

**STAFF REPORT
C85**

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**CONSIDER ACCEPTANCE OF THE
FINAL REPORT AND CLOSING STATEMENT
FOR THE LONG BEACH UNIT ANNUAL PLAN
(JULY 1, 2016 THROUGH JUNE 30, 2017),
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

GRANTEE:

City of Long Beach

BACKGROUND:

The City of Long Beach submitted its Final Report and Closing Statement of the Annual Plan, Long Beach Unit for Fiscal Year 2016-2017 (Report), covering the period July 1, 2016, through June 30, 2017, to the Commission, as required by section 10 of Chapter 138, Statutes of 1964, 1st Extraordinary Session. Although Commission action on the Report is not a requirement under the statute or various Long Beach Unit agreements, the City of Long Beach has requested the Commission's concurrence with and acceptance of the Report by letter dated September 11, 2017 (Exhibit C, attached). The Report provides the actual performance for the full Fiscal Year 2016-2017.

Total expenditures for the Long Beach Unit were \$207.8 million, which was \$21.3 million less than the approved budget for Fiscal Year 2016-2017. A comparison of the Annual Plan and actual data for the five budget categories shows a significant decrease in actual spending for drilling, facilities, and taxes compared to the plan. However, operating and labor/administrative expenditures increased for the fiscal year. The less-than-planned expenditures were the result of these lower-than-anticipated costs for drilling, facilities maintenance, and a larger-than-expected ad valorem tax refund for the fiscal year.

Net profit for Fiscal Year 2016-2017 was \$142.3 million, which was \$105.8 million higher than the approved budget estimate. The higher-than-planned net profit was the result of the spending cuts implemented in anticipation of lower oil prices combined with a higher-than-estimated oil price and production for the fiscal year.

STAFF REPORT NO. C85 (CONT'D)

The average oil and gas rates for the Fiscal Year 2016-2017 were reported to be 21,004 barrels (bbls)/day of oil (893 bbls/day more than the Plan estimate) and 7,895 thousand cubic feet (MCF)/day of gas (79 MCF/day lower than the Plan estimate). The cumulative recoveries and injection through June 2017 are as follows:

Oil Production	1,051,600,000 barrels
Gas Production	290,633 million cubic feet (MMCF)
Water Production	10,413,571,000 barrels
Water Injection	12,666,000,464 barrels

Cumulative Injection - Gross Production Ratio is 1.10 bbls/bbl.

The approved budget forecast used an oil price of \$35.00/bbl and a gas price of \$3.00/MCF, whereas the actual prices averaged \$44.74/bbl of oil and \$2.60/MCF of gas for the fiscal year. See the tables below for additional details.

ACTUAL OIL AND GAS PRICES, EXPENDITURES, AND NET PROFIT FOR FY 2016-2017 (IN MILLIONS OF DOLLARS)					
	FIRST QUARTER FY 16/17	SECOND QUARTER FY 16/17	THIRD QUARTER FY 16/17	FOURTH QUARTER FY 16/17	TOTAL FY 16/17
Oil Revenue	79.9	87.8	91.2	83.8	342.6
Gas Revenue	1.6	1.9	2.1	1.8	7.5
Expenditures	50.4	42.9	58.8	55.6	207.8
Net Profit	31.2	46.7	34.4	30.0	142.3
Oil Price \$/BBL	40.07	44.90	48.57	45.52	44.74
Gas Price \$/MCF	2.21	2.54	2.93	2.73	2.60

ORIGINAL BUDGET NET PROFIT AND CHANGE FOR FY 2016-2017 (IN MILLIONS OF DOLLARS)					
	FIRST QUARTER FY 16/17	SECOND QUARTER FY 16/17	THIRD QUARTER FY 16/17	FOURTH QUARTER FY 16/17	TOTAL FY 16/17
Original Budget Net Profit	15.7	13.3	2.0	5.5	36.5
Actual Net Profit	31.2	46.7	34.4	30.0	142.3

STAFF REPORT NO. C85 (CONT'D)

Staff reviewed the Report, including production, injection, expenditures and revenue figures, and prepared Exhibits A and B, attached, to represent graphically the actual fiscal year performance compared to the approved budget.

OTHER PERTINENT INFORMATION:

1. Acceptance of the Report is not a project as defined by the California Environmental Quality Act because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, sections 15378, subdivision (b)(5).

2. This action is consistent with Strategy 1.5 of the Commission's Strategic Plan to ensure the highest level of environmental protection and public safety in the production and transportation of oil and gas resources, by applying Key Action 1.5.2 to ensure lease and contract compliance with sound oil and gas development practices in compliance with regulatory and statutory requirements

EXHIBITS:

- A. LBU Financial Performance, FY 2016-2017, Annual Plan vs. Actual
- B. LBU Oil Rate Performance, FY 2016-2017, Annual Plan vs. Actual
- C. Letter from the City of Long Beach requesting acceptance of the Final Closing Statement to the Annual Plan

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

Accept for filing the Final Report and Closing Statement for the Long Beach Unit Annual Plan, for the period July 1, 2016, through June 30, 2017, Long Beach Unit, Wilmington Oil Field, Los Angeles County.

Exhibit A
LBU Financial Performance
FISCAL YEAR 2016-2017 ANNUAL PLAN VS ACTUAL

W 17168

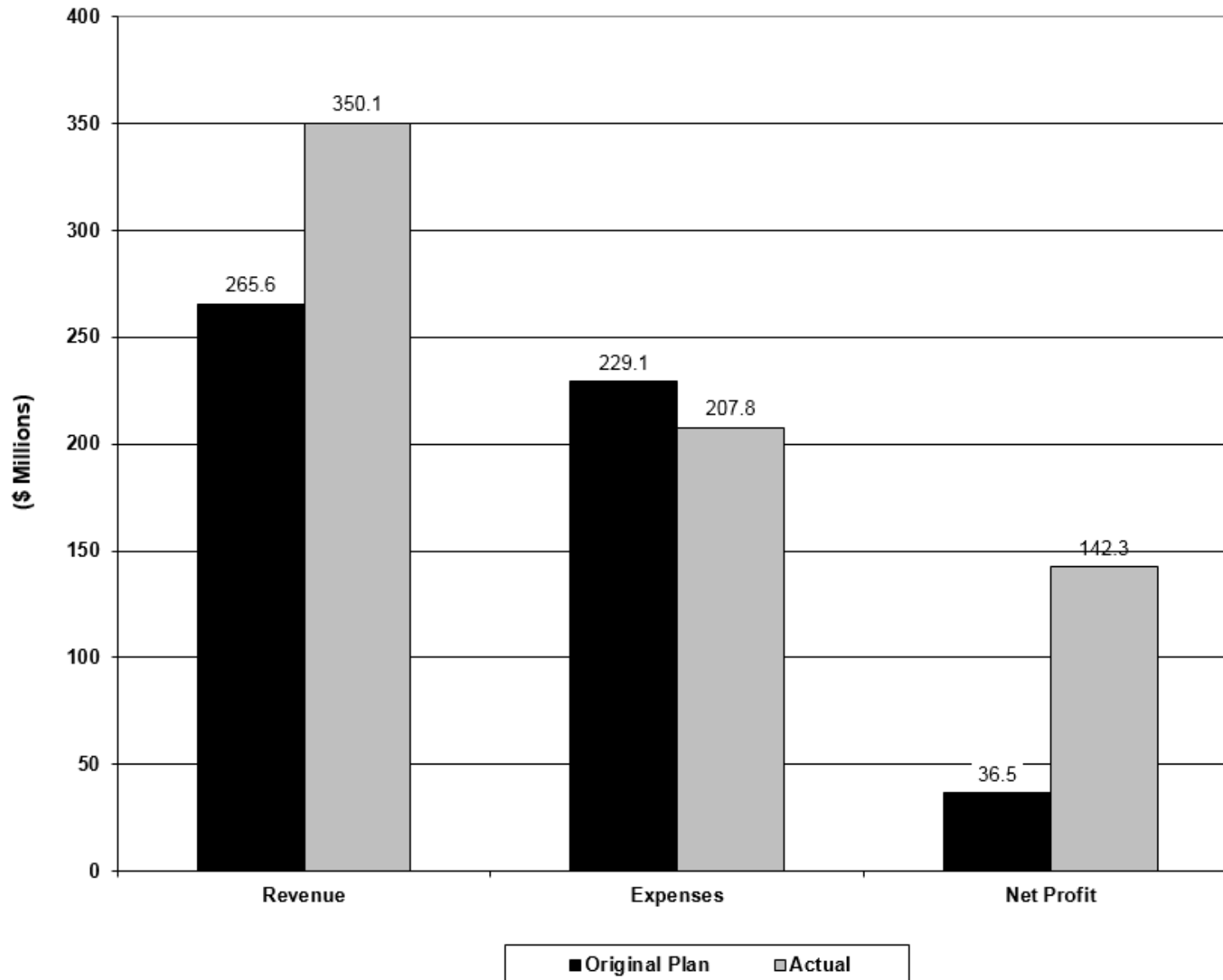


Exhibit B

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**LBU OIL RATE PERFORMANCE
FISCAL YEAR 2016-2017 ANNUAL PLAN VS ACTUAL**

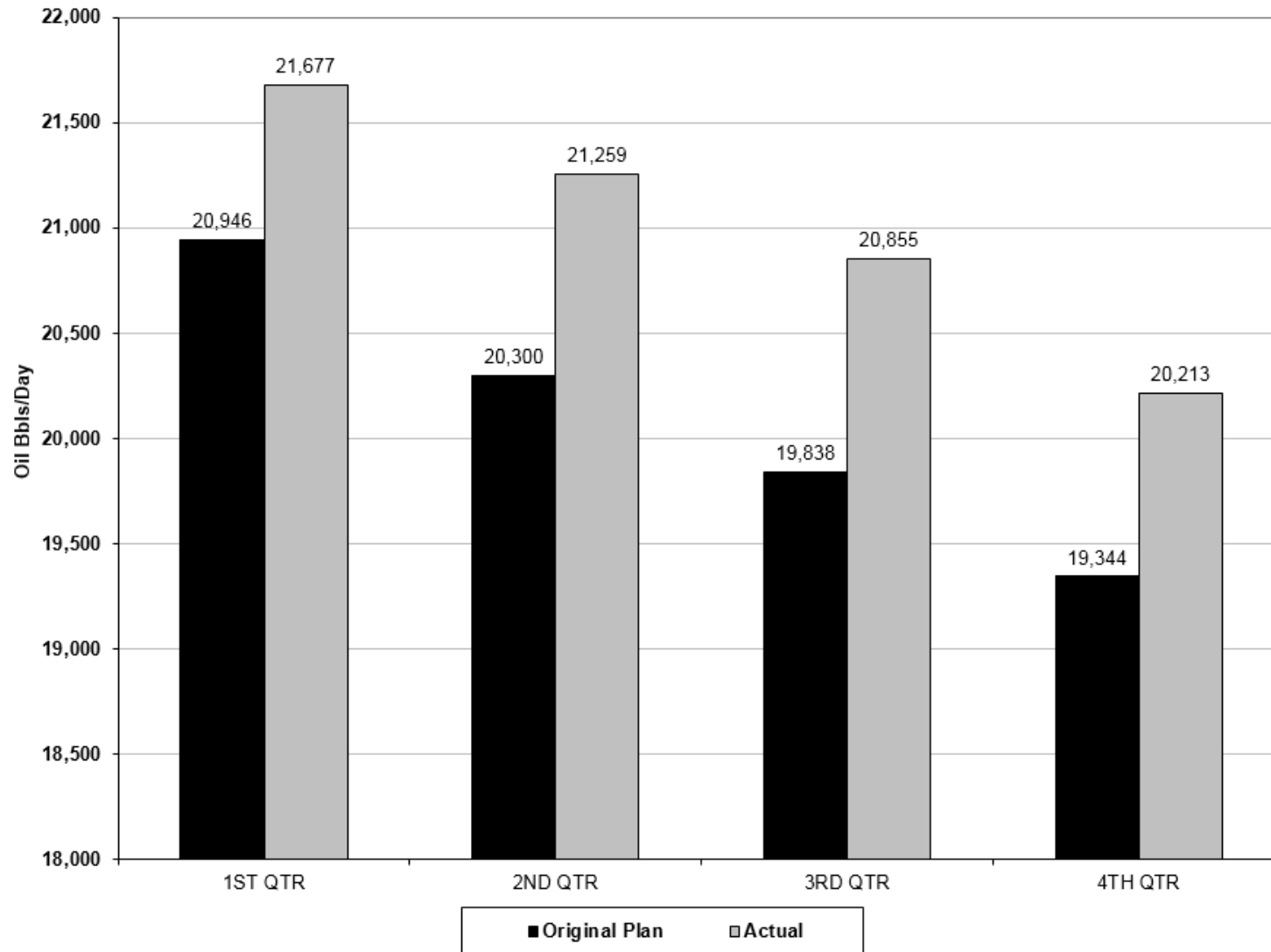


Exhibit C

W 17168



ROBERT DOWELL
DIRECTOR

2400 EAST SPRING STREET · LONG BEACH, CA 90806
(562) 570-2000 · www.lbgo.org

September 11, 2017

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
TO THE ANNUAL PLAN (JULY 1, 2016 THROUGH JUNE 30, 2017)**

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 to the Annual Plan covering the period July 1, 2016 through June 30, 2017. This report contains a reconciliation of Unit activities by category.

The Long Beach Unit FY2017 budget was \$229.1 million while the actual spent was \$207.8 million or 91 percent of budget. The higher realized oil prices than built into the Plan combined with slightly lower spending have resulted in fiscal year profit of \$142.3 million compared to \$36.5 million originally estimated in the Plan.

Funding Category	Budget	Actual	Variance
Development Drilling	45.1	15.8	Drilled and completed 12 wells with 0.5 drilling rig pace instead of planned 24 wells with 0.75 drilling rig.
Operating Expense	70.2	84.2	Higher spending than budget due to adding one rig for MWW to comply with DOGGR requirements; also increased spending on downhole production equipment.
Facilities, Maintenance, and Plant	55.3	51.9	Lower spending level as a result of reduction in facility project scope.
Unit Field Labor and Administrative	33.1	38.2	Higher spending due to reinstatement of employee benefits.
Taxes, Permits, and Administrative Overhead	25.5	17.7	Lower spending due to a large Ad Valorem tax return.
Total	229.1	207.8	

Notes: Numbers in table are in millions of Dollars (rounded).

Ms. Marina Voskanian
September 11, 2017
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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, cash flow, and market volatility while maintaining focus on health, environment, and safety.

Your concurrence with this Final Report and Closing Statement to the Annual Plan is requested.

Sincerely,



Robert Dowell
Director

Attachment: Final Report and Closing Statement – Annual Plan (July 1, 2016 - June 30, 2017)
prepared by California Resources Corporation, September 6, 2017.

CONCURRENCE:

MARINA VOSKANIAN
Chief, Mineral Resources Management
California State Lands Commission



September 6, 2017

Robert Dowell, Director
Long Beach Gas and Oil Departments
2400 East Spring Street
Long Beach, CA 90806

Dear Mr. Dowell:

Subject: 25-17 - Thums Request
Final Report and Closing Statement
Annual Plan (July 1, 2016 - June 30, 2017)

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, 2016 through June 30, 2017. This report contains a reconciliation of Unit activities by category.

DEVELOPMENT DRILLING

The Development Drilling category provides funding for all drilling and redrilling activity, as well as maintenance and replacement of drilling equipment within the Unit.

Operations Review

FY2017 reflects the successful implementation of the Unit's operation strategy that has attempted to manage the fluctuations in the oil price environment. During the FY2017 Plan period, operations activities adapted to manage persistent commodity market risk while maximizing return to the Unit. During the period, the Unit operated at a 0.5 rig pace since September 2016. A total of 12 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	1	0	1	1	0	1
Ranger	3	0	3	3	0	3
Terminal	3	0	3	1	0	1
UP-Ford	0	0	0	0	0	0
237	0	0	0	0	0	0
Total	7	0	7	5	0	5

On June 30, 2017, the total number of wells in the Unit was 1,519, of which 712 were active producers, 468 were active injectors, and 339 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 24 new and redrilled wells that were to be drilled with 0.75 full-time drilling rigs. The actual number of wells drilled and completed was 12 using a 0.5 drilling rig pace.

The budget for the Development Drilling category was \$45.1 million, while actual spend was 65% lower at \$15.8 million. Due to rig start delay and reduced activity (0.5 rig starting September 2016 vs. 0.75 rig planned for the period), well completions were lower than planned and drilling expense was 35% of the planned amount.

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 production during the Plan period averaged 21,004 bbls/day, which was 893 bbls/day higher than the Plan estimate.
- Gas production averaged 7,895 mcf/day, which was 79 mcf/day lower than the Plan estimate.
- Water injection averaged 1,187,555 bbls/day, which was 20,243 bbls/day higher than originally estimated in the Plan. Water production averaged 1,114,642 bbls/day, which was 52,863 bbls/day more than the Plan estimate.
- The average price for Unit crude was \$44.74/bbl during the Plan period. The Plan was based on \$35.00/bbl crude. The average price for Unit gas was \$2.60/mcf and the Plan was based on \$3.00/mcf.

Budget to Actual Variance

Total spending for Operating Expense was \$84.2 million, compared to \$70.2 million approved budget. The spending was 20% higher than Plan and primarily driven by operating 4 MWW rigs compared to 3 in the Plan and increased spending on downhole production equipment. The additional rig was regulatory driven and necessary to comply with DOGGR requirements.

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:

- THUMS Tank and Vessel
- THUMS Regulated Pipeline Inspection Survey and Evaluation
- THUMS Pump and Motor PM
- Chaffee NE Quadrant Piping Project
- TK-87M2 Repair Project

Budget to Actual Variance

The Facilities, Maintenance and Plant Category had a budget of \$55.3 million, of which \$51.9 million, or 94%, was spent. The lower spending level was primarily related to the reduced facility project scope in the second half of the plan period.

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, California Resources 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 \$33.1 million. Actual spend was 15% higher at \$38.2 million. The higher spending was predominantly related to the reinstatement of employee benefits.

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 \$25.5 million, while actual spend was 30% lower at \$17.8 million. The lower spend was due to a large Ad Valorem tax return in November.

SUMMARY

The Long Beach Unit FY2017 budget was \$229.1 million, of which \$207.8 million, or 91%, was spent. Due to higher realized oil price than built into the Plan as well as lower spending, fiscal year profit was \$142.3 million in comparison to \$36.5 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, cash flow and market volatility, while maintaining focus on health, environment and safety. Your concurrence with this Final Report and Closing Statement of the Annual Plan is requested.

Yours very truly,



Robert A. Barnes
EVP Operations
California Resources Corporation

APPROVED:

Robert Dowell _____ Date

PR
Attachments
cc: Management Team

Economic Projections

Date in Thousands of \$	ACTUAL FIRST QUARTER FY17	ACTUAL SECOND QUARTER FY17	ACTUAL THIRD QUARTER FY17	ACTUAL FOURTH QUARTER FY17	ACTUAL TOTAL FISCAL YEAR FY17	BUDGET TOTAL FISCAL YEAR FY17	% ACTUAL OVER/UNDER (-) BUDGET FY17
ESTIMATED REVENUE							
Oil Revenue	\$ 79,903	\$ 87,817	\$ 91,168	\$ 83,769	\$ 342,657	\$ 256,920	33.4%
Gas Revenue	\$ 1,666	\$ 1,899	\$ 2,087	\$ 1,825	\$ 7,476	\$ 8,731	-14.4%
TOTAL REVENUE	\$ 81,569	\$ 89,715	\$ 93,255	\$ 85,594	\$ 350,133	\$ 265,651	31.8%
ESTIMATED EXPENDITURES							
Development Drilling	\$ 227	\$ 4,438	\$ 4,696	\$ 6,437	\$ 15,798	\$ 45,083	-65.0%
Operating Expense	\$ 22,169	\$ 16,268	\$ 22,581	\$ 23,176	\$ 84,194	\$ 70,168	20.0%
Facilities & Maintenance	\$ 11,690	\$ 13,248	\$ 14,860	\$ 12,070	\$ 51,868	\$ 55,270	-6.2%
Unit Field Labor & Admin	\$ 9,392	\$ 11,237	\$ 9,572	\$ 8,003	\$ 38,205	\$ 33,133	15.3%
Taxes, Permits & Admin Overhead	\$ 6,939	\$ (2,225)	\$ 7,130	\$ 5,906	\$ 17,750	\$ 25,482	-30.3%
TOTAL EXPENDITURES	\$ 50,417	\$ 42,967	\$ 58,839	\$ 55,592	\$ 207,815	\$ 229,137	-9.3%
NET PROFIT	\$ 31,152	\$ 46,749	\$ 34,415	\$ 30,002	\$ 142,318	\$ 36,513	289.8%

Major Planning Assumptions

	ACTUAL FIRST QUARTER FY17	ACTUAL SECOND QUARTER FY17	ACTUAL THIRD QUARTER FY17	ACTUAL FOURTH QUARTER FY17	ACTUAL TOTAL FISCAL YEAR FY17	BUDGET TOTAL FISCAL YEAR FY17	% ACTUAL OVER/UNDER (-) BUDGET FY17
OIL PRODUCTION :							
QUARTERLY (1,000 BBL)	1,994	1,956	1,877	1,839	7,666	7,341	
AVERAGE B/D	21,677	21,259	20,855	20,213	21,004	20,111	4.4%
GAS PRODUCTION :							
QUARTERLY (MMCF)	755	746	712	668	2,882	2,910	
AVERAGE MCF/D	8,205	8,112	7,911	7,345	7,895	7,973	-1.0%
WATER PRODUCTION :							
QUARTERLY (1,000 BBL)	103,907	103,441	99,485	100,012	406,844	387,549	
AVERAGE B/D	1,129,428	1,124,357	1,105,384	1,099,028	1,114,642	1,061,779	5.0%
WATER INJECTION :							
QUARTERLY (1,000 BBL)	110,493	110,244	106,387	106,334	433,458	426,069	
AVERAGE B/D	1,201,007	1,198,307	1,182,078	1,168,504	1,187,555	1,167,313	1.7%
AVG. OIL PRICE (\$/BBL)	40.07	44.90	48.57	45.52	44.74	35.00	27.8%
AVG GAS PRICE (\$/MCF)	2.21	2.54	2.93	2.73	2.60	3.00	-13.3%

Location	<u>Oil Production</u>		<u>Gas Production</u>	
	Average B/D	Cumulative Mbbls	Average MCF/D	Cumulative MMCF
	7/1/16 - 6/30/17	6/30/2017	7/1/16 - 6/30/17	6/30/2017
Grissom	4,946	199,688	1,062	33,544
White	5,002	183,616	2,460	52,051
Chaffee	4,895	229,451	2,289	78,175
Freeman	3,582	286,002	1,266	97,348
Pier J	2,578	152,842	817	29,514
Total	21,004	1,051,600	7,895	290,633

Reservoir				
SHALLOW GAS	0	0	0	5,860
TAR	279	2,265	138	966
RANGER	15,911	782,162	6,067	185,109
TERMINAL	2,961	154,024	909	32,077
Union-pac-ford	1,852	108,868	782	61,635
237	0	4,281	0	4,986
Total	21,004	1,051,600	7,895	290,633

Location	<u>Water Production</u>		<u>Water Injection</u>	
	Average B/D	Cumulative Mbbls	Average B/D	Cumulative Mbbls
	7/1/16 - 6/30/17	6/30/2017	7/1/16 - 6/30/17	6/30/2017
Grissom	269,558	2,558,407	285,290	3,097,668
White	268,333	2,030,400	231,910	2,402,867
Chaffee	208,661	1,793,830	215,311	2,555,436
Freeman	222,309	2,431,912	287,014	2,667,363
Pier J	145,781	1,599,022	168,031	1,943,129
Total	1,114,642	10,413,571	1,187,555	12,666,464

Reservoir				
SHALLOW GAS	0	0	0	0
TAR	3,851	13,847	9,390	31,560
RANGER	901,561	8,609,967	957,534	10,453,968
TERMINAL	144,598	1,292,271	157,233	1,564,149
Union-pac-ford	64,632	492,326	63,398	616,787
237	0	5,161	0	0
Total	1,114,642	10,413,571	1,187,555	12,666,464

Number of wells
As of June 30, 2017

By Location	Producer	Injectors	Total
Grissom	220	109	329
White	213	128	341
Chaffee	209	137	346
Freeman	209	122	331
Pier I	105	67	172
Total	956	563	1,519

By Reservoir			
SHALLOW GAS	2	0	2
TAR	17	3	20
RANGER	676	406	1,082
TERMINAL	160	92	252
UP-Ford	97	62	159
237	4	0	4
Total	956	563	1,519