MINUTE ITEM
This Calendar Item No. 58
was approved as Minute Item
No. 58 by the State Lands
Commission by a vote of 3
to 0 at its 8-26-80
meeting.

CALENDAR ITEM

58.

8/80
Thompson/
Everitts

REVENUE ESTIMATES FOR
1979-80, 1980-81, 1981-82

Supplemental language to the 1980-1981 Budget for the State of California affects Item 232, giving the following directive to the State Lands Commission:

"The State Lands Commission shall report semiannually to the Legislature and the Governor on its actual revenue during the past fiscal year, revenue to date in the current year, and estimated revenue in each of the next two years. For each major oil, gas or geothermal property or producing zone, the reports shall include production levels; prices; costs, taxes, or payments deductible from gross revenue; and the percentage of net profits or royalty to the State. The report shall state important assumptions and discuss any factors which may significantly affect revenue for the next five years."

In compliance with this directive, the staff has prepared the revenue estimate for these years as shown on the attached Exhibit A.

EXHIBITS: A. Revenue Forecast

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE ESTIMATED REVENUES, EXHIBIT "A", FOR THE STATE LANDS COMMISSION REVENUE REPORT TO THE LEGISLATURE AND THE GOVERNOR.

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EXHIBIT "A"

ESTIMATED REVENUE

	Actual Revenue	Estimated Revenue	
Oil and Gas	1979-80	1980-81	1981-82
Long Beach	$250,262,000	$430,000,000	$420,000,000
Statewide (Inc. Tract 2)	56,935,000	90,000,000	150,000,000
Geothermal	4,401,000	5,000,000	6,000,000

These revenue estimates are based on extrapolated oil and gas and geothermal production rates, prices, and operating costs. Applicable royalty percentages are adjusted for projected production rates. For net profits sharing contracts expenditures are included for anticipated investment projects, increases in fluid production and injection rates, and the level of support activity. Geothermal royalty revenues are held in trust pending the outcome of litigation. Accumulated geothermal revenues and interest held in trust through June 30, 1980, total $18,262,600.32.

Major assumptions are:

1. That uncontrolled crude oil prices will not increase during the 1980-1981 year. Price escalation has started at the first of the 1981-1982 year and resulted in a 10% increase by the end of the year.

2. That in the Long Beach Tidelands the State-City exemption from windfall profit tax will be sustained and no tax will be charged as an expense into the net profits accounts. Also that the taxes deducted to date will be refunded.

3. That in the Long Beach Tidelands a legal resolution will not become final on the issue as to whether expenditures of approximately $20,000,000 by the City of Long Beach to fill purchased land may be reimbursed as subsidence cost during this two-year period.

4. That in the Long Beach Tidelands the mining rights valuation for assessments will change from those used for the prior year and follow current practice, but will be appealed and the mining rights taxes will be paid under protest. That legal resolution and refunds will not become final in this time period.

5. That in the Long Beach Tidelands net profits contracts the operating costs will escalate at 15% per year.

6. That production rates at Platform Holly (Leases PRC 3120 and 3242, South Ellwood Field) from the Monterey zone will increase through FY 1980-81 as development wells are completed, and that production will be shut in for 60 days in June-July, 1981, to improve facilities capacity with production rates peaking thereafter limited only be emission standards.

(Added, 8/22/80)

7. That production rate decline on other developed statewide oil and gas leases will be controlled by continued remedial drilling from locations cleared by the Commission.

8. That electrical generation prices utilizing geothermal steam will be escalated at 10% per year.

9. That electrical generating unit No. 14 at the Geysers Geothermal Field will come on line in 1981.

The factors that could have the most significant impact on revenue in the next five years would be:

A. Changes in future oil, gas and geothermal steam prices and the relationship between oil price increases and cost inflation in the Long Beach net profits contracts.

B. Application of windfall profit tax provisions to State and local governmental agencies in the Long Beach net profits contracts.

C. Resolution of the subsidence cost reimbursement issue with the City of Long Beach as to the filling of purchased lands.

D. Determination of the legality of present Los Angeles County mining rights assessment practices.

E. Renewed oil and gas exploration and development on statewide leased lands.

F. Renewed leasing and development of statewide lands with geothermal resources potential.