

MINUTE ITEM

This Calendar Item No. C38 was approved as
Minute Item No. 38 by the California State Lands
Commission by a vote of 3 to 0 at its
1-29-99 meeting.

CALENDAR ITEM

C38

A 57, 58

01/29/99

S 29

W 17150

S. Curran

**CONSIDER APPROVAL OF THE FIRST AMENDMENT OF THE FY 1998-99
ANNUAL PLAN, REVISING ECONOMIC PROJECTIONS
AND MAJOR PLANNING ASSUMPTIONS,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

City of Long Beach
Department of Oil Properties
211 East Ocean Boulevard, Suite 500
Long Beach, California 90802

BACKGROUND:

The City of Long Beach has submitted to the Commission the First Amendment of the FY 1998-99 Annual Plan, Long Beach Unit, covering the period July 1, 1998 through June 30, 1999. This report provides the actual performance for the First Quarter of Fiscal Year 1998-99 and revised projections for the remaining quarters of the Fiscal Year. There were no changes to the latest approved budget of \$191,000,000 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 First Quarter of the 1998-99 Fiscal Year were reported to be 41,749 bbls/day of oil (1,777 bbls/day less than originally estimated) and 9,739 MCF/day of gas (1,034 MCF/day more than forecast). The lower than planned oil rate is primarily due to lower oil prices. In response to the continuing low oil prices, the drilling program has been suspended. The well workover rig count will remain at four and other projects will be further delayed. If oil prices remain at the current low levels, reduced expenditures in the Development, Drilling, Operating Expense, and Facilities and Maintenance are likely to continue.

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CALENDAR ITEM NO. C38 (CONT'D)

The cumulative recoveries and injection through September 1998 are as follows:

Oil Production	852,208,070 Barrels
Gas Production	224,368,942 MCF
Water Production	4,310,904,855 Barrels
Water Injection	5,995,467,002 Barrels

Cumulative Injection - Gross Production Ratio is 1.161 Bbls/Bbl.

The revised economic projections reflect the net combined effects of lower produced fluid volumes, lower costs, and lower oil prices. Lower than planned oil prices resulted in a decrease in the First Quarter net profit of \$3.5 Million. Original major planning assumptions were based on an average oil price of \$14.00/bbl and an average gas price of \$2.00/mcf. Revised oil and gas prices, expenditures, and net profits for Fiscal Year 1998-99 are shown in the table below. Although substantially lower oil prices were experienced for the first quarter of the fiscal year, the City has requested that the originally budgeted oil price of \$14.00/bbl remain unchanged for the next quarter. If oil prices remain at their current low levels, net profits for the Second Quarter of the FY 1998-99 are expected to be less than budgeted. Steps have been taken to reduce expenditures to significantly less than estimated levels. These included reducing contract personnel and delaying projects prior to the start of the first quarter, postponing drilling activity and maintaining the workover rig count at four rigs. In addition, a company reorganization was completed during the first quarter that reduced the THUMS workforce from 285 to 220 personnel.

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 98-99	ESTIMATED SECOND QUARTER FY 98-99	ESTIMATED THIRD QUARTER FY 98-99	ESTIMATED FOURTH QUARTER FY 98-99	FISCAL YEAR FY 98-99
Oil Revenue	36.954	56.559	55.712	56.296	205.521
Gas Revenue	2.010	1.616	1.592	1.608	6.826
Expenditures	34.263	47.300	46.900	47.300	175.763
Net Profit	4.701	10.875	10.404	10.604	36.584
Original	8.163	10.875	10.404	10.604	40.046
Change	(3.462)	0.000	0.000	0.000	(3.462)

CALENDAR ITEM NO. C38 (CONT'D)

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 98-99	ESTIMATED SECOND QUARTER FY 98-99	ESTIMATED THIRD QUARTER FY 98-99	ESTIMATED FOURTH QUARTER FY 98-99	FISCAL YEAR FY 98-99
Oil Price/BBL	\$ 9.62	\$ 14.00	\$ 14.00	\$ 14.00	\$ 12.94
Gas Price/MCF	\$ 2.24	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.07

Commission staff has reviewed the First 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

- 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:

- Fiscal Year 1998-99 Financial Projections
- First Quarter Fiscal Year 1998-99 Financial Performance
- Fiscal Year 1998-99 Oil Rate Projections
- Letter Requesting Approval of First Amendment of the Annual Plan, Long Beach Unit, (July 1, 1998 - June 30, 1999)

PERMIT STREAMLINING ACT DEADLINE:

N/A

CALENDAR ITEM NO. C38 (CONT'D)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

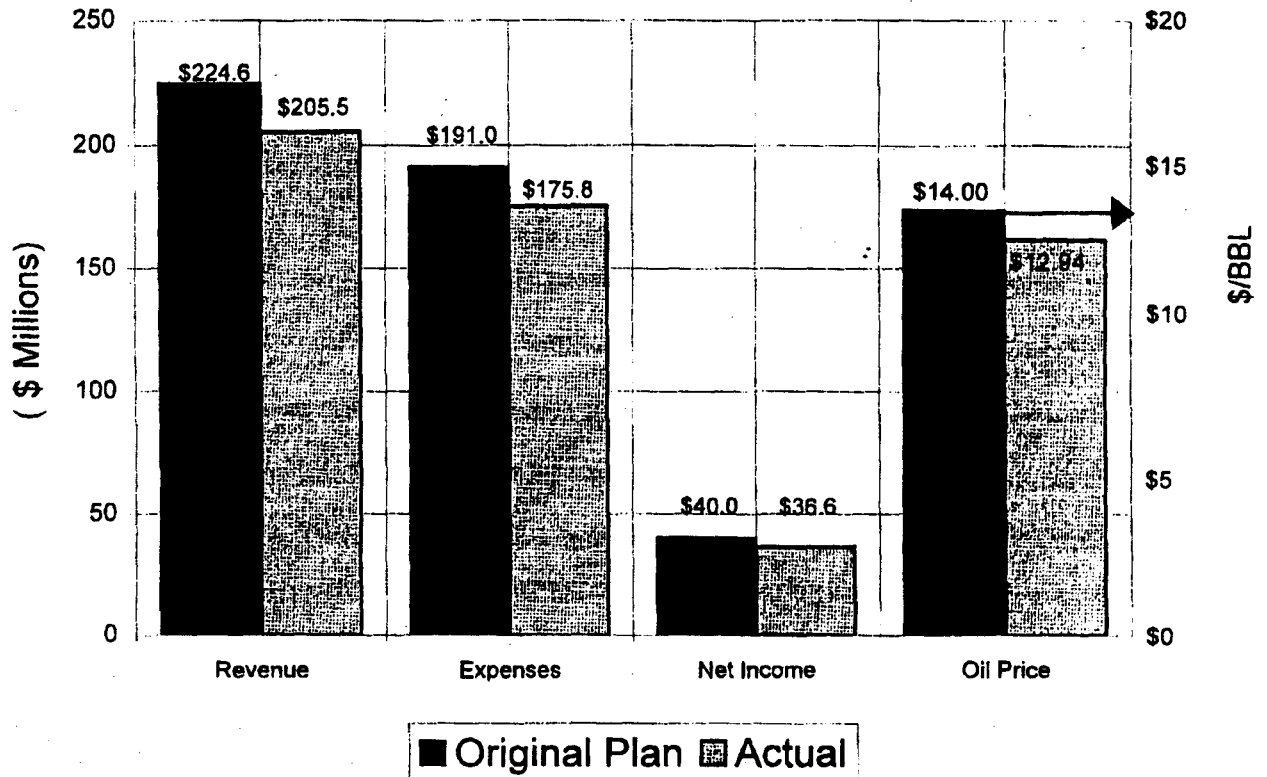
FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

APPROVE THE FIRST AMENDMENT OF THE LONG BEACH UNIT ANNUAL PLAN, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, FOR THE PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999.

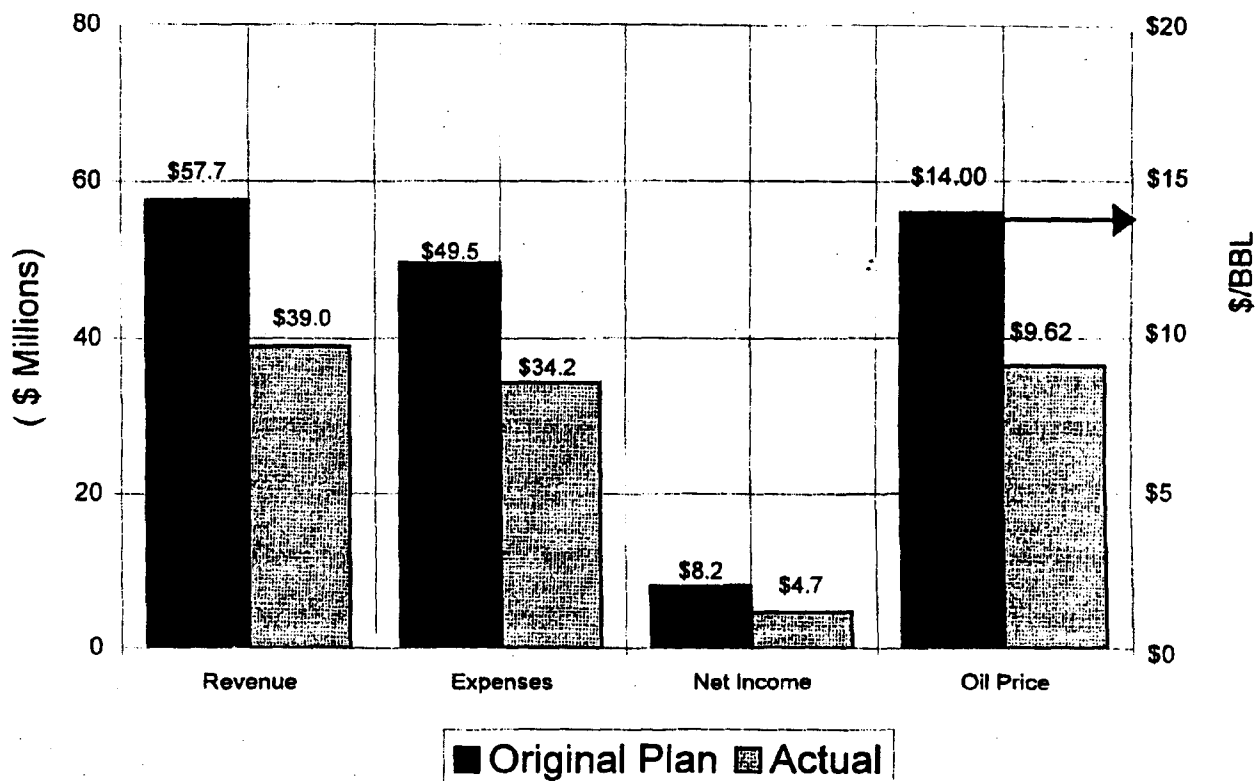
LBU FINANCIAL PERFORMANCE FISCAL YEAR 1998-99 ANNUAL PLAN

Exhibit "A"



LBU FINANCIAL PERFORMANCE FIRST QUARTER FY 1998-99

Exhibit "B"



LBU OIL RATE PERFORMANCE
FISCAL YEAR 1997-98 ANNUAL PLAN

Exhibit "C"

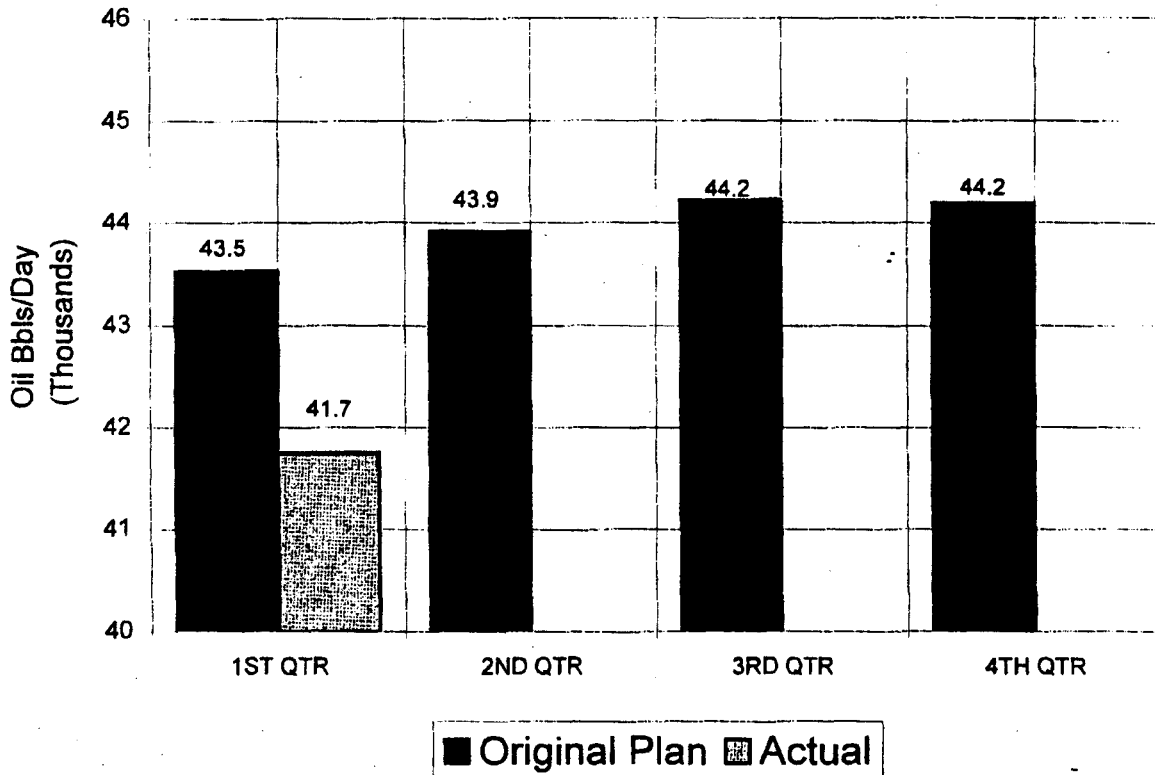




EXHIBIT D

W 17150

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (310) 570-3900 • FAX 570-0922

December 23, 1998

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 AMENDMENT OF THE ANNUAL PLAN, LONG BEACH UNIT (JULY 1, 1998 THROUGH JUNE 30, 1999)**

Dear Mr. Mount:

In accordance with provisions of Part IV, Section A. of the Annual Plan, we are submitting for your approval this First Amendment of the Annual Plan covering the period July 1, 1998 through June 30, 1999.

This report reviews first 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, as well as 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 redrilling activity, as well as maintenance and replacements for drilling equipment within the Unit.

Operations Review

There was no drilling activity during the quarter. Drilling activity ceased in March 1998 due to low oil prices. Plans were made, however, to restart the drilling program in November should oil prices rebound.

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Mr. Paul B. Mount II
December 23, 1998
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On September 30, 1998, the total number of wells was 1,332, of which 874 were producers and 458 were injectors. Excluded from these totals are 34 abandoned wells, 11 of which are producers and 23 are injectors.

Budget to Actual Variance

The Development Drilling category had an original budget of \$39,000,000, of which \$158,000, or 0.4 percent, is expended. This Plan provided funds for approximately 48 new and redrilled wells. Because of persistently low oil prices, it is unlikely that the planned expenditures for drilling will be made and the final total for the year can be expected to be much less than \$39,000,000.

OPERATING EXPENSE

The Operating Expense category provided 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 first quarter the Unit oil production rate averaged 41,749 bbls/day, which was 1,777 bbls/day less than originally projected; and gas production averaged 9,739 mcf/day, which was 1,034 mcf/day more than originally projected in the Major Planning Assumptions section of the Annual Plan.

Water injection averaged 713,936 bbls/day, which was 35,013 bbls/day more than originally projected in the Major Planning Assumptions section of the Annual Plan. Water production averaged 616,744 bbls/day, which is 55,465 bbls/day more than originally projected.

Budget to Actual Variance

The Operating Expense category has a budget of \$61,000,000, of which \$14,606,000, or 23.9 percent, is expended. The lower spending level is primarily related to cost cutting measures due to low oil prices.

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

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FACILITIES, MAINTENANCE, AND PLANT

The Facilities, Maintenance, and 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:

- J2 Sulfa treat change out
- J4 Sulfa treat change out
- Freeman shut-in
- Harbor pipeline relocation

Budget to Actual Variance

The Facilities, Maintenance, and Plant Category has a budget of \$34,000,000, of which \$5,605,000, or 16.5 percent, is expended. The lower spending level is primarily related to cost cutting measures due to low oil prices.

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, 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 \$37,000,000, of which \$8,932,000, or 24.1 percent, is expended.

The Unit Field Labor and Administrative category had no significant project expenditures during the quarter.

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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 \$20,000,000, of which \$4,962,000, or 24.8 percent, is expended.

SUMMARY

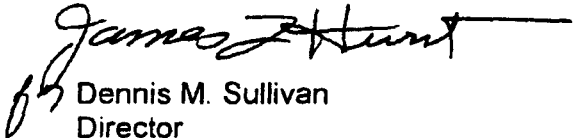
The Unit has a total budget of \$191,000,000, of which \$34,263,000 or 17.9 percent was expended through September 30, 1998.

Significant steps have been taken to reduce expenditures. These included reducing contract personnel and delaying projects prior to the start of the first quarter, postponing drilling activity, and maintaining the workover rig count at 4 rigs. The effect of these reductions is reflected in under-spending the first quarter budget by \$15.2MM. In addition, a company reorganization was completed during the quarter that reduced the THUMS workforce from 285 to 220 personnel. The full impact of the company reorganization's savings will not be realized until late in the fiscal year, when severance payments diminish. Further cost reduction efforts are continuing because of persisting low oil prices.

Total profit of \$4.7 million is \$3.5 million less than originally estimated, entirely due to lower than anticipated oil 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,


Dennis M. Sullivan
Director

DMS:slg

FIN 312.003

Attachments

CALENDAR PAGE	000187
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<u>Location</u>	<u>Oil Production</u>		<u>Gas Production</u>	
	<u>Average B/D</u>	<u>Cumulative Bbls.</u>	<u>Average B/D</u>	<u>Cumulative MCF</u>
	<u>7/1/98-9/30/98</u>	<u>9/30/98</u>	<u>7/1/98-9/30/98</u>	<u>9/30/98</u>
Grissom	10,281	154,489,375	1,004	21,546,443
White	7,675	145,510,457	1,524	35,732,744
Chaffee	10,378	182,582,031	3,101	59,836,839
Freeman	10,082	236,326,379	2,702	82,911,016
Pier J (Inc. THX)	3,473	133,299,828	1,264	24,341,900
Total	41,889	852,208,070	9,595	224,368,942

<u>Reservoir</u>	<u>Oil Production</u>		<u>Gas Production</u>	
	<u>Average B/D</u>	<u>Cumulative Bbls.</u>	<u>Average B/D</u>	<u>Cumulative MCF</u>
Tar V	105	1,406,342	70	601,347
Ranger (All Areas)	28,007	641,621,993	6,162	142,322,166
Upper Terminal & Lower Terminal VI, VII	4,946	70,869,386	939	9,560,835
Terminal (Blocks VIII, 90)	3,292	47,076,839	967	13,446,015
Union Pacific-Ford (All Areas)	5,539	87,374,899	1,457	54,173,310
237 (All Areas)	0	3,858,611	0	4,265,269
Total	41,889	852,208,070	9,595	224,368,942

<u>Location</u>	<u>Water Production</u>		<u>Water Injection</u>	
	<u>Average B/D</u>	<u>Cumulative Bbls.</u>	<u>Average B/D</u>	<u>Cumulative Bbls.</u>
	<u>7/1/98-9/30/98</u>	<u>9/30/98</u>	<u>7/1/98-9/30/98</u>	<u>9/30/98</u>
Grissom	149,523	1,023,027,866	177,862	1,422,490,846
White	124,093	814,978,493	127,658	1,176,527,478
Chaffee	108,721	658,977,789	132,380	1,242,446,341
Freeman	148,160	1,008,002,718	170,959	1,116,921,059
Pier J (Inc. THX)	86,108	805,917,989	105,078	1,037,081,278
Total	616,605	4,310,904,855	713,937	5,995,467,002

<u>Reservoir</u>	<u>Water Production</u>		<u>Water Injection</u>	
	<u>Average B/D</u>	<u>Cumulative Bbls.</u>	<u>Average B/D</u>	<u>Cumulative Bbls.</u>
Tar V	557	6,200,061	1,529	15,074,986
Ranger (All Areas)	500,371	3,716,019,520	568,039	5,124,152,473
Upper Terminal & Lower Terminal VI, VII	58,364	333,167,602	66,895	414,222,333
Terminal (Blocks VIII, 90)	25,298	98,475,983	36,864	199,929,028
Union Pacific-Ford (All Areas)	32,015	153,853,799	40,610	242,088,182
237 (All Areas)	0	3,187,890	0	0
Total	616,605	4,310,904,855	713,937	5,995,467,002

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MINUTE PAGE	004970

B. Economic Projections

(Data in Thousands of \$)	ACTUAL FIRST QUARTER FY98/99	BUDGET FIRST QUARTER FY98/99	BUDGET SECOND QUARTER FY98/99	BUDGET THIRD QUARTER FY98/99	BUDGET FOURTH QUARTER FY98/99	PROJ ACTUAL TOTAL FISCAL YEAR FY98/99	BUDGET TOTAL FISCAL YEAR FY98/99	% PROJECTED OVER/UNDER(-) BUDGET FY98/99
ESTIMATED REVENUE								
Oil Revenue	\$36,954	\$56,061	\$56,559	\$35,712	\$56,296	\$205,521	\$224,628	-8.51%
Gas Revenue	\$2,010	\$1,602	\$1,616	\$1,592	\$1,608	\$6,826	\$6,418	6.36%
TOTAL REVENUE	\$38,964	\$57,663	\$58,175	\$57,304	\$57,904	\$212,347	\$231,046	-8.09%
ESTIMATED EXPENDITURES								
Development Drilling	\$158	\$9,750	\$9,750	\$9,750	\$9,750	\$29,408	\$39,000	-24.99%
Operating Expense	\$14,606	\$17,000	\$14,800	\$14,400	\$14,800	\$58,606	\$61,000	-3.92%
Facilities & Maintenance	\$5,605	\$8,500	\$8,500	\$8,500	\$8,500	\$31,105	\$34,000	-8.51%
Unit Field Labor & Admin	\$8,932	\$9,250	\$9,250	\$9,250	\$9,250	\$36,682	\$37,000	-0.86%
Taxes, Permits & Admin. Overhead	\$4,962	\$5,000	\$5,000	\$5,000	\$5,000	\$19,962	\$20,000	-0.19%
TOTAL EXPENDITURES	\$34,263	\$49,500	\$47,300	\$46,900	\$47,300	\$175,763	\$191,000	-7.98%
NET PROFIT	\$4,701	\$8,163	\$10,875	\$10,404	\$10,604	\$36,584	\$40,046	-8.65%

C. Major Planning Assumptions

	ACTUAL FIRST QUARTER FY98/99	BUDGET FIRST QUARTER FY98/99	BUDGET SECOND QUARTER FY98/99	BUDGET THIRD QUARTER FY98/99	BUDGET FOURTH QUARTER FY98/99	PROJ ACTUAL TOTAL FISCAL YEAR FY98/99	BUDGET TOTAL FISCAL YEAR FY98/99	% PROJECTED OVER/UNDER(-) BUDGET FY98/99
OIL PRODUCTION:								
SHIPMENTS (1,000 BBL)	3,841	4,004	4,040	3,979	4,021	15,881	16,045	
AVERAGE B/D	41,749	43,526	43,912	44,216	44,188	43,511	43,958	-1.02%
GAS PRODUCTION:								
ACTUAL SHIPPED (MMCF)	896	801	808	796	804	3,304	3,209	
AVERAGE MCF/D	9,739	8,705	8,782	8,843	8,838	9,052	8,792	2.96%
WATER PRODUCTION:								
ACTUAL (1,000 BBL)	56,740	51,638	51,994	51,183	51,983	211,900	206,797	
AVERAGE B/D	616,744	561,279	565,156	568,696	571,237	580,548	566,568	2.47%
WATER INJECTION								
ACTUAL (1,000 BBL)	65,682	62,461	63,174	62,677	63,662	255,195	251,973	
AVERAGE B/D	713,936	678,923	686,671	696,408	699,582	699,163	690,338	1.28%
AVG OIL PRICE (\$/BBL)	\$9.62	\$14.00	\$14.00	\$14.00	\$14.00	\$12.94	\$14.00	-7.56%
AVG GAS PRICE (\$/MCF)	\$2.24	\$2.00	\$2.00	\$2.00	\$2.00	\$2.07	\$2.00	3.30%

NUMBER OF WELLS

As of September 30, 1998

	Producers	Injectors	Total
By Location			
Grissom	190	93	283
White	149	92	241
Chaffee	212	116	328
Freeman	221	95	316
Pier J (Inc. THX)	102	62	164
Total	874	458	1332
By Reservoir			
Tar V	11	2	13
Ranger (All Areas)	663	360	1023
Upper & Lower Terminal VI, VII	67	32	99
Terminal (Blocks VIII, 90)	57	34	91
Union Pacific-Ford (All Areas)	73	30	103
237 (All Areas)	3	0	3
Total	874	458	1332

(Figures exclude abandoned producers and abandoned injectors)