

**CALENDAR ITEM
C35**

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**CONSIDER APPROVAL OF THE LONG BEACH UNIT
PROGRAM PLAN (JULY 1, 2009 THROUGH JUNE 30, 2014)
AND THE ANNUAL PLAN (JULY 1, 2009 THROUGH JUNE 30, 2010),
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

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

BACKGROUND:

In accordance with Chapter 941 of the Statutes of 1991 (AB 227) and the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit (OWPA), the Long Beach Unit Program Plan (July 1, 2009 through June 30, 2014) and the Long Beach Unit Annual Plan (July 1, 2009 - June 30, 2010) have been submitted by the City of Long Beach (City) to the California State Lands Commission (Commission).

At its meeting on March 10, 2009, the Long Beach City Council adopted the proposed Program Plan and Annual Plan (collectively Plans) and authorized their submission to the Commission for consideration and approval. The Plans were submitted to the Commission on March 18, 2009 for consideration. Pursuant to the provisions of the OWPA the Commission has 45 days following formal submission of the Plans to review them. If the Commission takes no action during this time, the Plans will be deemed to be accepted by the Commission as submitted.

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Under AB 227 and the OWPA, the Commission's review of the Program Plan is limited to finding whether the Program Plan (a) is consistent with good oil field practice, (b) is consistent with the optimized waterflood program, (c) is consistent with the Long Beach Unit and Unit Operating Agreements, and (d) does not involve significant environmental or safety risks. As all oil and gas operations pose some risk to the environment, a finding that the Program Plan does not involve significant environmental or safety risks consists of insuring that the operations adhere to all applicable laws and regulations that address safety and environmental protection. The Commission's review of the Annual Plan, as prescribed by AB 227 and the OWPA, is limited to determining whether the Annual Plan is consistent with the current Program Plan. The scope of the Commission's discretion, therefore, is limited by statute and by the contract entered into pursuant to the statute. If the Plans meet these statutory and contractual criteria, the Commission may not reject the Plans. Commission staff has reviewed the Plans and has determined that these criteria have been met.

Program Plan

The Program Plan is a five year projection of Unit development activities, expenditures and revenues, which is prepared every two years and reflects changes in Unit performance and economic conditions.

The economic projections for the Program Plan, (July 1, 2009 through June 30, 2014), as presented by the City, are shown on the following table:

ALL FIGURES ARE IN MILLIONS OF DOLLARS			
PERIOD	TOTAL REVENUE	EXPENDITURES	NET INCOME
FY 09-10	399.2	350.2	49
FY 10-11	385.3	353.4	31.9
FY 11-12	370.9	343.3	27.6
FY 12-13	357	325.5	31.5
FY 13-14	340	313.5	26.5
TOTAL	1,852.4	1,685.9	166.5

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As presented, the Long Beach Unit Program Plan includes anticipated rates of production, revenues, expenditures, and net profits for the Unit as projected by the City's Gas and Oil Department. The City has estimated that the Unit net income from July 1 through June 30, 2014 will be \$166.5 million, after total expenditures of \$1,685.9 million. This income scenario is based on a forecasted average oil price of \$40.00 per barrel and average natural gas price of \$6.00 per mcf, for the five-year period covered by the Program Plan. This income will be generated primarily from oil revenues based on production forecasts ranging from an average producing rate of 25,500 barrels per day (BOPD) in Fiscal Year 2009/2010 to 22,000 BOPD in Fiscal Year 2013/2014. These production rates are based on the assumption that development activity will include 50 wells to be drilled in each of Fiscal Years 2009/2010 and 2010/2011, 47 wells in Fiscal Year 2011/2012, 27 wells in Fiscal Year 2012/2013, and 18 wells in Fiscal Year 2013/2014. This will result in a total of 185 wells to be drilled or redrilled during the five-year Program Plan period. Expenditure levels and project mix may be adjusted as needed to respond to fluctuations in oil price and other economic conditions.

Annual Plan

The Long Beach Annual Plan is prepared and submitted to the Commission each year. The Annual Plan contains the proposed Unit activities for the upcoming year in sufficient detail to evaluate the adequacy of those activities to meet the economic and operational objectives projected within the five-year Program Plan. The proposed Long Beach Unit Annual Plan (July 1, 2009 through June 30, 2010) was developed based on parameters outlined in the Program Plan. The Annual Plan provides for drilling, production, water injection and other associated activities of the Long Beach Unit. The budget for these activities is grouped into five major categories.

Annual Plan Category	\$ Million
Development Drilling	\$74.0
Operating Expense	103.8
Facilities, Maintenance, and Plant	\$77.6
Unit Field Labor and Administrative	\$52.8
Taxes, Permits and Admin. Overhead	\$42.0
Total	\$350.2

The Commission's staff has reviewed the proposed Annual Plan, budget and associated activity levels and has determined that they have been prepared to

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achieve the objective for efficient operations of the Long Beach Unit. The Annual Plan contains the proper amount of flexibility to allow adjustment in expenditure levels, as needed to respond to fluctuations in oil prices or other economic conditions that may occur during the fiscal year.

Commission staff's review of the Program Plan and Annual Plan has involved an analysis of the technical content of the Plans' activities, an evaluation of the Plans' flexibility to adjust to changing economic and operational conditions, an ascertainment of the ability of the proposed activities to meet economic projections, and a determination of whether the Plans conform to all environmental and safety laws and regulations. These Plans provide a framework to meet the objectives of the OWPA and are 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. Ongoing detailed project review and approval occur 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.

EXHIBITS:

- A. Letter from the City of Long Beach submitting the Long Beach Unit Program Plan and Annual Plan to the California State Lands Commission.
- B. Long Beach Unit Program Plan (July 1, 2009 through June 30, 2014)
- C. Long Beach Unit Annual Plan (July 1, 2009 through June 30, 2010)

PERMIT STREAMLINING ACT DEADLINE:

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

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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 LONG BEACH UNIT PROGRAM PLAN (JULY 1, 2009 THROUGH JUNE 30, 2014) AND THE LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2009 THROUGH JUNE 30, 2010), LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.