

**CALENDAR ITEM  
C34**

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**CONSIDER APPROVAL OF THE FINAL REPORT AND CLOSING  
STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN  
(JULY 1, 2008 THROUGH JUNE 30, 2009),  
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 the Final Report and Closing Statement of the FY 2008-2009 Annual Plan, Long Beach Unit, to the California State Lands Commission (Commission), covering the period July 1, 2008 through June 30, 2009. This report provides the actual performance for the full Fiscal Year 08/09.

There were no modifications to the original budget of \$385.6 million during the fiscal year. Also, there were no changes made to the amount or distribution of funds between the five budget categories.

The average oil and gas rates for Fiscal Year 08/09 were reported to be 27,716 bbls/day of oil (415 bbls/day higher than originally estimated) and 12,555 MCF/day of gas (2,114 MCF/day less than forecast). The reason for the more than anticipated oil production rate was a lower than expected decline in base oil production due to the success of waterflood management in the second half of FY 08/09. The less than estimated gas rate was due to lower than anticipated production because of the "watering out" of two shallow gas wells. The cumulative recoveries and injection through June 30, 2009 are as follows:

CALENDAR ITEM NO. **C34** (CONT'D)

Oil Production	980,508,000 Barrels
Gas Production	263,282,000 MCF
Water Production	7,388,774,000 Barrels
Water Injection	9,400,287,000 Barrels

Cumulative Injection - Gross Production Ratio is 1.123 bbls/bbl.

During the plan period, the Unit experienced extreme oil price fluctuations. Oil prices went from \$133/bbl in July 2008, to a low of \$25/bbl in February 2009. This oil price decrease caused the unit operator to change strategy from growth to a more conservative management of cash flow. This led to reducing unit expenditures in most all the budget categories for the plan period.

Total expenditures for the Unit were \$329.5 million, which was \$57.8 million less than the approved budget for Fiscal Year 08/09. The largest reduction in budgeted expenditures was seen in the Development Drilling category. Of the \$90 million budgeted only \$61.3 million was spent. This was the result of reducing drilling activity during the second half of the fiscal year, resulting in 31 wells being completed compared to the 58 wells contained in the original approved plan.

Also significantly contributing to reduced budgeted costs, expenses under the Operating Expense category were \$21.1 million less than budgeted. This reduction was primarily the result of lower electrical costs due to lower Southern California Edison tariffs and lower fuel costs for the Unit power plant.

Net profit for Fiscal Year 08/09 was \$310.5 million, which was \$110.5 million more than estimated. The approved budget forecast used an oil price of \$55.00/bbl and a gas price of \$7.00/Mcf. Although there was wide variation in prices during the budget period, the actual prices still managed to average \$60.9/bbl of oil and \$5.2/Mcf of gas for the fiscal year.

The actual oil and gas prices, expenditures, and net profit for Fiscal Year 08/09 are shown in the table below.

CALENDAR ITEM NO. **C34** (CONT'D)

<b>MILLION DOLLARS</b>					
	<b>ACTUAL FIRST QUARTER FY 08/09</b>	<b>ACTUAL SECOND QUARTER FY 08/09</b>	<b>ACTUAL THIRD QUARTER FY 08/09</b>	<b>ACTUAL FOURTH QUARTER FY 08/09</b>	<b>ACTUAL TOTAL FISCAL YEAR 08/09</b>
Oil Revenue	282.7	116.6	87.9	129.0	616.3
Gas Revenue	11.9	5.1	4.3	2.4	23.7
Expenditures	90.2	101.2	81.1	57	329.5
Net Profit	204.5	20.5	11	74.4	310.5
Original Budget Net Profit*	54.4	52.4	46.8	46.4	200.0
Change	150.1	-31.9	-35.8	28	110.5
Oil Price \$/BBL	107	46	35	53	61
Gas Price \$/MCF	10	5	4	2	5

Commission staff has reviewed the Final Report and Closing Statement for the Annual Plan, including production, injection, expenditures and revenue figures, and prepared Exhibits A and B (attached hereto) showing 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 08/09 Financial Performance, Annual Plan vs. Budget.
- B. Fiscal Year 08/09 Oil Rate, Annual Plan vs. Budget.
- C. Letter from the City of Long Beach requesting approval of the Final Closing Statement.

**PERMIT STREAMLINING ACT DEADLINE:**

N/A (not a “project” subject to the Act)

CALENDAR ITEM NO. **C34** (CONT'D)

**RECOMMENDED ACTION:**

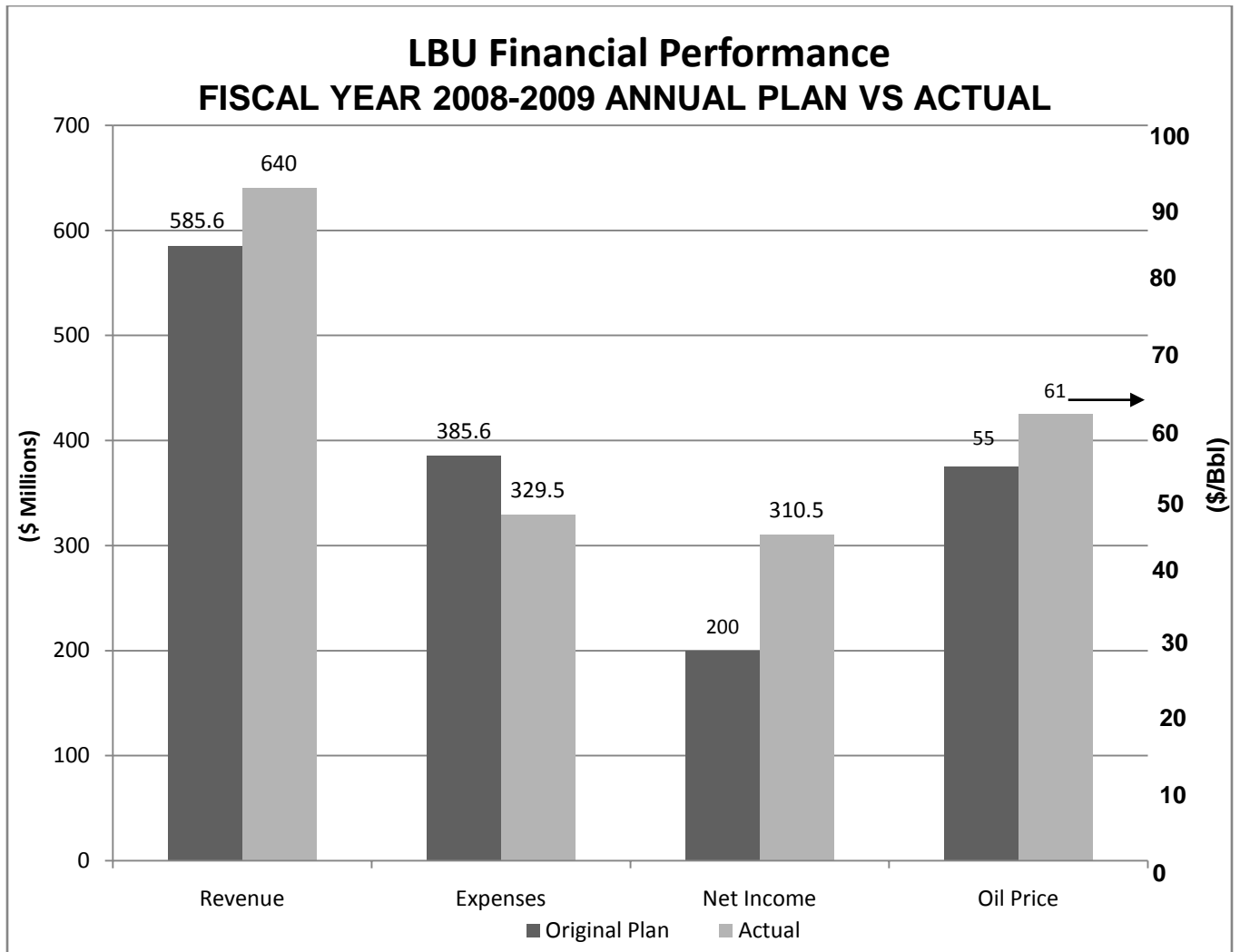
IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA FINDING:**

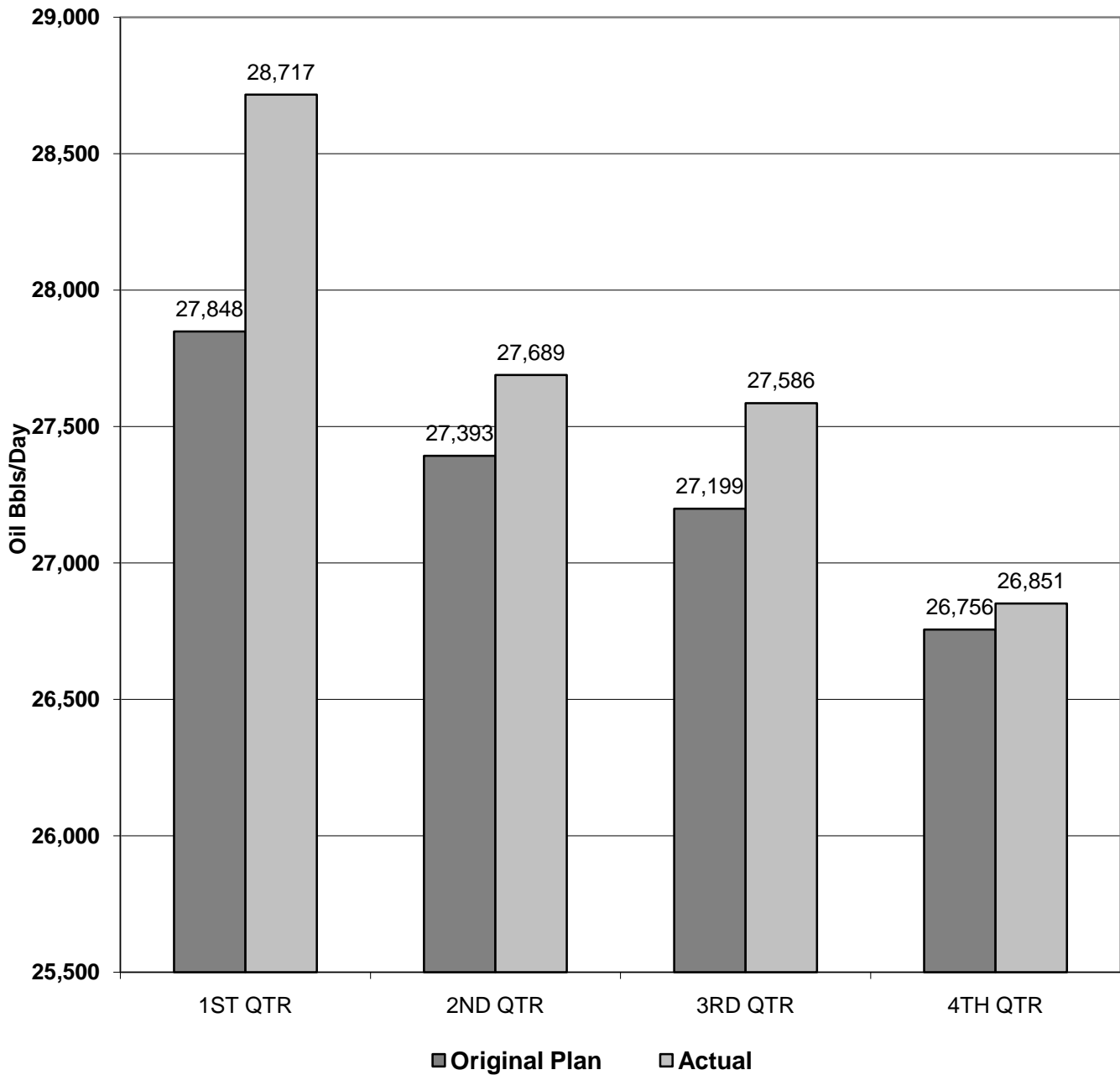
FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

**AUTHORIZATION:**

APPROVE THE FINAL REPORT AND CLOSING STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN, FOR THE PERIOD JULY 1, 2008 THROUGH JUNE 30, 2009, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.



### LBU OIL RATE PERFORMANCE FISCAL YEAR 2008-2009 ANNUAL PLAN VS ACTUAL



CITY OF LONG BEACH



DEPARTMENT

CHRISTOPHER J. GARNER  
DIRECTOR

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(562) 570-2000 · FAX (562) 570-2008

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November 3, 2009

Mr. Greg Scott  
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 ANNUAL PLAN (JULY 1, 2008 – JUNE 30, 2009)**

Dear Mr. Scott:

In accordance with provisions of Part IV, Section C, of the Annual Plan, we are submitting for your approval this final report and closing statement to the Annual Plan covering the period July 1, 2008 through June 30, 2009. 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 replacement of drilling equipment within the Unit.

#### **Operations Review**

FY 2009 was an extraordinary period for the Unit in terms of oil price fluctuation. During the Plan period, the oil price topped \$133/bbl in July 2008 and bottomed at \$25/bbl in February 2009. Due to extreme fluctuations in the price of oil, the operating strategy was changed accordingly from growth to cash flow management. During the Plan period 31 drill wells were completed; however, 23 of them were drilled in the first half of FY 2009 when the oil price was high. Following is a listing of both new completions and re-drills by zone:

Zone	New Completions			Redrills		
	Prod	Inj	Total	Prod	Inj	Total
Tar	0	0	0	0	0	0
Ranger	6	7	13	5	1	6
Terminal	2	3	5	0	1	1
UP-Ford	3	0	3	1	0	1
237	2	0	2	0	0	0
<b>Totals</b>	<b>13</b>	<b>10</b>	<b>23</b>	<b>6</b>	<b>2</b>	<b>8</b>

On June 30, 2009, the total number of wells in the Unit was 1,348, of which 710 were active producers, 458 were active injectors, and 180 wells were shut in due to mechanical or reservoir related issues. Excluded from these totals are the abandoned wells.

### **Budget to Actual Variance**

The Plan provided funds for 58 new and redrilled wells that were to be drilled with two full-time and one half-time drilling rigs. The execution of the proposed Plan was on track for the first half of the FY 2009 as 23 drill wells were completed during that period. However, due to lower oil prices, the drilling activity was significantly reduced during the second half of FY 2009. The reduction in drilling rig count from three to one resulted in 31 wells being drilled in comparison to the 58 wells in the Plan.

Total spending for Development Drilling was \$61.3 million, which is \$28.7 million below Plan. This difference was mainly driven by the lower drilling activity versus Plan. The plan included \$11.3 million for drilling rig maintenance, drilling support and drill rig upgrades. However, the total spending was \$8.1 million. Release of the two drilling rigs has resulted in lower spending 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, for all electric power costs and abandonment costs.

### **Operations Review**

- Unit oil shipments during the Plan period averaged 27,716 bbls/day, which was 415 bbls/day higher than the Plan estimate. The base oil rate decline was lower than expected primarily due to the success of waterflood management initiatives instituted in the Unit during the second half of FY 2008. The oil production potential was within the historic variations. The number of wells shut-in for voidage and repair was also in line with historic levels.
- Gas production averaged 12,555 mcf/day, which was 2,114 mcf/day lower than the Plan estimate. Watering out of two shallow gas wells (A271, A301) is the primary cause for the difference.
- Water injection averaged 1,032,336 bbls/day, which was 26,414 bbls/day lower than originally estimated in the Plan. Gross production averaged 974,080 bbls/day, which was 28,533 bbls/day lower than estimated.
- The average price for Unit crude was \$60.9/bbl during the Plan period. The Plan was based on \$55.0/bbl crude. The average price for Unit gas was \$5.2/mcf, and the Plan was based on \$7.00/mcf.



- . The Plan included \$842,000 for the wells and facility abandonment expenses. Actual abandonment expense was \$619,000 primarily due to the facility abandonments. Well abandonment expense was minimal.

#### **Budget to Actual Variance**

The budget for the Operating Expense category was \$114.3 million, of which \$93.2 million, or 82 percent, was spent. The lower spending level was primarily related to lower electricity costs due to lower actual SCE tariffs and fuel costs for power plant usage. 24 IWW projects were completed at an average cost of \$302,000 per project, which was higher than the 20 IWW projects in the Plan at an average cost of \$250,000.

### **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
- . Facility Capacity Injection and Electrical
- . Grissom Material and Shop Construction
- . Pier J 12KV Harmonic Filter Installation
- . Facility Capacity Phase 3
- . J2 to Shipping Piping
- . Chaffee Sand Filter/Receiving Tank
- . JL-2 & JBM Pipeline Encasement
- . Cellar 1 Culvert Piping Replacement
- . Facility Capacity Phase 1 – Water Plants
- . White Produced Water Piping Replacement

#### **Budget to Actual Variance**

The Facilities, Maintenance, and Plant Category had a budget of \$87.8 million, of which \$84 million, or 95 percent, was spent.

## **UNIT FIELD LABOR AND ADMINISTRATIVE**

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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, 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 \$58.3 million, of which \$50.1 million, or 86 percent, was spent.

The Unit Field Labor and Administrative category spending was below Plan primarily due to lower actual headcount than the Plan estimate.

## **TAXES, PERMITS, AND ADMINISTRATIVE OVERHEAD**

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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 had a budget of \$35.2 million, of which \$40.7 million, or 116 percent, was spent.

The Taxes, Permits, and Administrative Overhead category spending was over primarily due to the increase in property taxes.

## **SUMMARY**

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The Long Beach Unit Annual Plan budget for the period July 1, 2008 to June 30, 2009 was \$385.6 million, of which \$329.5 million, or 85 percent, was spent. Higher realized oil prices and lower operating cost than the Plan has resulted in fiscal year profit of \$310.5 million in comparison to \$200.0 million originally estimated in the Plan.

Significant effort was made during the Plan period to achieve best-in-class waterflood performance paramount to increasing the long-term value for the Unit. The development program was successfully implemented, which was optimized for capital investment and cash flow, while maintaining focus on health, environment and safety. Your concurrence with this Final Report and Closing Statement of the Annual Plan is requested.

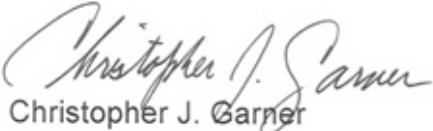
Mr. Greg Scott  
November 3, 2008  
Page 5

## **BUDGET RECONCILIATION**

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Attached are the July 1, 2008 through June 30, 2009 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,



Christopher J. Garner

Christopher J. Garner  
Director

CJG:kmt  
FIN 312.003

Attachments

**Economic Projections**

(Data in Thousands of \$)	ACTUAL FIRST QUARTER FY09	ACTUAL SECOND QUARTER FY09	ACTUAL THIRD QUARTER FY09	ACTUAL FOURTH QUARTER FY09	ACTUAL TOTAL FISCAL YEAR FY09	BUDGET TOTAL FISCAL YEAR FY09	% ACTUAL OVER/UNDER(-) BUDGET FY09
<b>ESTIMATED REVENUE</b>							
Oil Revenue	\$282,733	\$116,581	\$87,915	\$129,022	\$616,250	\$548,068	12.4%
Gas Revenue	\$11,909	\$5,138	\$4,257	\$2,375	\$23,678	\$37,559	-37.0%
<b>TOTAL REVENUE</b>	<b>\$294,642</b>	<b>\$121,718</b>	<b>\$92,171</b>	<b>\$131,397</b>	<b>\$639,928</b>	<b>\$585,627</b>	<b>9.3%</b>
<b>ESTIMATED EXPENDITURES</b>							
Development Drilling	\$17,763	\$22,114	\$17,111	\$4,331	\$61,319	\$90,026	-31.9%
Operating Expense	\$25,747	\$27,602	\$19,353	\$20,517	\$93,219	\$114,309	-18.5%
Facilities & Maintenance	\$25,942	\$25,731	\$17,756	\$14,635	\$84,064	\$87,838	-4.3%
Unit Field Labor & Admin	\$9,243	\$14,591	\$16,731	\$9,580	\$50,145	\$58,252	-13.9%
Taxes, Permits & Admin. Overhead	\$11,482	\$11,134	\$10,179	\$7,919	\$40,715	\$35,170	15.8%
<b>TOTAL EXPENDITURES</b>	<b>\$90,178</b>	<b>\$101,172</b>	<b>\$81,130</b>	<b>\$56,981</b>	<b>\$329,462</b>	<b>\$385,595</b>	<b>-14.6%</b>
<b>NET PROFIT</b>	<b>\$204,463</b>	<b>\$20,546</b>	<b>\$11,041</b>	<b>\$74,415</b>	<b>\$310,466</b>	<b>\$200,032</b>	<b>55.2%</b>

**Major Planning Assumptions**

	ACTUAL FIRST QUARTER FY09	ACTUAL SECOND QUARTER FY09	ACTUAL THIRD QUARTER FY09	ACTUAL FOURTH QUARTER FY09	ACTUAL TOTAL FISCAL YEAR FY09	BUDGET TOTAL FISCAL YEAR FY09	% ACTUAL OVER/UNDER(-) BUDGET FY09
<b>OIL PRODUCTION:</b>							
QUARTERLY (1,000 BBL)	2,642	2,547	2,510	2,417	10,116	9,965	
AVERAGE B/D	28,717	27,689	27,586	26,851	27,716	27,301	1.52%
<b>GAS PRODUCTION:</b>							
QUARTERLY (MMCF)	1,227	1,115	1,135	1,106	4,583	5,354	
AVERAGE MCF/D	13,338	12,121	12,471	12,283	12,555	14,669	-14.41%
<b>WATER PRODUCTION:</b>							
QUARTERLY (1,000 BBL)	85,961	86,178	86,358	86,926	345,423	355,989	
AVERAGE B/D	934,358	936,718	948,984	965,849	946,364	975,312	-2.97%
<b>WATER INJECTION</b>							
QUARTERLY (1,000 BBL)	93,838	95,441	92,997	94,527	376,803	386,447	
AVERAGE B/D	1,019,982	1,037,398	1,021,946	1,050,298	1,032,336	1,058,759	-2.50%
<b>AVG OIL PRICE (\$/BBL)</b>	<b>107</b>	<b>46</b>	<b>35</b>	<b>53</b>	<b>61</b>	<b>55</b>	<b>10.76%</b>
<b>AVG GAS PRICE (\$/MCF)</b>	<b>10</b>	<b>5</b>	<b>4</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>-26.18%</b>

<u>Location</u>	<u>Oil Production</u>		<u>Gas Production</u>	
	Average B/D 7/1/08-6/30/09	Cumulative Mbbls. 6/30/09	Average MCF/D 7/1/08-6/30/09	Cumulative MMCF 6/30/09
Grissom	6,054	185,100	4,848	29,278
White	4,947	166,595	2,147	43,936
Chaffee	6,128	212,803	2,413	70,432
Freeman	7,694	270,903	2,375	92,374
Pier J (Inc. THX)	2,893	145,108	772	27,263
<b>Total</b>	<b>27,716</b>	<b>980,508</b>	<b>12,555</b>	<b>263,282</b>
<u>Reservoir</u>				
Shallow Gas	-	-	3,814	3,635
Tar V	99	1,848	41	770
Ranger	18,993	729,370	5,993	166,459
Terminal	5,157	143,101	1,383	29,011
Union Pacific-Ford	3,138	102,098	1,193	59,009
237	329	4,091	131	4,398
<b>Total</b>	<b>27,716</b>	<b>980,508</b>	<b>12,555</b>	<b>263,282</b>

<u>Location</u>	<u>Water Production</u>		<u>Water Injection</u>	
	Average B/D 7/1/08-6/30/09	Cumulative Mbbls. 6/30/09	Average B/D 7/1/08-6/30/09	Cumulative Mbbls. 6/30/09
Grissom	248,701	1,828,661	267,186	2,284,597
White	156,001	1,364,773	174,343	1,780,187
Chaffee	173,814	1,228,697	206,885	1,916,904
Freeman	240,084	1,753,115	231,579	1,882,614
Pier J (Inc. THX)	127,764	1,213,530	152,343	1,535,986
<b>Total</b>	<b>946,364</b>	<b>7,388,774</b>	<b>1,032,336</b>	<b>9,400,287</b>
<u>Reservoir</u>				
Shallow Gas	-	-	-	-
Tar V	941	9,097	1,944	21,806
Ranger	745,956	6,192,827	806,377	7,848,417
Terminal	140,846	866,154	155,250	1,099,744
Union Pacific-Ford	57,032	316,847	68,765	430,321
237	1,589	3,849	-	-
<b>Total</b>	<b>946,364</b>	<b>7,388,774</b>	<b>1,032,336</b>	<b>9,400,287</b>

Number of Wells  
As of June 30, 2009

By Reservoir

Zone	Producer	Injector	Total
SG	7	0	7
Tar	12	2	14
Ranger	584	345	929
Terminal	162	78	240
UPF	91	65	156
237	2	0	2
Total	858	490	1348

By Islands

Zone	Producer	Injector	Total
Grissom	203	95	298
White	147	108	255
Chaffee	202	128	330
Freeman	213	111	324
Pier J	93	48	141
Total	858	490	1348