

MINUTE ITEM

This Calendar Item No. C60 was approved as
Minute Item No. 60 by the California State Lands
Commission by a vote of 3 to 0 at its
4/13/99 meeting.

CALENDAR ITEM

C60

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S. Curran

**CONSIDER APPROVAL OF THE SECOND 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
Attn.: Mr. Dennis Sullivan, Director
211 East Ocean Blvd., Suite 500
Long Beach, CA 90802

BACKGROUND:

The City of Long Beach has submitted to the Commission the Second 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 Second Quarter of Fiscal Year 1998-99 and revised projections for the last quarter 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. Commission staff does not believe that the projections are realistic and estimates that net profits will be much less.

The average oil and gas rates for the Second Quarter of the 1998-99 Fiscal Year were reported to be 40,735 bbls/day of oil (3,177 bbls/day less than originally estimated) and 9,447 MCF/day of gas (665 MCF/day more than forecasted). The lower than planned oil rate is primarily due to lower oil prices. In response to the continuing low oil prices, the drilling program remains suspended and the well work over rig count has been reduced from four to three and Unit projects further delayed. The cumulative recoveries and injection through December 1998 are as follows:

Oil Production	855,973,085 Barrels
Gas Production	225,254,343 MCF
Water Production	4,370,099,672 Barrels

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Water Injection 6,062,162,840 Barrels
 Cumulative Injection - Gross Production Ratio is 1.160 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 Second Quarter net profit of \$8.3 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 two quarters of the fiscal year, the originally projected oil price of \$14.00/bbl will remain unchanged for the next quarter. If oil prices remain at their current low levels, net profits for the Third quarter of the FY 1998-99 are expected to be less than budgeted. More steps have been taken to reduce expenditures to significantly less than estimated levels. These include reducing contract personnel, a company reorganization that reduced personnel from 285 to 220, postponing drilling and project activity and reducing the work over rig count to three rigs. The full impact of cost savings from the company reorganization will be felt later in this fiscal year when severance payments diminish.

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 1998-99	ACTUAL SECOND QUARTER FY 1998-99	ESTIMATED THIRD QUARTER FY 1998-99	ESTIMATED FOURTH QUARTER FY 1998-99	FISCAL YEAR 1998-99
Oil Revenue	36.954	32.896	55.712	56.296	181.058
Gas Revenue	2.010	1.920	1.592	1.608	7.130
Expenditures	34.263	32.194	46.900	47.300	160.657
Net Profit	4.701	2.622	10.404	10.604	28.331
Original	8.163	10.875	10.404	10.604	40.046
Change	(3.462)	(8.253)	0.000	0.000	(11.715)
Oil Price/BBL	\$9.62	\$8.78	\$14.00	\$14.00	\$11.60
Gas Price/MCF	\$2.24	\$2.21	\$2.00	\$2.00	\$2.11

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.

CALENDAR ITEM NO. C60 (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 1998-99 Financial Projections
- B. Second Quarter Fiscal Year 1998-99 Financial Performance
- C. Fiscal Year 1998-99 Oil Rate Projections
- D. Letter Requesting Approval of Second Amendment of the Annual Plan, Long Beach Unit, (July 1, 1998 - June 30, 1999)

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 SECOND AMENDMENT OF THE LONG BEACH UNIT ANNUAL PLAN, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, FOR THE PERIOD JULY 1, 1998 THROUGH

CALENDAR ITEM NO. C60 (CONT'D)

JUNE 30, 1999, AND FIND THAT THE ANNUAL PLAN AS AMENDED IS
CONSISTENT WITH THE PROGRAM PLAN.

Exhibit "A"

LBU FINANCIAL PERFORMANCE FISCAL YEAR 1998-99 ANNUAL PLAN

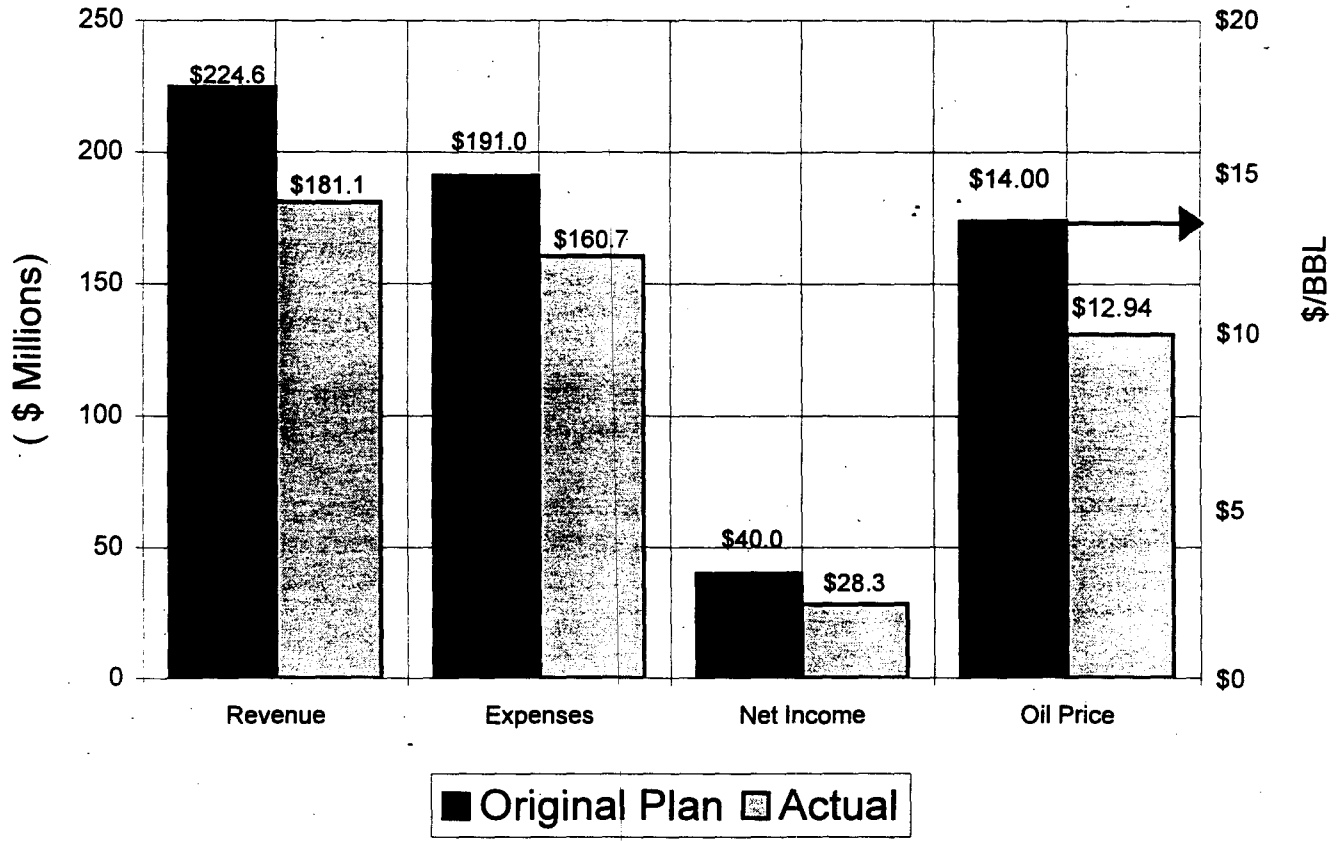
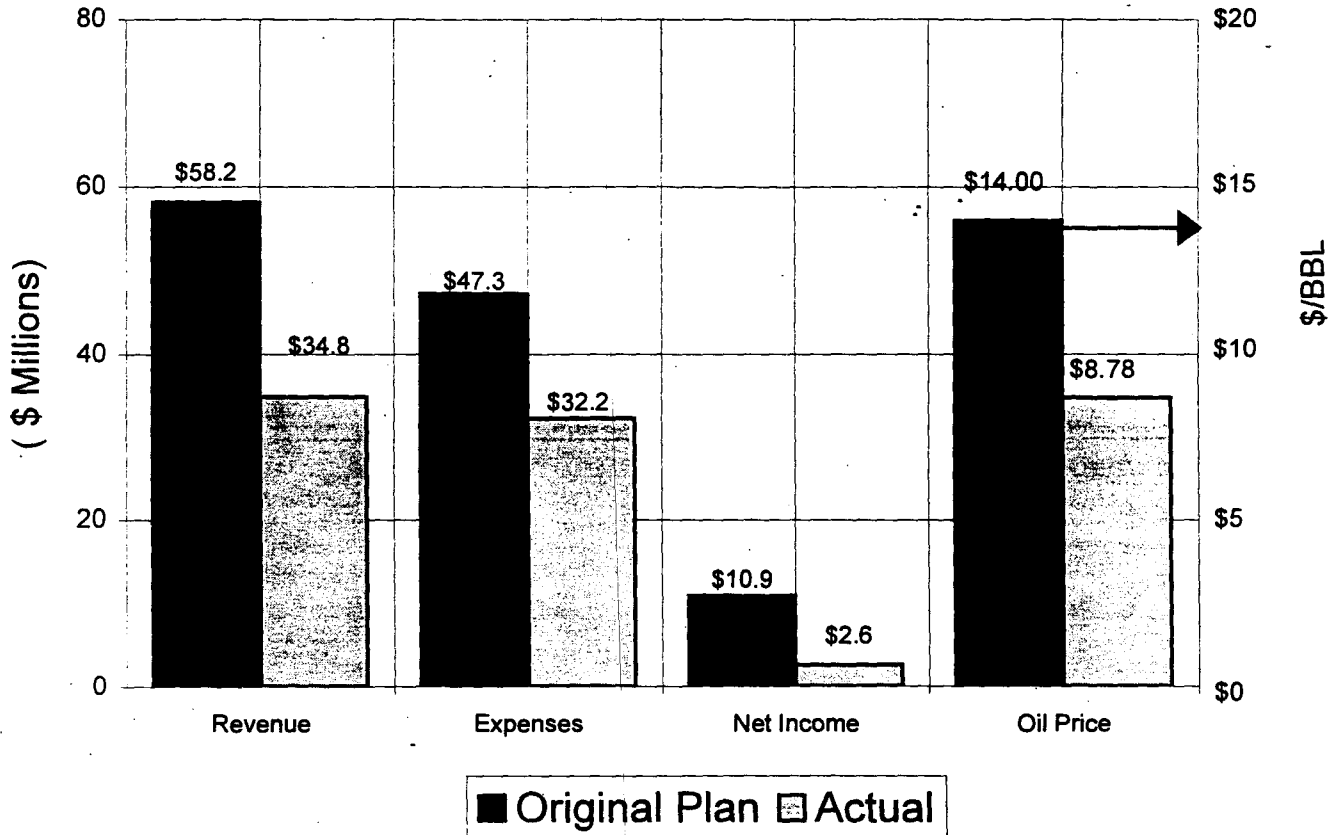


Exhibit "B"

LBU FINANCIAL PERFORMANCE SECOND QUARTER FY 1998-99

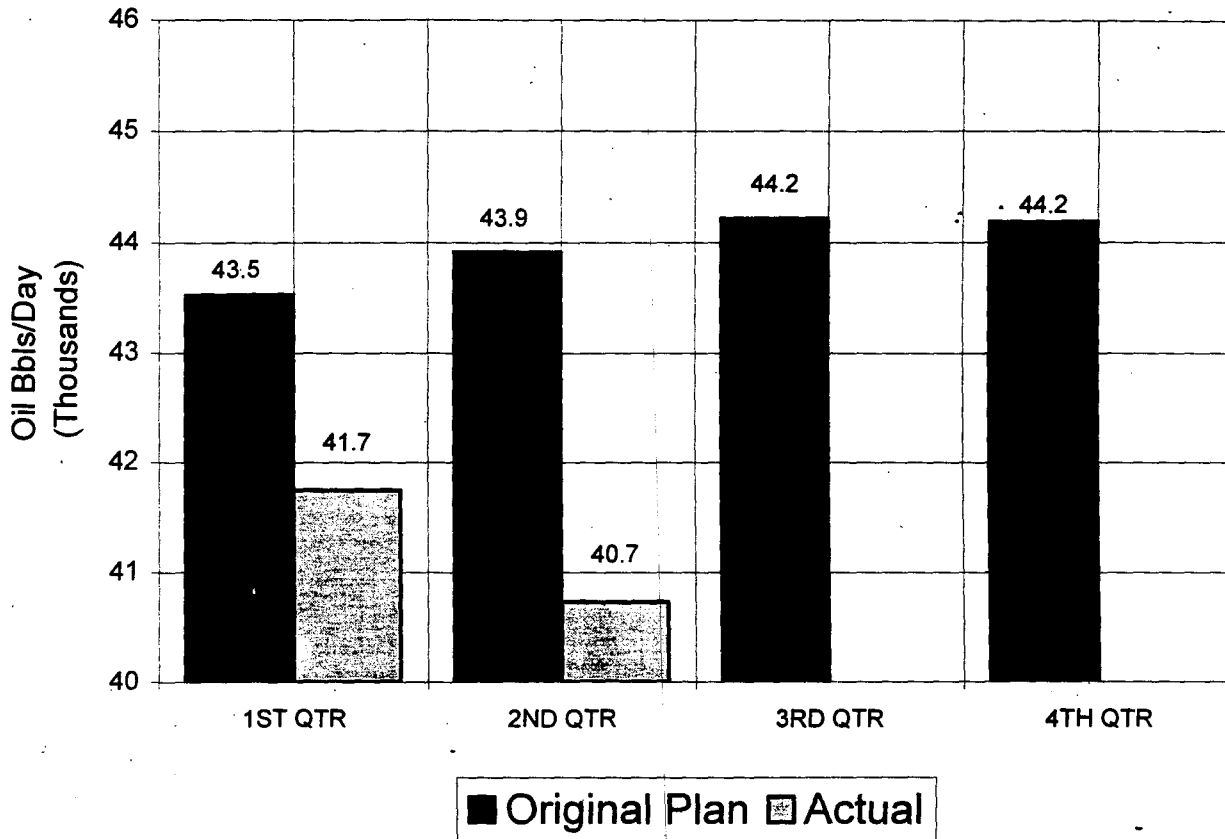


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Exhibit "C"

LBU OIL RATE PERFORMANCE FISCAL YEAR 1998-99 ANNUAL PLAN



**CITY OF LONG BEACH**

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (562) 570-3900 • FAX 570-3922

March 2, 1999

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, 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 Second Amendment of the Annual Plan covering the period July 1, 1998 through June 30, 1999.

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 funds for all drilling and re-drilling activity, as well as maintenance and replacements for drilling equipment within the Unit.

Operations Review

Oil price increases from June to October of 1998 enabled drilling to begin again in October after being shut-down for eight months due to low oil prices. Two wells were completed through December 1998, when drilling operations were halted again due to plunging oil prices. Plans are to recommence drilling should oil prices rebound.

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On December 31, 1998, the total number of wells was 1,329, of which 871 were producers and 458 were injectors. Excluded from these totals are 37 abandoned wells, 14 of which are producers and 23 are injectors.

Budget to Actual Variance

The Development Drilling category has a budget of \$39,000,000, of which \$647,000, or only 1.7 percent, is expended. The Plan originally provided funds for approximately 48 new and redrilled wells, but only two have been drilled in the first six months. Because of low oil prices, development drilling expenditures will not nearly approach the budgeted amount for the year

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.

Operation Review

During the second quarter the Unit oil production rate averaged 40,735 bbls/day, which was 3,177 bbls/day less than estimated; and gas production averaged 9,447 mcf/day, which was 665 mcf/day more than estimated in the Annual Plan.

Water injection averaged 724,956 bbls/day, which was 38,285 bbls/day more than originally estimated in the budget. Water production averaged 643,612 bbls/day, which is 78,456 bbls/day more than estimated.

Budget to Actual Variance

The Operating Expense category has a budget of \$61,700,000, of which \$28,398,000, or 46.6 percent, is expended

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

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:

- Shipping pump upgrade at B&M
- Shipping tank (23M1) preventive maintenance at Pier J
- Divert and repair produced water piping at Grissom
- Gas plant shut-in at B&M
- Line repairs at Freeman
- Mud plant tank farm preventive maintenance at Freeman
- Flotation separator #2 preventive maintenance at Freeman
- Heater treater #14 preventive maintenance at Pier J
- Harbor pipeline relocation

Budget to Actual Variance

The Facilities, Maintenance, and Plant category has a budget of \$34,000,000, of which \$10,983,000, or 32.3 percent, is expended. The low spending level is primarily related to cost cutting activities 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 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 \$37,000,000, of which \$17,560,000, or 47.5 percent, is expended.

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

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 \$8,869,000, or 44.3 percent, is expended.

SUMMARY

The Unit has a budget of \$191,000,000, of which \$66,458,000, or 34.8 percent, was expended through December 31, 1998.

Significant steps have been taken to reduce expenditures. These steps included reducing contract personnel, a company reorganization that reduced personnel from 285 to 220, postponing drilling and project activity, and reducing the workover rig count to three rigs. The effect of these reductions is reflected in under-spending the second quarter budget by \$15.1MM. The full impact of the company reorganization will not be felt until late in the fiscal year, when severance payments diminish. Cost reduction efforts are continuing because of persistently low oil prices.

Total profit for the second quarter of \$2.6 million is \$8.3 million less than originally estimated, due entirely 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.

Sincerely,



Dennis M. Sullivan
Director

DMS:slg

FIN 312.002

Attachments

Oil Production

<u>Location</u>	<u>Average B/D</u>		<u>Cumulative Bbls.</u>	
	<u>10/1/98-12/31/98</u>	<u>12/31/98</u>	<u>10/1/98-12/31/98</u>	<u>12/31/98</u>
Grissom	9,694	155,381,251	627	21,604,142
White	7,422	146,193,250	2,119	35,927,671
Chaffee	10,327	183,532,154	2,806	60,094,937
Freeman	9,999	237,246,310	3,026	83,189,391
Pier J (Inc. THX)	3,482	133,620,120	1,047	24,438,202
Total	40,924	855,973,085	9,623	225,254,343

Gas Production

<u>Reservoir</u>	<u>Average B/D</u>		<u>Cumulative Bbls.</u>	
	<u>10/1/98-12/31/98</u>	<u>12/31/98</u>	<u>10/1/98-12/31/98</u>	<u>12/31/98</u>
Tar V	131	1,418,378	60	606,915
Ranger (All Areas)	27,231	644,127,304	6,268	142,898,797
Upper Terminal & Lower Te	4,716	71,303,253	895	9,643,183
Terminal (Blocks VIII, 90)	3,462	47,395,307	831	13,522,452
Union Pacific-Ford (All Are	5,342	87,866,357	1,555	54,316,393
237 (All Areas)	42	3,862,485	15	4,266,603
Total	40,924	855,973,085	9,623	225,254,343

Water Production

<u>Location</u>	<u>Average B/D</u>		<u>Cumulative Bbls.</u>	
	<u>10/1/98-12/31/98</u>	<u>12/31/98</u>	<u>10/1/98-12/31/98</u>	<u>12/31/98</u>
Grissom	155,062	1,037,293,576	183,944	1,439,413,668
White	123,788	826,367,027	126,970	1,188,208,716
Chaffee	115,867	669,637,552	137,031	1,255,053,182
Freeman	157,133	1,022,458,885	177,789	1,133,277,596
Pier J (Inc. THX)	91,572	814,342,632	99,222	1,046,209,678
Total	643,422	4,370,099,672	724,956	6,062,162,840

Water Injection

<u>Reservoir</u>	<u>Average B/D</u>		<u>Cumulative Bbls.</u>	
	<u>10/1/98-12/31/98</u>	<u>12/31/98</u>	<u>10/1/98-12/31/98</u>	<u>12/31/98</u>
Tar V	875	6,280,590	1,532	15,215,915
Ranger (All Areas)	520,744	3,763,928,001	573,083	5,176,876,074
Upper Terminal & Lower Te	59,551	338,646,282	69,046	420,574,551
Terminal (Blocks VIII, 90)	27,105	100,969,663	38,381	203,460,087
Union Pacific-Ford (All Are	35,006	157,074,343	42,914	246,036,213
237 (All Areas)	140	3,200,793	-	-
Total	643,422	4,370,099,672	724,956	6,062,162,840

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B. Economic Projections

(Data in Thousands of \$)	ACTUAL FIRST QUARTER FY98/99	ACTUAL SECOND 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	\$32,896	\$56,559	\$55,712	\$56,296	\$181,858	\$224,628	-19.04%
Gas Revenue	\$2,010	\$1,920	\$1,616	\$1,592	\$1,608	\$7,130	\$6,418	11.09%
TOTAL REVENUE	\$38,964	\$34,816	\$58,175	\$57,304	\$57,904	\$188,988	\$231,046	-18.20%
ESTIMATED EXPENDITURES								
Development Drilling	\$158	\$489	\$9,750	\$9,750	\$9,750	\$20,147	\$39,000	-48.34%
Operating Expense	\$14,606	\$13,791	\$14,800	\$14,400	\$14,800	\$57,597	\$61,000	-5.58%
Facilities & Maintenance	\$5,605	\$5,378	\$8,500	\$8,500	\$8,500	\$27,983	\$34,000	-17.70%
Unit Field Labor & Admin	\$8,932	\$8,629	\$9,250	\$9,250	\$9,250	\$36,061	\$37,000	-2.54%
Taxes, Permits & Admin. Overhead	\$4,962	\$3,907	\$5,000	\$5,000	\$5,000	\$18,869	\$20,000	-5.66%
TOTAL EXPENDITURES	\$34,263	\$32,194	\$47,300	\$46,900	\$47,300	\$160,657	\$191,000	-15.89%
NET PROFIT	\$4,701	\$2,622	\$10,875	\$10,404	\$10,604	\$28,331	\$40,046	-29.25%

C. Major Planning Assumptions

	ACTUAL FIRST QUARTER FY98/99	ACTUAL SECOND 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	3,748	4,040	3,979	4,021	15,589	16,045	
AVERAGE B/D	41,749	40,735	43,912	44,216	44,188	42,710	43,958	-2.84%
GAS PRODUCTION:								
ACTUAL SHIPPED (MMCF)	896	869	808	796	804	3,365	3,209	
AVERAGE MCF/D	9,739	9,447	8,782	8,843	8,838	9,220	8,792	4.87%
WATER PRODUCTION:								
ACTUAL (1,000 BBL)	56,740	59,212	51,994	51,183	51,983	219,118	206,797	
AVERAGE B/D	616,744	643,612	565,156	568,696	571,237	600,323	566,568	5.96%
WATER INJECTION								
ACTUAL (1,000 BBL)	65,682	66,696	63,174	62,677	63,662	258,717	251,973	
AVERAGE B/D	713,936	724,956	686,671	696,408	699,582	708,813	690,338	2.68%
AVG OIL PRICE (\$/BBL)	\$9.62	\$8.78	\$14.00	\$14.00	\$14.00	\$11.67	\$14.00	-16.67%
AVG GAS PRICE (\$/MCF)	\$2.24	\$2.21	\$2.00	\$2.00	\$2.00	\$2.12	\$2.00	5.94%

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NUMBER OF WELLS

As of December 31, 1998

	Producers	Injectors	Total
By Location			
Grissom	190	93	283
White	149	92	241
Chaffee	210	118	328
Freeman	220	93	313
Pier J (Inc. THX)	102	62	164
Total	871	458	1329
By Reservoir			
Tar V	11	2	13
Ranger (All Areas)	659	360	1019
Upper & Lower Terminal VI, VII	67	32	99
Terminal (Blocks VIII, 90)	58	34	92
Union Pacific-Ford (All Areas)	74	30	104
237 (All Areas)	2	0	2
Total	871	458	1329

(Figures exclude abandoned producers and abandoned injectors)

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