

MINUTE ITEM

This Calendar Item No C27 was approved as Minute Item No. 27 by the California State Lands Commission by a vote of 3 to 0 at its 12-03-07 meeting.

**CALENDAR ITEM
C27**

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12/03/07
W 17160
A. Reid

CONSIDER APPROVAL OF THE FINAL REPORT AND CLOSING STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2006 THROUGH JUNE 30, 2007), LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

APPLICANT:

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

BACKGROUND:

The City of Long Beach has submitted to the California State Lands Commission (Commission) the Final Report and Closing Statement of the FY 2006-2007 Annual Plan, Long Beach Unit, covering the period July 1, 2006 through June 30, 2007. This report provides the actual performance for the full Fiscal Year 2006-2007.

There was one approved modification to the original budget of \$326.1 million. That modification supplemented the original budget by \$7.7million in the Taxes, Permits & Administration Overhead budget category. The final approved budget for Fiscal Year 2006-2007 was \$333.7 million. No other changes were made to the amount or distribution of funds among the five budget categories.

The average oil and gas rates for the 2006-2007 Fiscal Year were reported as 29,886 bbls/day of oil (1,523 bbls/day less than originally estimated) and 10,240 MCF/day of gas (240 MCF/day more than forecast). The reason for the less than anticipated oil production rate was a greater than expected decline in production from wells existing prior to the 2006-2007 Fiscal Year. The higher than expected decline is believed to be caused by a problem with the conformance between

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water injection well completions and the producing well completions. To achieve good waterflood efficiency water injection must be going in the same hydrocarbon bearing zones that are being produced. To correct this problem, the field contractor is currently reviewing injection in all waterflood patterns in order to optimize the performance of the waterflood.

The cumulative recoveries and injection through June 2007 are as follows:

Oil Production	959,941,680 Barrels
Gas Production	253,694,679 MCF
Water Production	6,714,992,616 Barrels
Water Injection	8,662,013,100 Barrels

Cumulative Injection - Gross Production Ratio is 1.129 bbls/bbl.

Total expenditures for the Unit were \$346.2 million, which was \$12.6 million more than the approved modified budget for Fiscal Year 2006-2007. The increase in expenditures was the result of higher than anticipated costs under three of the budget categories. Development Drilling Costs were higher due in part to an increase in completed wells, from 55 budgeted wells to 60 actually completed. Operating Expense was higher due to more elective well work being performed to take advantage of the high oil prices. The increased activity led to the need to increase staffing levels in the unit. Unit Field Labor & Administration was higher due to the increase in staffing levels, increases in salary levels due to the competitive petroleum industry market and accelerated pension and retirement benefit contributions that were made during the year.

Net profit for the 2006-2007 fiscal year was \$268.2 million, which was \$117.7 million more than the approved modified budget estimate. The higher profit was entirely due to the high oil prices experienced throughout the year. The approved modified budget forecast used an oil price of \$40/bbl and a gas price of \$7.00/Mcf. The actual prices averaged \$54.10/bbl of oil and \$6.48/Mcf of gas for the fiscal year.

The actual oil and gas prices, expenditures and net profit for Fiscal Year 2006-2007 are shown in the table below.

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MILLION DOLLARS					
	ACTUAL FIRST QUARTER FY 06/07	ACTUAL SECOND QUARTER FY 06/07	ACTUAL THIRD QUARTER FY 06/07	ACTUAL FOURTH QUARTER FY 06/07	ACTUAL TOTAL FISCAL YEAR 06/07
Oil Revenue	167.3	140.3	132.5	150.1	590.2
Gas Revenue	5.1	5.3	6.6	7.2	24.2
Expenditures	73.8	105.7	80.2	86.5	346.2
Net Profit	98.6	39.9	58.9	70.8	268.2
Original Budget Net Profit*					150.4
Change					117.8
Oil Price \$/BBL	60.79	50.17	48.69	56.87	54.10
Gas Price \$/MCF	5.93	6.03	6.57	7.27	6.48

*Original Approved Annual Plan less Supplement expenses.

Commission staff has reviewed the Final Report and Closing Statement for the Annual Plan, including production, injection, expenditures and revenue figures, and has prepared Exhibits A and B, attached hereto, to represent graphically the actual fiscal year performance compared to the approved budget.

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.

EXHIBITS:

- A. Fiscal Year 2006-2007 Financial Performance, Annual Plan vs. Budget.
- B. Fiscal Year 2006-2007 Oil Rate, Annual Plan vs. Budget.
- C. Letter from the City of Long Beach requesting approval of the Final Closing Statement.

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PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

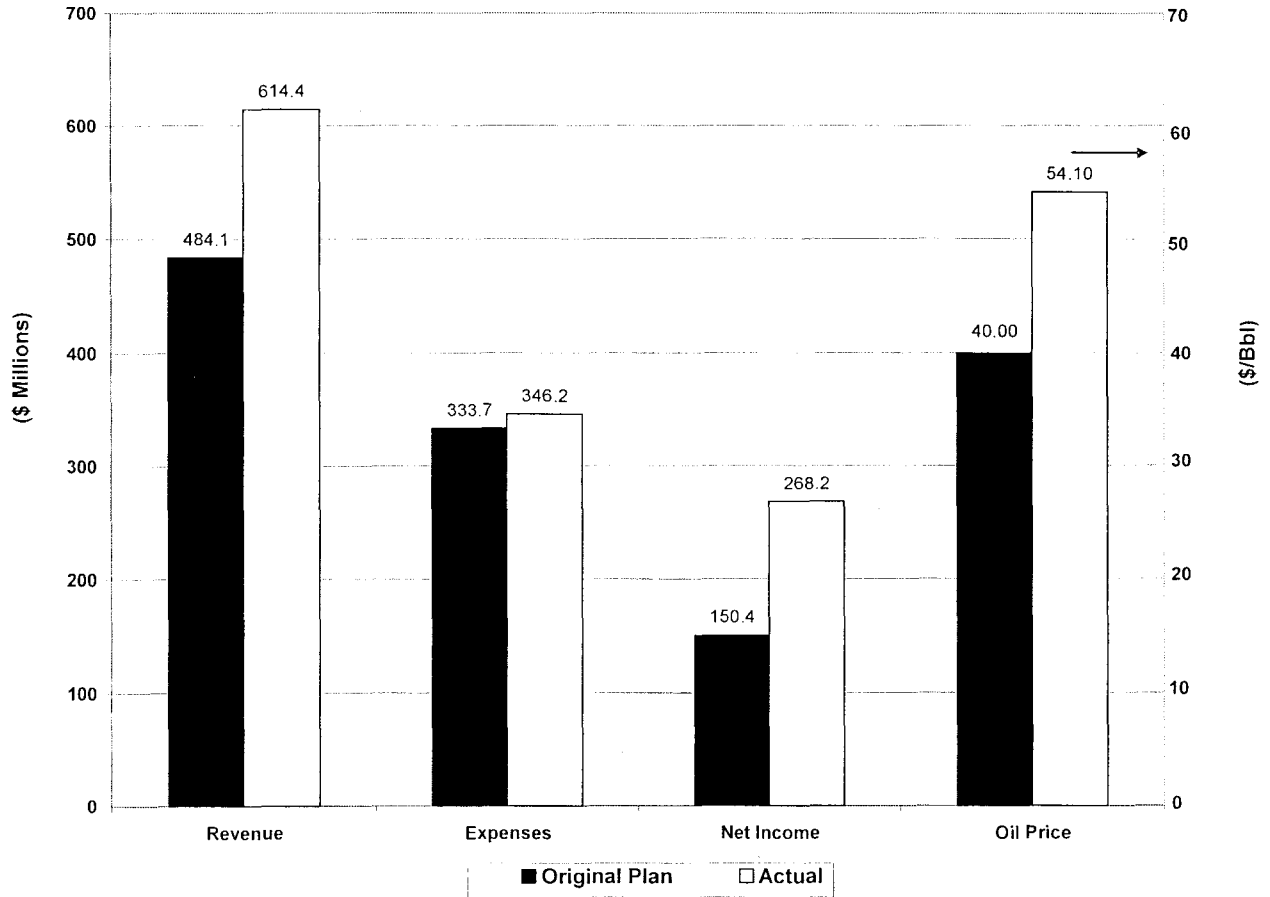
CEQA FINDING:

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.

AUTHORIZATION:

APPROVE THE FINAL REPORT AND CLOSING STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN, FOR THE PERIOD JULY 1, 2006 THROUGH JUNE 30, 2007, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

LBU Financial Performance FISCAL YEAR 2006-2007 ANNUAL PLAN VS ACTUAL



LBU OIL RATE PERFORMANCE
FISCAL YEAR 2006-2007 ANNUAL PLAN VS ACTUAL

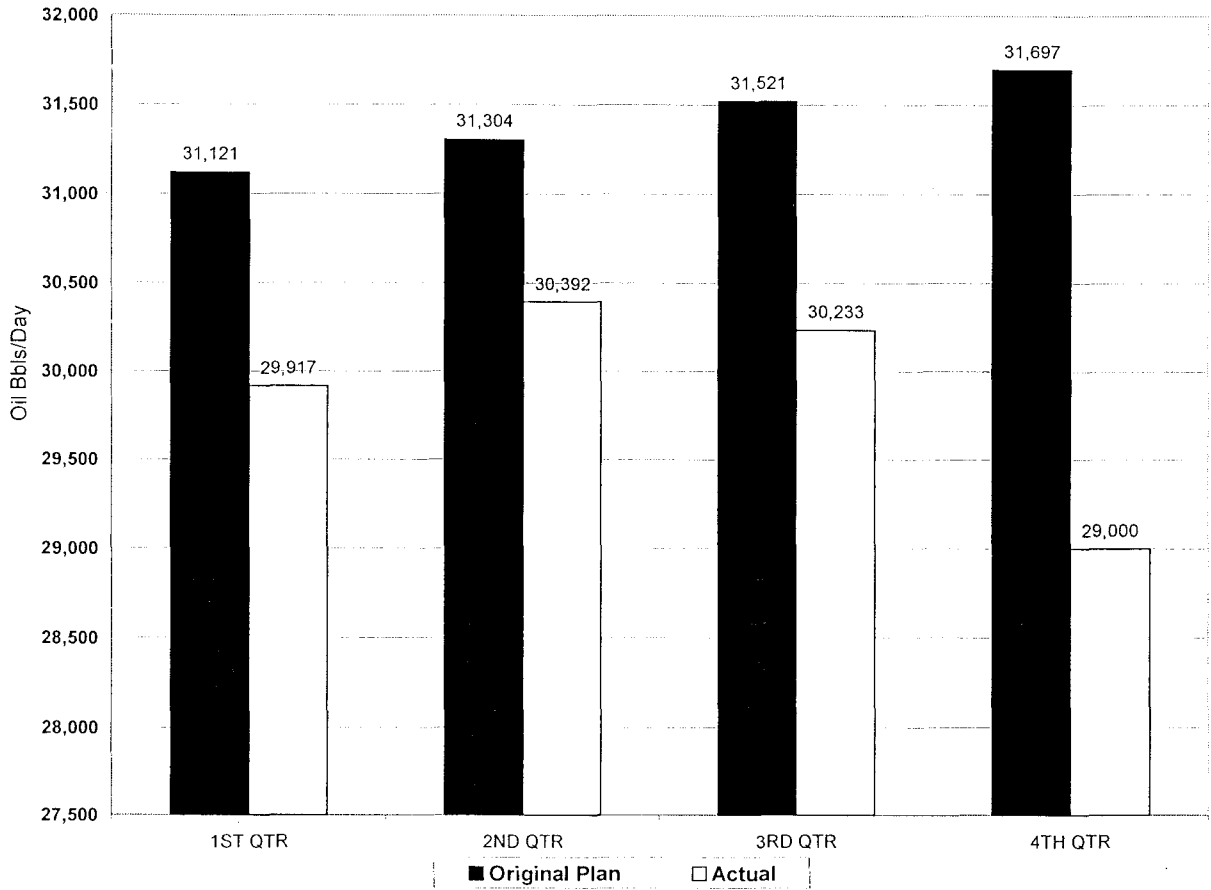


EXHIBIT C

CITY OF LONG BEACH



DEPARTMENT

CHRISTOPHER J. GARNER
DIRECTOR2400 EAST SPRING STREET · LONG BEACH, CA 90806
(562) 570-2000 · FAX (562) 570-2008

www.lbgo.org

October 9, 2007

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 FINAL REPORT AND CLOSING STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2006 THROUGH JUNE 30, 2007)

Dear Mr. Mount:

In accordance with provisions of Part IV, Section C, of the Long Beach Unit Annual Plan, we are submitting this final report and closing statement for the Annual Plan covering the period July 1, 2006 through June 30, 2007. 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, as well as maintenance and replacements for drilling equipment within the Unit.

Operations Review

During the Plan period 60 new wells were completed. Following is a listing of both new completions and re-drills by zone:

Zone	New Completions			New Redrills		
	Prod	Inj	Total	Prod	Inj	Total
Tar	2	0	2	1	0	1
Ranger	13	2	15	14	6	20
Shallow Gas	0	0	0	1	0	1
Terminal	0	0	0	2	2	4
Upper/Lower Terminal	3	0	3	1	1	2
UP-Ford	4	3	7	4	1	5
237	0	0	0	0	0	0
Totals	22	5	27	23	10	33

On June 30, 2007, the total number of wells in the Unit was 1,324, of which 863 were producers and 461 were injectors. Excluded from these totals are the abandoned wells.

Budget to Actual Variance

The Development Drilling Category was \$73,100,000, of which \$81,527,000, or 111.5 percent, was expended. The Plan provided funds for approximately 55 new and redrilled wells that were to be drilled with three full-time drilling rigs; however, sixty wells were drilled and completed during the Plan period. Expenditures for the additional five wells and higher costs for drilling preparation and completion activity contributed to the overexpenditure in this Category.

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 includes all electric power costs and abandonment costs.

Operations Review

- Unit oil shipments during the Plan period averaged 29,886 bbls/day, which was 1,523 bbls/day lower than estimated in the Plan. Production lagged due to a greater than expected decline in base production.
- Gas production averaged 10,240 mcf/day, which was 240 mcf/day higher than estimated in the Plan.
- Water injection averaged 973,413 bbls/day, which was 12,128 bbls/day lower than originally estimated in the Plan. Water production averaged 895,962 bbls/day, which was 16,750 bbls/day higher than estimated.
- The average price for Unit crude oil was \$54.10/bbl during the Plan period. The Plan was based on \$40.00/bbl crude oil. The average price for Unit gas was \$6.48/mcf, and the Plan was based on \$7.00/mcf.
- One abandonment job was performed that totaled \$263,000. The Plan included \$1,448,000 for abandonment expenses.

Budget to Actual Variance

The Operating Expense Category had a budget of \$114,800,000, of which \$118,084,000, or 102.9 percent, was expended. The higher spending level is primarily

related to increased expenses in the maintenance well work area which was budgeted at \$34.0 million, but actual expenditures were \$42.9 million. This increased expenditure was the result of performing more elective well work to leverage the high oil price and support the Unit's higher injectivity needs.

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 fiscal year include the following:

- Amine Plant Design & Compressor
- Culvert Piping Replacement - Pier J (DOGGR)
- Slurry Plant Improvement
- J-Line Launcher/Receiver
- Energy Efficiency Projects (Harmonic Filters)
- Subsea line survey
- Capacity Projects Design
- Grissom oil gathering line replacement
- White FWKO Oil discharge header
- PPM Painting (Island Painting White/Chaffee)
- Culvert Piping & Test Line Replacement – White
- Grissom Culvert Cellar #2 North

Budget to Actual Variance

The Facilities, Maintenance, and Plant Category had a budget of \$71,500,000, of which \$65,544,000, or 91.7 percent, was expended. Lower expenditures in this Category were primarily the result of a reduced pace on Amine Plant project.

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

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billable costs, Oxy 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 had a budget of \$43,500,000 of which \$51,977,000, or 119.5 percent, was expended.

Expenses under the Unit Field Labor and Administrative Category were higher than the Plan primarily due to an increase in the number of employees and contract staff resulting in higher wages being paid. In addition, accelerated pension and retirement benefit contributions were made during the fiscal year.

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 was modified to increase its budget from \$23,100,000 to \$30,800,000 of which \$29,085,000, or 94.4 percent, was expended.

The Taxes, Permits, and Administrative Overhead Category spending was lower than Plan as the property tax and lease payments came in below the modified budgeted amount.

SUMMARY

The Long Beach Unit FY06/07 modified budget was \$333,700,000, of which \$346,217,000 or 103.8 percent was expended. Fiscal year profit of \$268,158,000 was \$117,758,000 more than the Unit Net Profit estimate of \$150,400,000 (initial profit estimate of \$158,100,000 less the additional modified expense of \$7,700,000). Contributing to the higher than anticipated profits was the high price of crude oil during the Plan period. Unit crude oil averaged \$54.10/bbl during the Plan period, while the budget was based on \$40.00/bbl.

Significant effort was made during the Plan period to maintain Unit strategic investment initiatives that began during prior fiscal years. The Unit made progress in its development program, and significant gains were made in repairing and upgrading the Unit's facility infrastructure.

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BUDGET RECONCILIATION

Attached are the June 2007 Budget Statement for Fiscal Year Projects; Annual Plan Economic Projections; Major Planning Assumptions; rates and volumes of oil, gas, and water production and water injection by location and zone; and an end-of-the-period report of number of wells.

Sincerely,



for Christopher J. Garner
Director

CJG:scs

Enclosures

FIN 312.003

B. Economic Projections

(Data in Thousands of \$)

	ACTUAL FIRST QUARTER FY06/07	ACTUAL SECOND QUARTER FY06/07	ACTUAL THIRD QUARTER FY06/07	ACTUAL FOURTH QUARTER FY06/07	ACTUAL TOTAL FISCAL YEAR FY06/07	BUDGET TOTAL FISCAL YEAR FY06/07	% ACTUAL OVER/UNDER(-) BUDGET FY06/07
ESTIMATED REVENUE							
Oil Revenue	\$167,310	\$140,282	\$132,486	\$150,087	\$590,164	\$458,571	28.7%
Gas Revenue	\$5,139	\$5,327	\$6,588	\$7,156	\$24,210	\$25,550	-5.2%
TOTAL REVENUE	\$172,449	\$145,609	\$139,074	\$157,243	\$614,375	\$484,121	26.9%
ESTIMATED EXPENDITURES							
Development Drilling	\$17,584	\$25,874	\$17,792	\$20,277	\$81,527	\$73,116	11.5%
Operating Expense	\$24,760	\$37,899	\$27,255	\$28,170	\$118,084	\$114,772	2.9%
Facilities & Maintenance	\$13,659	\$18,432	\$13,168	\$20,285	\$65,544	\$71,519	-8.4%
Unit Field Labor & Admin	\$10,488	\$15,136	\$15,113	\$11,240	\$51,977	\$43,451	19.6%
Taxes, Permits & Admin. Overhead	\$7,360	\$8,392	\$6,822	\$6,511	\$29,085	\$30,800	-5.6%
TOTAL EXPENDITURES	\$73,851	\$105,734	\$80,150	\$86,482	\$346,217	\$333,658	3.8%
NET PROFIT	\$98,598	\$39,875	\$58,924	\$70,761	\$268,158	\$150,463	78.2%

C. Major Planning Assumptions

	ACTUAL FIRST QUARTER FY06/07	ACTUAL SECOND QUARTER FY06/07	ACTUAL THIRD QUARTER FY06/07	ACTUAL FOURTH QUARTER FY06/07	ACTUAL TOTAL FISCAL YEAR FY06/07	BUDGET TOTAL FISCAL YEAR FY06/07	% ACTUAL OVER/UNDER(-) BUDGET FY06/07
OIL PRODUCTION:							
QUARTERLY (1,000 BBL)	2,752	2,796	2,721	2,639	10,908	11,464	
AVERAGE B/D	29,917	30,392	30,233	29,000	29,886	31,409	-4.85%
GAS PRODUCTION:							
QUARTERLY (MMCF)	867	883	1,004	984	3,738	3,650	
AVERAGE MCF/D	9,423	9,596	11,150	10,817	10,240	10,000	2.40%
WATER PRODUCTION:							
QUARTERLY (1,000 BBL)	80,167	83,107	82,482	81,270	327,026	320,912	
AVERAGE B/D	871,378	903,341	906,391	893,081	895,962	879,212	1.91%
WATER INJECTION							
QUARTERLY (1,000 BBL)	88,302	89,081	88,265	89,647	355,296	359,722	
AVERAGE B/D	959,809	968,272	969,943	985,136	973,413	985,541	-1.23%
AVG OIL PRICE (\$/BBL)	\$60.79	\$50.17	\$48.69	\$56.87	\$54.10	\$40.00	35.3%
AVG GAS PRICE (\$/MCF)	\$5.93	\$6.03	\$6.57	\$7.27	\$6.48	\$7.00	-7.5%

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Shipped Oil Production**Gas Production**

<u>Location</u>	<u>Average B/D</u>		<u>Cumulative Bbls.</u>		<u>Average MCF/D</u>		<u>Cumulative MCF</u>	
	<u>7/1/06-6/30/07</u>	<u>6/30/07</u>	<u>7/1/06-6/30/07</u>	<u>6/30/07</u>	<u>7/1/06-6/30/07</u>	<u>6/30/07</u>	<u>7/1/06-6/30/07</u>	<u>6/30/07</u>
Grissom	7,214	180,463,881			2,593	25,417,843		
White	4,858	163,094,417			1,939	42,431,296		
Chaffee	6,926	208,180,394			2,668	68,513,271		
Freeman	7,856	265,313,082			2,251	90,663,057		
Pier J (Inc. THX)	3,032	142,889,906			789	26,669,212		
Total	29,886	959,941,680			10,240	253,694,679		

Reservoir

Shallow Gas Zone	0	0	1,444	566,830
Tar V	110	1,755,932	42	732,786
Ranger (All Areas)	20,412	715,438,714	5,968	162,071,875
Upper Terminal & Lower Terminal VI, VII	2,784	82,592,461	603	11,970,592
Terminal (Blocks VIII, 90)	2,880	56,598,370	865	15,991,932
Union Pacific-Ford (All Areas)	3,700	99,680,851	1,317	58,089,181
237 (All Areas)	0	3,875,352	0	4,271,483
Total	29,886	959,941,680	10,240	253,694,679

Water Production**Water Injection**

<u>Location</u>	<u>Average B/D</u>		<u>Cumulative Bbls.</u>		<u>Average B/D</u>		<u>Cumulative Bbls.</u>	
	<u>7/1/06-6/30/07</u>	<u>6/30/07</u>	<u>7/1/06-6/30/07</u>	<u>6/30/07</u>	<u>7/1/06-6/30/07</u>	<u>6/30/07</u>	<u>7/1/06-6/30/07</u>	<u>6/30/07</u>
Grissom	233,424	1,651,003,681	241,396	2,089,738,423				
White	156,210	1,256,655,601	170,879	1,659,380,021				
Chaffee	168,023	1,104,770,598	199,273	1,769,085,027				
Freeman	219,216	1,583,721,099	225,436	1,719,249,254				
Pier J (Inc. THX)	119,089	1,118,841,637	136,428	1,424,560,375				
Total	895,962	6,714,992,616	973,413	8,662,013,100				

Reservoir

Shallow Gas Zone	0	0	0	0
Tar V	709	8,326,234	1,935	19,804,645
Ranger (All Areas)	723,047	5,661,432,560	772,816	7,272,322,406
Upper Terminal & Lower Terminal VI, VII	77,054	559,535,880	80,517	656,087,061
Terminal (Blocks VIII, 90)	46,301	206,283,385	54,619	332,511,854
Union Pacific-Ford (All Areas)	48,851	276,151,630	63,526	381,287,134
237 (All Areas)	0	3,262,927	0	0
Total	895,962	6,714,992,616	973,413	8,662,013,100

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NUMBER OF WELLS

As of June 30, 2007

	Producers	Injectors	Total
By Location			
Grissom	205	92	297
White	143	97	240
Chaffee	202	125	327
Freeman	218	100	318
Pier J (Inc. THX)	95	47	142
Total	863	461	1,324
By Reservoir			
Shallow Gas Zone	6	0	6
Tar V	12	2	14
Ranger (All Areas)	585	330	915
Upper & Lower Terminal VI, VII	91	42	133
Terminal (Blocks VIII, 90)	74	33	107
Union Pacific-Ford (All Areas)	95	54	149
237 (All Areas)	0	0	0
Total	863	461	1,324

(Figures exclude abandoned producers and abandoned injectors)

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