

This Calendar Item No. C52 was approved as Minute Item No. 52 by the California State Lands Commission by a vote of 3 to 0 at its 04-05-04 meeting.

**CALENDAR ITEM
C52**

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A. Reid

M. LeClair

**CONSIDER APPROVAL OF THE
FIRST MODIFICATION AND SUPPLEMENT OF THE
ANNUAL PLAN, (JULY 1, 2003 THROUGH JUNE 30, 2004),
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

City of Long Beach
Department of Oil Properties
Attn: Mr. Christopher J. Garner, Acting Director
211 E. Ocean Blvd., Suite 500
Long Beach, CA 90802

BACKGROUND:

In accordance with the provisions of Section 2.06 of the Optimized Waterflood Program Agreement, and the provisions of Part IV, Section A and B, of the Annual Plan, the City of Long Beach has submitted to the California State Lands Commission (Commission) the First Modification and Supplement of the Annual Plan (July 1, 2003 through June 30, 2004), Long Beach Unit.

The Modification was submitted to the Commission on March 4, 2004, and at its meeting on March 9, 2004, the Long Beach City Council adopted the proposed Modification and Supplement. The Commission has 30 days following submission to approve the Modification. However, in accordance with section 2.06 of the Optimized Waterflood Program Agreement, the Executive Officer of the California State Lands Commission shall have the power to consent to an amendment or supplement to or modification of any portion of an Annual Plan, provided that such officer's consent shall be subject to ratification by the California State Lands Commission at its next regular meeting.

An Annual Plan Modification and Supplement is required in accordance with section 2.07 of the Optimized Waterflood Program Agreement because the

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amount to be expended for the Development Drilling Category will exceed 120 percent of its budgeted amount. This category will require an additional \$5.9 Million to cover remaining drilling costs for the Fiscal Year 03/04. This Annual Plan Modification will allow eight additional wells to be drilled and completed for a total of 32 wells in the current fiscal year. The drilling program is consistent with the 2003 – 2008 Program Plan, and is taking advantage of high oil prices, which have averaged over \$26 per barrel in the current year.

Additional oil revenues due to the resulting higher oil production and higher than anticipated oil prices will offset the additional expenditures. The estimated net profit for the unit will increase to \$84.6 million versus the \$26.9 Million from the original Annual Plan.

The following table compares the original Annual Plan expenses per budget category with the proposed modified amounts.

| MILLION DOLLARS | | |
|---|-----------------------------|-----------------------------|
| Total | Original Annual Plan | Modified Annual Plan |
| Development Drilling | 21.3 | 27.2 |
| Operating Expenses | 78.7 | 78.7 |
| Facilities, Maintenance, and Plant | 42.4 | 42.4 |
| Unit Field Labor and Administrative | 35.7 | 35.7 |
| Taxes, Permits, and Administrative Overhead | 16.6 | 16.6 |
| TOTAL | 194.7 | 200.6* |
| Unit Net Profit | 26.9 | 84.6 |

*The Modified Annual Plan Total submitted by the City contained an addition error in the amount of \$200,000.00. The correct total expenditures under the Modified Annual Plan are \$200.6 Million Dollars.

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Commission staff has reviewed the First Modification and Supplement of the Annual Plan and believes that it provides an engineering framework to meet the objectives of the Optimized Waterflood Agreement and is based on all engineering, geologic, and economic information available at the time of preparation. Engineers representing the State, City, THUMS, and OXY agree that objectives will be met in all areas of interest, including those of good oil field practice, proper reservoir management, safety to employees and the public, and environmental protection, through active participation by all parties at Unit forums, Engineering Committee meetings, Voting Party Committee meetings, and during events as they occur in the field.

OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

EXHIBIT:

- A. Letter Requesting Approval of the First Modification and Supplement of the Annual Plan (July 1, 2003 through June 30, 2004), Long Beach Unit.

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMEND ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

CALENDAR ITEM NO. **C52** (CONT'D)

AUTHORIZATION:

APPROVE THE FIRST MODIFICATION AND SUPPLEMENT OF THE ANNUAL PLAN, (JULY 1, 2003 THROUGH JUNE 30, 2004), LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.



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 4, 2004

Mr. Paul B. Mount II, P.E.
 Chief, Mineral Resources Management Division
 California State Lands Commission
 200 Oceangate, 12th Floor
 Long Beach, CA 90802-4331

SUBJECT: REQUEST FOR APPROVAL OF THE FIRST MODIFICATION AND SUPPLEMENT OF THE ANNUAL PLAN (JULY 1, 2003 THROUGH JUNE 30, 2004)

Dear Mr. Mount:

In accordance with the provisions of Part IV, Sections A and B, of the Annual Plan, we are submitting for your approval the First Modification and Supplement of the Annual Plan covering the period July 1, 2003 through June 30, 2004.

Annual Plan Modification and Supplement

An Annual Plan modification and supplement is required since the amount to be expended for the Development Drilling Category will exceed 120 percent of its budgeted amount. This Category will require an additional \$5.9 million (28% increase) for additional drilling costs associated with employing an additional one-half drilling rig in FY 03-04. Increased expenditures in the other Plan Categories will also occur but will not exceed 120 percent of their budgeted amounts. Additional oil revenues due to higher oil prices and increased oil production will offset the additional expenses and result in an estimated net profit of \$84.6 million (versus \$26.9 million).

After approval of this request, the revised Annual Plan Category budgets will be as follows:

| Annual Plan Category | Original (\$MM) | Modified (\$MM) |
|---|------------------------|------------------------|
| Development Drilling | 21.3 | 27.2 |
| Operating Expense | 78.7 | 78.7 |
| Facilities, Maintenance, and Plant | 42.4 | 42.4 |
| Unit Field Labor and Administrative | 35.7 | 35.7 |
| Taxes, Permits, and Administrative Overhead | 16.6 | 16.6 |
| TOTAL | 194.7 | 200.4 |
| | | |
| Unit Net Profit | 26.9 | 84.6 |

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Mr. Paul B. Mount II, P.E.
March 4, 2004
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The subject Modification and Supplement are expected to be approved by the City of Long Beach, as Unit Operator, on March 9, 2004 at the City of Long Beach City Council meeting. We are sending this request to you at this time to accommodate your scheduling needs for obtaining approval. We will promptly inform you when the City Council issues its expected approval. Please contact Sue Schoij at 570-3973 for any questions on this matter.

Sincerely,


/s/ Christopher J. Garner
Acting Director

CJG:scs

cc: Frank Komin, Thums

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OPR 708.200
FIN 312.002

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