	Modified Total Budget FY96/97	% Actual Over/(Under) Modified Budget	Actual Over/(Under) Modified Budget
OIL													
ACTUAL SHIPPED (1,000 BBL)	3,947		3,860		3,676		3,878		15,361				
PRODUCED (1,000 BBL)	3,948	3,948	3,853	3,853	3,691	3,874	3,869	4,020	15,360	15,935	15,695		(335)
(B/D)	42,912	42,912	41,876	41,876	41,013	43,047	42,514	44,178	42,083	43,658	43,000	(2.13%)	(917)
GAS													
ACTUAL SHIPPED (1,000 MC)	763		800		781		818		3,161				
PRODUCED (1,000 MCF)	808	808	804	804	790	814	810	844	3,212	3,346	3,270		(58)
(MCF/D)	8,784	8,784	8,737	8,737	8,782	9,040	8,898	9,277	8,800	9,167	8,959	(1.77%)	(159)
WATER PRODUCTION													
(1,000 BBL)	48,851	48,851	47,458	47,458	47,860	51,405	50,431	52,735	194,600	218,117	200,449		(5,849)
(B/D)	530,986	530,986	515,852	515,852	531,773	571,164	554,187	579,504	533,149	597,581	549,175	(2.92%)	(16,027)
WATER INJECTION													
(1,000 BBL)	58,722	58,722	55,872	55,872	56,748	60,289	59,900	61,880	231,242	258,600	236,763		(5,521)
(B/D)	638,285	638,285	607,305	607,305	630,530	669,875	658,245	679,997	633,540	708,493	648,666	(2.33%)	(15,125)
OH. PRICE (\$/BBL)	\$16.41	\$16.41	\$18.73	\$18.73	\$17.98	\$12.75	\$15.28	\$12.75	\$17.08	\$12.75	15.18	12.53%	\$1.90
GAS PRICE (\$/MCF)	\$1.96	\$1.96	\$2.42	\$2.42	\$3.67	\$1.75	\$2.07	\$1.75	\$2.53	\$1.75	1.94	30.37%	\$0.59

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WATER INJECTION

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NUMBER OF WELLS

As of June 30, 1997

	Producers	Injections	Total
Grissom	187	93	280
White	148	92	240
Chaffee	214	114	328
Freeman	222	94	316
Pier J (Inc. THX)	<u>104</u>	<u>62</u>	<u>166</u>
Total	875	455	1330
Tar V	11	2	13
Ranger (All Areas)	660	356	1016
Upper & Lower Terminal VI, VII	66	34	100
Terminal (Blocks VIII, 90)	60	34	94
Union Pacific-Ford (All Areas)	75	29	104
237 (All Areas)	<u>3</u>	<u>0</u>	<u>3</u>
Total	875	455	1330

(Figures exclude 9 abandoned producers and 23 abandoned injectors)

PRODUCTION - OIL

	Average B/D 7/1/96 - 6/30/97	Cumulative Bbls. 6/30/97
Grissom	9335	149874369.
White	7731	141820650.
Chaffee	10578	177417911.
Freeman	10627	231503254.
Pier J (Inc. THX)	3812	131679948.
TOTAL	42083	832296132.
Tar V	131	1359671.
Ranger (All Areas)	27684	628571018.
Upper Terminal & Lower Terminal VI, VII	4931	68564847.
Terminal (Blocks VIII, 90)	4193	45440911.
Union Pacific-Ford (All Areas)	5144	84501074.
237 (All Areas)	0	3858611.
TOTAL	42083	832296132.

PRODUCTION - GAS

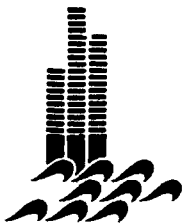
	Average mcf/D 7/1/96 - 6/30/97	Cumulative mcf 6/30/97
Grissom	800	21137057.
White	2578	35083069.
Chaffee	2017	58473485.
Freeman	2284	81437158.
Pier J (Inc. THX)	1121	23850626.
TOTAL	8800	219981395.
Tar V	64	572414.
Ranger (All Areas)	6014	139583544.
Upper Terminal & Lower Terminal VI, VII	957	9144785.
Terminal (Blocks VIII, 90)	768	12943609.
Union Pacific-Ford (All Areas)	997	53471774.
237 (All Areas)	0	4265269.
TOTAL	8800	219981395.

PRODUCTION - WATER

	Average B/D 7/1/96 - 6/30/97	Cumulative Bbls. 6/30/97
Grissom	128356	959296386.
White	108252	760514797.
Chaffee	92988	610521935.
Freeman	127374	942379281.
Pier J (Inc. THX)	76179	767229987.
TOTAL	533149	4039942386.
Tar V	615	5880027.
Ranger (All Areas)	442320	3495937159.
Upper Terminal & Lower Terminal VI, VII	49137	306975198.
Terminal (Blocks VIII, 90)	22521	86988387.
Union Pacific-Ford (All Areas)	18556	140973725.
237 (All Areas)	0	3187890.
TOTAL	533149	4039942386. —

INJECTION - WATER

	Average B/D 7/1/96 - 6/30/97	Cumulative Bbls. 6/30/97
Grissom	161631	1345325178.
White	122600	1121100681.
Chaffee	119432	1179199901.
Freeman	146061	1040188466.
Pier J (Inc. THX)	83816	991132600.
TOTAL	633540	5676946826.
Tar V	1457	14330695.
Ranger (All Areas)	515917	4870306512.
Upper Terminal & Lower Terminal VI, VII	56100	384432294.
Terminal (Blocks VIII, 90)	33144	183310054.
Union Pacific-Ford (All Areas)	26922	224567271.
237 (All Areas)	0	0
TOTAL	633540	5676946826.

**CITY OF LONG BEACH**

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (562) 570-3900 • FAX 57

August 28, 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 FOURTH AMENDMENT OF
THE ANNUAL PLAN (JULY 1, 1996 THROUGH JUNE 30, 1997)
FINAL REPORT AND CLOSING STATEMENT**

Dear Mr. Mount:

In accordance with provisions of Part IV, Section A, of the Annual Plan, we are submitting for your approval this final report and closing statement as the Fourth Amendment to the Annual Plan covering the period July 1, 1996 through June 30, 1997. This report contains a reconciliation of Unit activities by category.

DEVELOPMENT DRILLING

The Development Drilling Category provides funding for all drilling and re-drilling activity, and maintenance and replacement of drilling equipment within the Unit.

Operations Review

- One drilling rig was in operation during the first quarter of the period. A second drilling rig was activated early in the second quarter and continued throughout the fiscal period.
- During the Plan period twelve new wells and twenty-five re-drilled wells were completed. Following is a listing of both new completions and re-drills by zone:

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