

**CALENDAR ITEM
C71**

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12/05/12

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A. Reid

**CONSIDER ACCEPTANCE OF THE
FINAL REPORT AND CLOSING STATEMENT
FOR THE LONG BEACH UNIT ANNUAL PLAN
(JULY 1, 2011 THROUGH JUNE 30, 2012),
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
2400 East Spring Street
Long Beach, CA 90806

BACKGROUND:

The City of Long Beach, as required by section 10 of Chapter 138, Statutes of 1964, 1st Extraordinary Session, has filed with the California State Lands Commission (Commission) the Final Report and Closing Statement of the FY 2011-2012 Annual Plan, Long Beach Unit (Unit), covering the period July 1, 2011 through June 30, 2012. This report provides the actual performance for the full Fiscal Year 2011-2012.

There were no modifications to the original budget of \$377.6 million during the fiscal year. Also, there were no changes made to the amount of funds in or the distribution of funds between the five budget categories.

The average oil and gas rates for Fiscal Year 2011/2012 were reported to be 25,093 bbls/day of oil (153 bbls/day higher than the plan estimate) and 10,058 MCF/day of gas (1,161 MCF/day lower than the plan estimate). The reason for the higher than estimated oil production rate was a stronger than anticipated development program for the year. The cumulative recoveries and injection through June 2011 are as follows:

CALENDAR ITEM NO. **C71** (CONT'D)

| | |
|------------------|------------------------|
| Oil Production | 1,008,783,000 Barrels |
| Gas Production | 274,659,000 MCF |
| Water Production | 8,468,167,000 Barrels |
| Water Injection | 10,564,959,000 Barrels |

Cumulative Injection / Gross Production Ratio is 1.11 bbls/bbl.

Total expenditures for the Unit were \$386.8 million, which was \$9.2 million more than the approved budget for Fiscal Year 2011/2012. The higher than planned expenditures were primarily the result of drilling an additional 10 wells, over the 46 wells contained in the subject annual plan.

Net profit for fiscal year 2011/2012 was \$605.4 million, which was \$553.7 million higher than the approved budget estimate. The higher than planned net profits were the result of actual oil prices being higher than Plan oil prices. The approved budget forecast used an oil price of \$45.00/bbl and a gas price of \$4.50/Mcf, whereas the actual prices averaged \$107.35/bbl of oil and \$2.48/Mcf of gas for the fiscal year.

The actual oil and gas prices, expenditures, and net profit for Fiscal Year 11-12 are shown in the table below.

| THOUSAND DOLLARS | | | | | |
|----------------------------|---------------------------------------|---|--|---|---|
| | ACTUAL FIRST QUARTER FY11-12 | ACTUAL SECOND QUARTER FY 11-12 | ACTUAL THIRD QUARTER FY 11-12 | ACTUAL FOURTH QUARTER FY 11-12 | ACTUAL TOTAL FISCAL YEAR 11-12 |
| Oil Revenue | 236,506 | 248,074 | 263,400 | 235,126 | 983,106 |
| Gas Revenue | 2,985 | 2,861 | 2,127 | 1,202 | 9,175 |
| Expenditures | 105,059 | 90,120 | 102,517 | 89,091 | 386,841 |
| Net Profit | 134,432 | 160,815 | 162,956 | 147,237 | 605,441 |
| Original Budget Net Profit | 14,300 | 14,800 | 12,400 | 10,300 | 51,700 |
| Change | 120,132 | 146,015 | 150,556 | 136,937 | 553,741 |
| Oil Price \$/BBL | 103.23 | 110.23 | 114.00 | 101.95 | 107.35 |
| Gas Price \$/MCF | 3.37 | 2.90 | 2.27 | 1.39 | 2.48 |

CALENDAR ITEM NO. **C71** (CONT'D)

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. The staff recommends that the Commission find that acceptance of the Final Report and Closing Statement does not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment, and is, therefore, not a project in accordance with the California Environmental Quality Act (CEQA).

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

EXHIBITS:

- A. Fiscal Year 2011/2012 Financial Performance, Annual Plan vs. Budget.
- B. Fiscal Year 2011/2012 Oil Rate, Annual Plan vs. Budget.
- C. Letter from the City of Long Beach and attached report of the Final Closing Statement.

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

Find that the acceptance of the Final Report and Closing Statement is not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060, subdivision (c)(3), because the subject activity is not a project as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

AUTHORIZATION:

Accept for filing the Final Report and Closing Statement for the Long Beach Unit Annual Plan, for the period July 1, 2011 through June 30, 2012, Long Beach Unit, Wilmington Oil Field, Los Angeles County.

**Exhibit A
LBU Financial Performance**

W 17165

FISCAL YEAR 2011-2012 ANNUAL PLAN VS ACTUAL

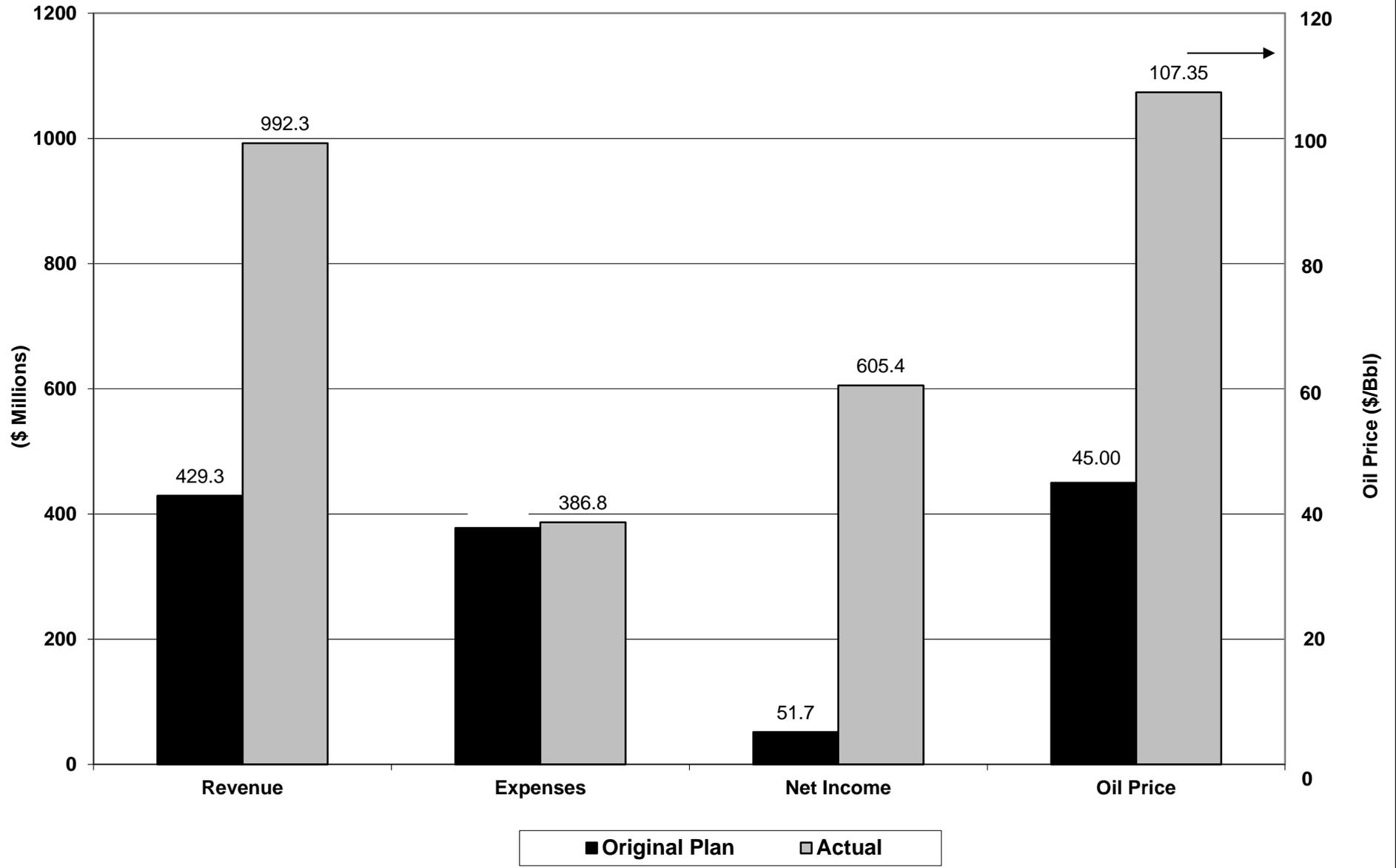


Exhibit B

W 17165

LBU OIL RATE PERFORMANCE FISCAL YEAR 2011-2012 ANNUAL PLAN VS ACTUAL

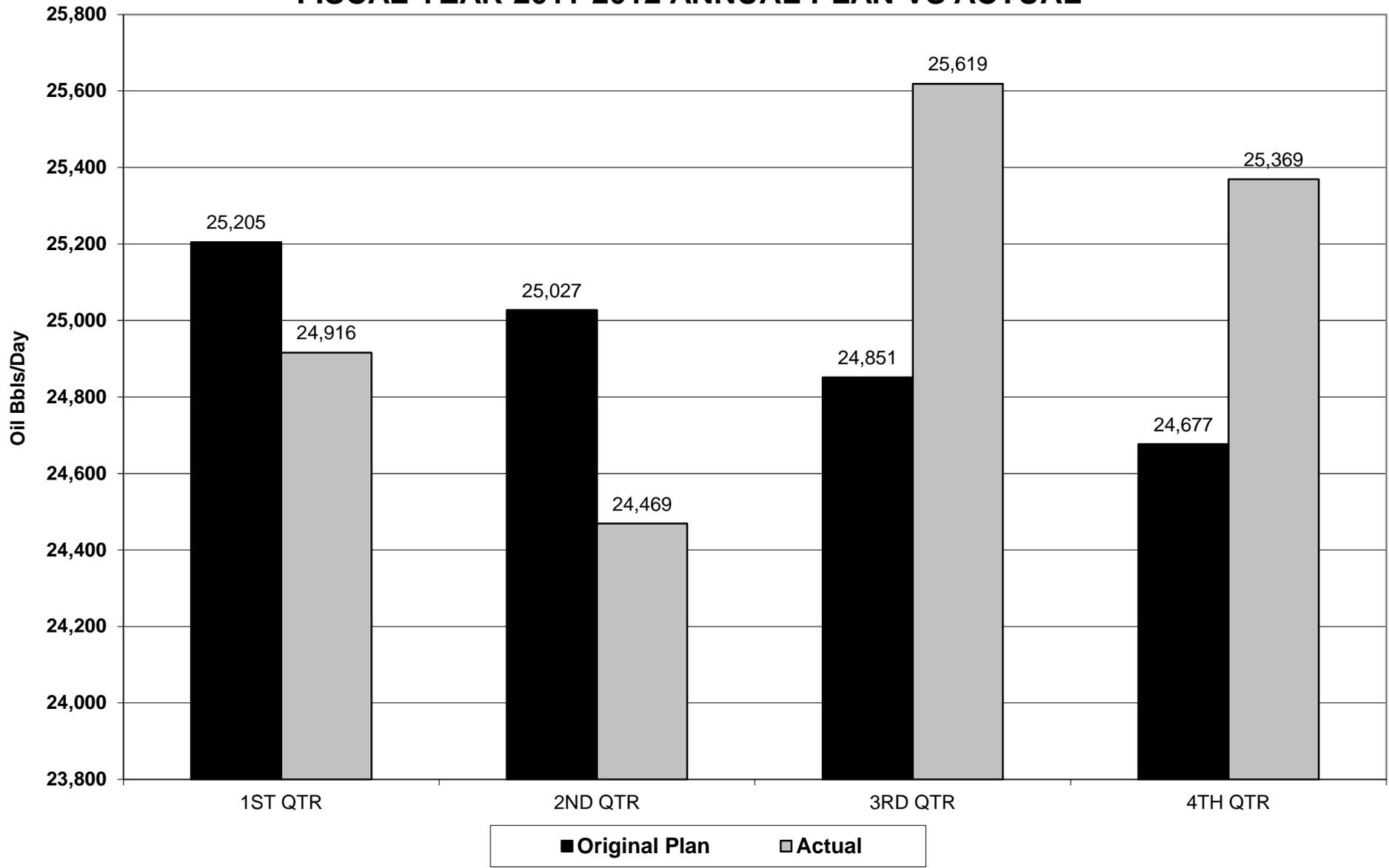


EXHIBIT C

W 17165

CITY OF LONG BEACH



DEPARTMENT

CHRISTOPHER J. GARNER
DIRECTOR

2400 EAST SPRING STREET - LONG BEACH, CA 90806
(562) 570-2000 - FAX (562) 570-2050

www.lbgo.org

September 24, 2012

Ms. Marina Voskanian
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 of the Annual Plan (July 1, 2011 through June 30, 2012)

Dear Ms. Voskanian:

In accordance with provisions of Part IV, Section C, of the Annual Plan, attached for your approval is the final report and closing statement of the Annual Plan covering the period July 1, 2011 through June 30, 2012. This report contains a reconciliation of Unit activities by category.

The Long Beach Unit FY 2012 budget was \$377.6 million while the actual spent was \$386.8 million or 102 percent of budget. Higher realized oil prices than built into the Plan has resulted in fiscal year profit of \$605.4 million in comparison to \$51.7 million originally estimated in the Plan.

| Funding Category | Budget | Actual | Variance |
|---|----------------|----------------|---|
| Development Drilling | \$ 86.8 | \$ 97.0 | Additional 10 wells drilled but not yet completed |
| Operating Expense | \$ 97.3 | \$102.8 | Higher maintenance well work activity |
| Facilities, Maintenance, & Plant | \$ 91.3 | \$ 95.6 | Higher slurry processing costs (offsite disposal) |
| Unit Field Labor & Administrative | \$ 59.0 | \$ 57.9 | At about budget |
| Taxes, Permits, & Administrative Overhead | \$ 43.1 | \$ 33.4 | Under budget |
| Total | \$377.6 | \$386.8 | |

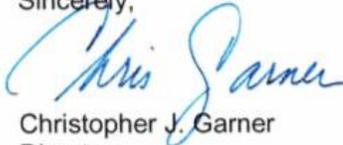
Note: Numbers in table are in millions (rounded)

Ms. Marina Voskarian
September 24, 2012
Page 2

Significant effort was made during the Plan period to achieve best-in-class waterflood performance, which is paramount to increasing 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.

Sincerely,



Christopher J. Garner
Director

Attachment: Final Report and Closing Statement – Annual Plan (July 1, 2011 - June 30, 2012)
Prepared by OXY Long Beach, Inc., September 4, 2012

APPROVED:

MARINA VOSKANIAN
CHIEF, MINERAL RESOURCES
MANAGEMENT DIVISION



September 4, 2012

Mr. Christopher J. Garner, Director
Long Beach Gas and Oil Department
2400 E. Spring Street
Long Beach, CA 90806

Dear Mr. Garner:

Subject: Request for Approval
46-12 - Thums Long Beach Company
Final Report and Closing Statement
Annual Plan (July 1, 2011 - June 30, 2012)

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, 2011 through June 30, 2012. 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

FY2012 reflects the successful implementation of the Unit's operation strategy that has attempted to take advantage of the oil price environment. During the FY2012 Plan period, operations activities increased to maximize return to the Unit while managing persistent commodity market risk. During the period, the Unit operated a two and half full rig program. 46 wells were drilled and completed during the period. The following is a listing of both new completions and redrills by zone:

| Zone | New Completions | | | Redrills | | |
|----------|-----------------|-----|-------|----------|-----|-------|
| | Prod | Inj | Total | Prod | Inj | Total |
| Tar | 0 | 0 | 0 | 0 | 0 | 0 |
| Ranger | 17 | 0 | 17 | 9 | 14 | 23 |
| Terminal | 0 | 0 | 0 | 2 | 1 | 3 |
| UP-Ford | 2 | 0 | 2 | 1 | 0 | 1 |
| 237 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 19 | 0 | 19 | 12 | 15 | 27 |

On June 30, 2012, the total number of wells in the Unit was 1,409, of which 730 were active producers, 439 were active injectors, and 240 Wells were shut in due to mechanical or reservoir related issues. Excluded from these totals are the abandoned wells.

A Subsidiary of Occidental Petroleum Corporation

Budget to Actual Variance

The Plan provided funds for 46 new and redrilled wells that were to be drilled with two full-time drilling rigs. The actual number of wells drilled and completed was 46 using two and half full-time drilling rigs. It should be noted that an additional 10 wells were drilled but not yet completed by the end of the fiscal year.

Total spending for Development Drilling was \$97.0 million, which is \$10.2 million above Plan. This difference was mainly driven by the additional 10 wells that were drilled, but not yet completed.

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 25,093 bbls/day, which was 153 bbls/day higher than the Plan estimate. The higher oil rate was the result of a stronger than anticipated development program for the year.
- Gas production averaged 10,058 mcf/day, which was 1160 mcf/day lower than the Plan estimate. Lower performance of the shallow gas well is the primary cause for the decrease.
- Water injection averaged 1,065,128 bbls/day, which was 52,872 bbls/day lower than originally estimated in the Plan. Water production averaged 988,565 bbls/day, which was 34,435 bbls/day less than the Plan estimate.
- The average price for Unit crude was \$107.35/bbl during the Plan period. The Plan was based on \$45.00/bbl crude. The average price for Unit gas was \$2.48/mcf, and the Plan was based on \$4.50/mcf.

Budget to Actual Variance

The budget for the Operating Expense category was \$97.3 million, of which \$102.8 million, or 106% was spent. The higher spending level was primarily related to higher maintenance wellwork activity.

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:

- J45 Pipe Replacement
- FWKO & Polarity Treater construction
- Tank & Vessel repairs
- J2 Piping
- Regulatory Pipeline Inspection and Evaluation
- J2 Subsea Pig Trap Manifold
- Freeman Culvert Piping
- Stainless Skim Basin Replacement
- Grissom SF to Receiving Tank
- Pump & Motor Predictive and Preventative Maintenance

Budget to Actual Variance

The Facilities, Maintenance and Plant Category had a budget of \$91.3 million, of which \$95.6 million, or 105%, was spent. The higher spending level was primarily related to higher slurry processing costs due to offsite disposal beginning in October 2011.

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, 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 \$59.0 million, while actual spend was 2% lower at \$57.9 million.

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 had a budget of \$43.1 million, of which \$33.4 million or 78 percent was spent.

SUMMARY

The Long Beach Unit FY2012 budget was \$377.6 million, of which \$386.8 million or 102 percent, was spent. Higher realized oil prices than built into the Plan has resulted in fiscal year profit of \$605.4 million in comparison to \$51.7 million originally estimated in the Plan.

Significant effort was made during the Plan period to achieve best-in-class waterflood performance, which is paramount to increasing 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.

Sincerely,



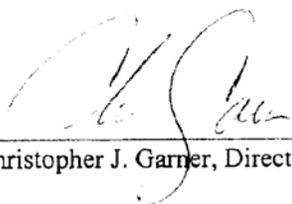
Frank E. Komin
General Manager

RPK/RL

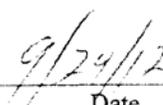
Attachments

cc: Ryan Kellogg
Rick LeVeque
Management Team

APPROVED:



Christopher J. Garner, Director



Date

Economic Projections

| Data in Thousands of \$ | ACTUAL FIRST QUARTER FY12 | ACTUAL SECOND QUARTER FY12 | ACTUAL THIRD QUARTER FY12 | ACTUAL FOURTH QUARTER FY12 | ACTUAL TOTAL FISCAL YEAR FY12 | BUDGET TOTAL FISCAL YEAR FY12 | % ACTUAL OVER/UNDER(-) BUDGET FY12 |
|---------------------------------|---------------------------|----------------------------|---------------------------|----------------------------|-------------------------------|-------------------------------|------------------------------------|
| ESTIMATED REVENUE | | | | | | | |
| Oil Revenue | \$ 236,506 | \$ 248,074 | \$ 263,400 | \$ 235,126 | \$ 983,106 | \$ 410,778 | 139.3% |
| Gas Revenue | \$ 2,985 | \$ 2,861 | \$ 2,127 | \$ 1,202 | \$ 9,175 | \$ 18,476 | -50.3% |
| TOTAL REVENUE | \$ 239,491 | \$ 250,935 | \$ 265,527 | \$ 236,329 | \$ 992,282 | \$ 429,254 | 131.2% |
| ESTIMATED EXPENDITURES | | | | | | | |
| Development Drilling | \$ 20,890 | \$ 22,920 | \$ 28,515 | \$ 24,704 | \$ 97,029 | \$ 86,798 | 11.8% |
| Operating Expense | \$ 28,489 | \$ 25,425 | \$ 25,484 | \$ 23,421 | \$ 102,818 | \$ 97,345 | 5.6% |
| Facilities & Maintenance | \$ 29,205 | \$ 23,093 | \$ 22,820 | \$ 20,478 | \$ 95,596 | \$ 91,308 | 4.7% |
| Unit Field Labor & Admin | \$ 19,854 | \$ 10,638 | \$ 15,863 | \$ 11,639 | \$ 57,993 | \$ 58,988 | -1.7% |
| Taxes, Permits & Admin Overhead | \$ 6,621 | \$ 8,044 | \$ 9,889 | \$ 8,850 | \$ 33,405 | \$ 43,120 | -22.5% |
| TOTAL EXPENDITURES | \$ 105,059 | \$ 90,120 | \$ 102,571 | \$ 89,091 | \$ 386,841 | \$ 377,559 | 2.5% |
| NET PROFIT | \$ 134,432 | \$ 160,815 | \$ 162,956 | \$ 147,237 | \$ 605,441 | \$ 51,695 | 1071.2% |

Major Planning Assumptions

| | ACTUAL FIRST QUARTER FY12 | ACTUAL SECOND QUARTER FY12 | ACTUAL THIRD QUARTER FY12 | ACTUAL FOURTH QUARTER FY12 | ACTUAL TOTAL FISCAL YEAR FY12 | BUDGET TOTAL FISCAL YEAR FY12 | % ACTUAL OVER/UNDER(-) BUDGET FY12 |
|--------------------------------|---------------------------|----------------------------|---------------------------|----------------------------|-------------------------------|-------------------------------|------------------------------------|
| OIL PRODUCTION : | | | | | | | |
| QUARTERLY (1,000 BBL) | 2,292 | 2,251 | 2,331 | 2,309 | 9,183 | 9,128 | |
| AVERAGE B/D | 24,916 | 24,469 | 25,619 | 25,369 | 25,093 | 24,940 | 1% |
| GAS PRODUCTION : | | | | | | | |
| QUARTERLY (MMCF) | 886 | 985 | 950 | 860 | 3,682 | 4,106 | |
| AVERAGE MCF/D | 9,635 | 10,709 | 10,439 | 9,451 | 10,058 | 11,219 | -10% |
| WATER PRODUCTION : | | | | | | | |
| QUARTERLY (1,000 BBL) | 91,539 | 87,808 | 90,984 | 91,457 | 361,787 | 374,673 | |
| AVERAGE B/D | 994,984 | 954,432 | 999,826 | 1,005,019 | 988,565 | 1,023,696 | -3% |
| WATER INJECTION : | | | | | | | |
| QUARTERLY (1,000 BBL) | 99,428 | 94,592 | 97,842 | 97,954 | 389,816 | 409,516 | |
| AVERAGE B/D | 1,080,737 | 1,028,173 | 1,075,183 | 1,076,420 | 1,065,128 | 1,118,896 | -5% |
| AVG. OIL PRICE (\$/BBL) | 103.23 | 110.23 | 114.00 | 101.95 | 107.35 | 45.00 | 139% |
| AVG GAS PRICE (\$/MCF) | 3.37 | 2.90 | 2.27 | 1.39 | 2.48 | 4.50 | -45% |

| Location | <u>Oil Production</u> | | <u>Gas Production</u> | |
|--------------|---|---|---|--|
| | <u>Average B/D</u> <u>7/1/11 - 6/30/12</u> | <u>Cumulative Mbbls</u> <u>6/30/12</u> | <u>Average MCF/D</u> <u>7/1/11 - 6/30/12</u> | <u>Cumulative</u> <u>MMCF 6/30/12</u> |
| Grissom | 4,803 | 190,927 | 1,758 | 31,774 |
| White | 6,412 | 173,056 | 3,543 | 47,062 |
| Chaffee | 5,586 | 218,946 | 2,382 | 73,329 |
| Freeman | 5,895 | 278,010 | 1,757 | 94,517 |
| Pier J | 2,397 | 147,844 | 619 | 27,977 |
| Total | 25,093 | 1,008,783 | 10,058 | 274,659 |

| Reservoir | <u>Average B/D</u> <u>7/1/11 - 6/30/12</u> | <u>Cumulative Mbbls</u> <u>6/30/12</u> | <u>Average MCF/D</u> <u>7/1/11 - 6/30/12</u> | <u>Cumulative</u> <u>MMCF 6/30/12</u> |
|-----------------|---|---|---|--|
| SHALLOW GAS | - | - | 1,795 | 5,452 |
| TAR V | 71 | 1,928 | 29 | 804 |
| RANGER | 18,690 | 749,865 | 6,130 | 173,201 |
| TERMINAL | 3,985 | 147,909 | 1,034 | 30,287 |
| Union-pac -ford | 2,309 | 104,808 | 834 | 60,010 |
| 237 | 38 | 4,273 | 236 | 4,905 |
| Total | 25,093 | 1,008,783 | 10,058 | 274,659 |

| Location | <u>Water Production</u> | | <u>Water Injection</u> | |
|--------------|---|---|---|---|
| | <u>Average B/D</u> <u>7/1/11 - 6/30/12</u> | <u>Cumulative Mbbls</u> <u>6/30/12</u> | <u>Average B/D</u> <u>7/1/11 - 6/30/12</u> | <u>Cumulative</u> <u>Mbbls 6/30/12</u> |
| Grissom | 227,784 | 2,098,662 | 263,480 | 2,581,437 |
| White | 217,317 | 1,570,774 | 199,310 | 1,990,888 |
| Chaffee | 190,869 | 1,430,989 | 206,019 | 2,135,242 |
| Freeman | 238,592 | 2,018,913 | 265,951 | 2,162,482 |
| Pier J | 114,004 | 1,348,829 | 130,368 | 1,694,911 |
| Total | 988,565 | 8,468,167 | 1,065,128 | 10,564,959 |

| Reservoir | <u>Average B/D</u> <u>7/1/11 - 6/30/12</u> | <u>Cumulative Mbbls</u> <u>6/30/12</u> | <u>Average B/D</u> <u>7/1/11 - 6/30/12</u> | <u>Cumulative</u> <u>Mbbls 6/30/12</u> |
|-----------------|---|---|---|---|
| SHALLOW GAS | - | - | - | - |
| TAR V | 915 | 10,045 | 1,338 | 23,874 |
| RANGER | 782,631 | 7,041,564 | 840,044 | 8,758,131 |
| TERMINAL | 145,865 | 1,029,117 | 157,484 | 1,277,760 |
| Union-pac -ford | 58,963 | 382,308 | 66,263 | 505,194 |
| 237 | 192 | 5,134 | - | - |
| Total | 988,565 | 8,468,167 | 1,065,128 | 10,564,959 |

**Number of wells
As of June 30, 2012**

By Reservoir

| Zone | Producer | Injector | Total |
|-------------|-----------------|-----------------|--------------|
| SHALLOW GAS | 8 | 0 | 8 |
| TAR | 12 | 2 | 14 |
| RANGER | 637 | 353 | 990 |
| TERMINAL | 160 | 78 | 238 |
| UPF | 93 | 63 | 156 |
| 237 | 3 | 0 | 3 |
| | 913 | 496 | 1409 |

By Location

| Zone | Producer | Injector | Total |
|-------------|-----------------|-----------------|--------------|
| Grissom | 201 | 97 | 298 |
| White | 192 | 112 | 304 |
| Chaffee | 211 | 126 | 337 |
| Freeman | 211 | 113 | 324 |
| Pier J | 98 | 48 | 146 |
| | 913 | 496 | 1409 |