

MINUTE ITEM

Calendar Item No. 23
was submitted for information
only, no action thereon
being necessary.

INFORMATIVE CALENDAR ITEM

23

1/23/84
W 17082

Thompson

REVIEW OF 1983-84 AND 1984-85
PLANS OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT
WILMINGTON OIL FIELD, LOS ANGELES COUNTY

Section 5, Chapter 138, Statutes of 1964, 1st F.S., and Article 4 of the Long Beach Unit Agreement require adoption by the City of Long Beach of an annual Plan of Development and Operations and Budget for the Long Beach Unit. The Plan and Budget is then to be submitted to the State Lands Commission at least 100 days prior to submission to the participants of the Long Beach Unit.

The City Council of the City of Long Beach, will at a meeting in the first part of March 1984, adopt their proposed Plan of Development and Operations and Budget for 1984-1985, and authorize its submittal to the State Lands Commission for consideration and approval by mid March, 1984.

Under Section 5 (b), the Commission has 45 days after submittal to take action. If no action is taken, the Plan and Budget is deemed to be approved as submitted. The Commission may affirmatively approve the Plan and Budget or modify it after holding a formal hearing. Under section 5 (g) the Plan and Budget as submitted may be modified without a hearing upon mutual agreement by the City and the Commission. For the last two years, in its Plan and Budget consideration, the Commission has acted jointly with the City in modifying the Plan and Budget under the Section 5 (g) procedure at the time the Plan and Budget was approved by the Commission. This has allowed the use of the most current data available since preparation of the Plan and Budget starts in the prior December.

The 1983-84 plan and budget was changed to a programmatic format plan as requested by the Commission. The Budget was also presented in the 1982-83 format to provide historical expenditure continuity and expenditures are reported for both. The current Plan provides for continued development of the Long Beach Unit and the operation and maintenance of necessary facilities in six programs. These programs now combine the investment and expense expenditures included in the scope of the program as well as the administrative overhead costs related to those expenditures. All of the budget items included in the 1982-83 Budget were retained in 1983-84 to minimize the accounting changes and a few new budget items were added. The budget items have been rearranged into the six programs with allocation between programs required for some budget items. To date, the programmatic approach has only resulted in the rearrangement of

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budgeted funds and expenditures. The analysis and justification of expenditures and alternatives have not been provided and should be given high priority in the preparation of the 1984-85 Plan and Budget.

The program expenditures for the first half of 1983-84 are shown on attachments 2 - 7. Expenditures for previous years have been calculated using the same percentage split for allocated budget items as the 1983-84 Budget. However, these allocations prior to July, 1983 may not be valid for extrapolation in all programs. Therefore, comparisons of current and past expenditures with proposed funding are also made on the Budget Items, Categories, Divisions and Classes.

In the new programmatic format the funding, including carry-in, for the six programs is:

A. Drilling and Development Program	\$ 94,908,000
B. Oil and Gas Production Program	\$ 32,697,000
C. Enhanced Recovery and Stimulation Program	\$ 6,629,000
D. Water Injection Program	\$ 35,250,000
E. Management Program	\$ 19,479,000
F. Taxes, Permits and Land Rental Program	\$ 19,636,000
Total	\$258,657,000

The administrative overhead is included in the funding of each program.

A. DRILLING AND DEVELOPMENT PROGRAM

The 1983-84 funding of \$94,908,000, including \$3,651,000 for administrative overhead, for this program is 37% of the total budget. Eight and a half drilling rig years are planned in 1983-84 for the drilling of new wells and the redrilling and repair of existing wells. Currently there are eight drilling rigs operating in the unit. A further reduction to seven is indicated for mid 1984 or the first of 1985 with the combined drilling activity for Fier J and Island Chaffee being the deciding factor. Past studies of the maximum potential future drilling activity to be used in planning surface location additions had two components, development wells, primarily north flank Ranger Zone and new Terminal Zone fault blocks, and potential locations for subzoning and infill drilling. The majority of the development wells will be completed by the end of 1985. The potential subzone and infill locations need re-evaluation for several reasons. The Unit does not have a proven tertiary recovery method established so vertical intervals, well spacing and injection patterns cannot be finalized. Also, Exhibit "A" shows the total producing wells in the Unit and the active producing wells. The number of active wells has only increased by about twenty-five during the past two years although over 100 new wells were drilled during that time. The economics of this substitution process and an evaluation of how to utilize these idle wells, with a replacement value of \$40-50 million, may further affect the rate of drilling new wells and reduce drilling activity until the reservoir analysis

required is completed.

The estimated expenditure for the current year is \$73 million. The drilling of new wells accounts for the major part (\$39 million). The other major components are \$10.5 million for the redrilling of wells, \$8.8 million for drilling support, 10 million for Island and cellar construction and \$3.5 million for waste disposal. Attachment 2 is a plot of the calculated monthly expenditures prior to July, 1983 and actual expenditures since that time for the program. Estimated expenditures in 1984-85 are estimated to be in the range of \$60 million.

B. OIL- AND GAS PRODUCTION PROGRAM

This program is for the operations necessary for the producing, processing and delivery of crude oil and gas. 1983-84 funding for this program is \$82,697,000, 32% of the total budget. The investment funding is \$6 million, expense costs are 73.5 million and Administrative Overhead is \$3.2 million. The main Sub Programs are Oil Well Repairs \$24 million, Fluid Handling (\$29.6 million) and Production Maintenance (\$25.3 million). The estimated program expenditures for the current year are \$74 million. Attachment 3 is a plot of the calculated monthly expenditures prior to July, 1983 and actual expenditures since that time for the program. Estimated expenditures in 1984-85 are expected to be about the current level.

C. ENHANCED RECOVERY AND STIMULATION PROGRAM

This program was designed to administer the costs associated with enhanced recovery and stimulation projects and to determine the economic feasibility of such expenditures. The funding, \$6,629,000, is 2.6% of the total 1983-84 budget. The major portion (\$5 million) of the program funding is for the pilot caustic flood. This pilot has not proven economic and a large similar project planned in the prior development has been cancelled. The Commission staff had reservations in mid 1982 as to whether there were any future applications in the Unit of this recovery process and at the first of 1983 requested the project be terminated. However, the City of Long Beach desired to continue the project and the expenditures have continued. The estimated expenditures for 1983-84 are \$5 million. The calculated monthly expenditures and funding for the program are shown on Attachment 4. Expenditures do not include the cost of chemicals in the caustic pilot as they were prepaid, and therefore, do not reflect the true cost of the project. Eventually this project will be terminated with a savings in costs and the funding for this part of the program will be reduced.

D. WATER INJECTION PROGRAM

The pressure maintenance and waterflood operations in this program are required by the Unit Agreements. The funding of \$35,258,000 is 14% of the total budget and is for the necessary work on injection wells, operation of the surface installations used for filtering of produced water and pressuring water for injection, the purchase of pressured water and for additional

water source. The calculated monthly expenditures prior to July, 1983 and actual expenditures after that time are shown on Attachment 5. The estimated expenditure for 1983-84 and 1984-85 is \$23 million.

E. MANAGEMENT PROGRAM

This program with funding of \$19,479,000, 7.5% of the total budget, covers the cost of the Field Contractor management staff's salaries and office expense, the cost of Unit accounting and the City of Long Beach Unit Operator's billable costs. The computer equipment installation for the management information service is running 6-9 months behind schedule and to date the State Lands Commission staff has seen little results of any new computer applications or usage in the Unit operations. The calculated monthly program expenditures prior to July, 1983 and actual after that time are shown on Attachment 6. The 1984-85 expenditures should be lower than the estimated 1983-84 level of \$19 million due to reduced expenditures for computer equipment.

F. TAXES, PERMITS AND LAND RENTAL PROGRAM

This program contains the funding for the various taxes, licenses and fees paid to the counties of Los Angeles and Orange, the City of Long Beach and other governmental agencies. The personal property and mining rights taxes and the Long Beach oil production license taxes will be \$19.8 million and \$2.7 million. The current funding for the program is \$19,686,000. Transfer or augmentation of \$5.2 million will be required. The annual expenditures are shown on Attachment 7.

OLD BUDGET FORMAT

The INVESTMENT funding of \$81,473,000 includes \$58,557,000 for DRILLING AND DEVELOPMENT of which \$57,115,000 is to drill new wells and \$1,442,000 for injection well equipment. The monthly expenditures and proposed funding for the new wells, budget item account 401, is shown on Attachment 8. The 1983-84 expenditures is estimated to be \$33 million and \$34 million for 1984-85. The funding, including carry-in, for FIELD AND WELL FACILITIES is \$22,917,000. The major construction projects for island expansion and additional surface locations for new wells during the past two years will be completed by the first of 1984, \$9.9 million for this work was carried into the 1983-84 Budget from 1982-83 with total expenditures estimated to be \$9.6 million. Unless some large new projects are proposed, the 1984-85 expenditures should be in the \$5-10,000,000 range for new facilities, the lowest level of the last five years. From this point forward, proposed new projects can be covered in the Plan with funding by modification as plans are finalized and funding estimates firm. The monthly expenditures and funding for this Budget Division is shown on Attachment 9.

EXPENSE funding provides \$17,720,000 for taxes and licenses, \$131,581,000 for operating, \$11,930,000 for general administrative and \$6,711,000 for other expense. The total is \$167,942,000. Actual expenditures for 1983-84 are estimated to be

\$158 million. The 1984-85 estimate is in the range of 160 million.

OPERATING EXPENSE funding in the Budget provides for production, separation and processing of oil, gas and water. The 1983-84 funding of \$131,561,000 is for the operation of the wells and facilities for production and injection and is a major part of the Budget, 51% of the total Budget. The monthly expenditures of this Budget Division IIIB2 is shown on Attachment 10. Expenditures for 1983-84 and 1984-85 is estimated to be \$122 million. A major part of the funding is for the budget category Wells for which the estimated expenditure for 1983-84 is \$33 million. The monthly expenditures and funding for this category are shown on Attachment 11. The Direct Well Charges budget items accounts 900 and 920 have estimated expenditures of \$19 million. For 1984-85 the expenditure level will be determined by workover and redrill activity as there will be a small increase in the number of active wells to be serviced which should be offset by the reduction in contract production rig costs. The Field System category funding is \$47,010,000. There should be a surplus of \$4 million in these accounts at the end of the 1983-84 year, as the forecasted volumes of fluids to be handled probably will not be produced and injected. The monthly expenditures and proposed funding are shown on Attachment 12. The category Other Production Expense has funding of \$47,317,000. A large part of the contractor's field personnel costs are in this budget category. The monthly expenditures and proposed funding are shown on Attachment 13. A historical comparison of the cost and total number of Field Contractor employees is shown on Attachment 14. A schedule of the number of such employees and their salaries and benefits must be approved by the Long Beach City manager. He is required to give due regard to the requirements of good oil field engineering and operating practices and the compensation and other benefits normally allowed to comparable oil field operations. The selection of employees used by the Field Contractor in conducting operations, their hours of labor, their conditions of employment and their supervision are the responsibility of the Field Contractor. With the reduction in construction and drilling activity the number of employees will continue to decrease.

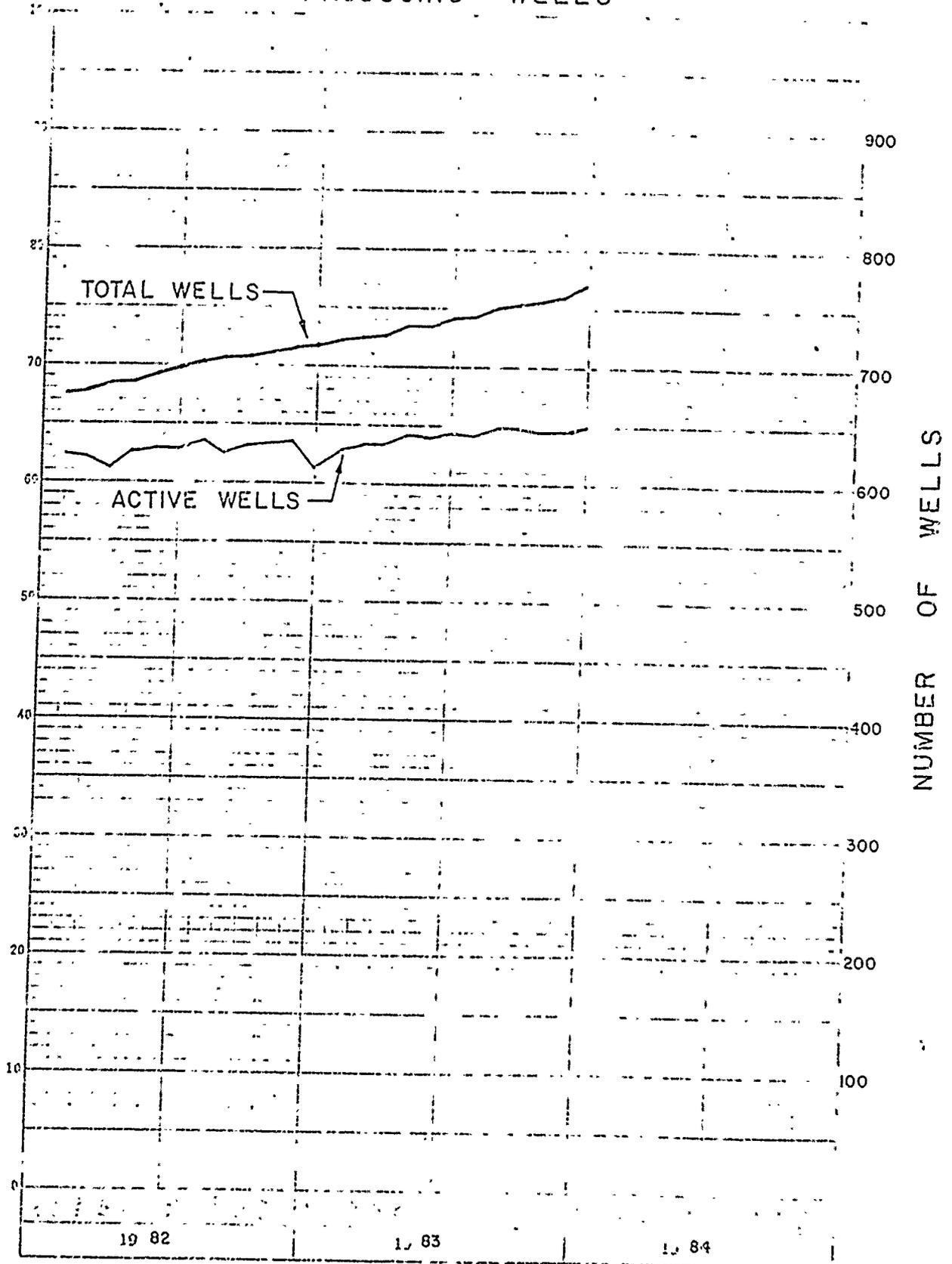
In Operating Expense, about \$32,000,000 in funding for 1983-84 is for electrical energy, (Attachment 15) and which is adequate to cover estimated expenditures in the current year. Electrical energy is used primarily for the purpose of lifting to the surface over 183 million barrels of oil and water, and for the injection of a similar volume of produced saline water as a part of the pressure maintenance program. Electrical power rates are shown on (Attachment 16). Large rate increases due to fuel costs are not anticipated and future costs increases will depend upon fuel oil costs and the availability of hydroelectric power. 1984-85 expenditures should be slightly higher than the 1983-84 level due to increased fluid volumes and energy costs.

The inflation trend for the last year has been about 43 per year and use of a comparable increase for those applicable expenditures is indicated. There were reductions in well pulling and drilling costs in 1983 so cost trends after those reductions should be used. Crude prices are still soft and hopefully will remain at the present level through 1984, but there is downward pressure and crude prices could drop in the 1984-85 period. The estimate of 1983-84 net revenue, without consideration of windfall profits tax, is \$320 million. For 1984-85, if crude oil prices do not decrease, it is anticipated that there could be slightly higher net revenues if there are lower expenditures from a more efficient operation, reduced costs and smaller expenditures for new facilities and wells which offset any decline in oil rate.

EXHIBIT: A. Producing and Expenditure Charts and Graphs

AB 884: N/A

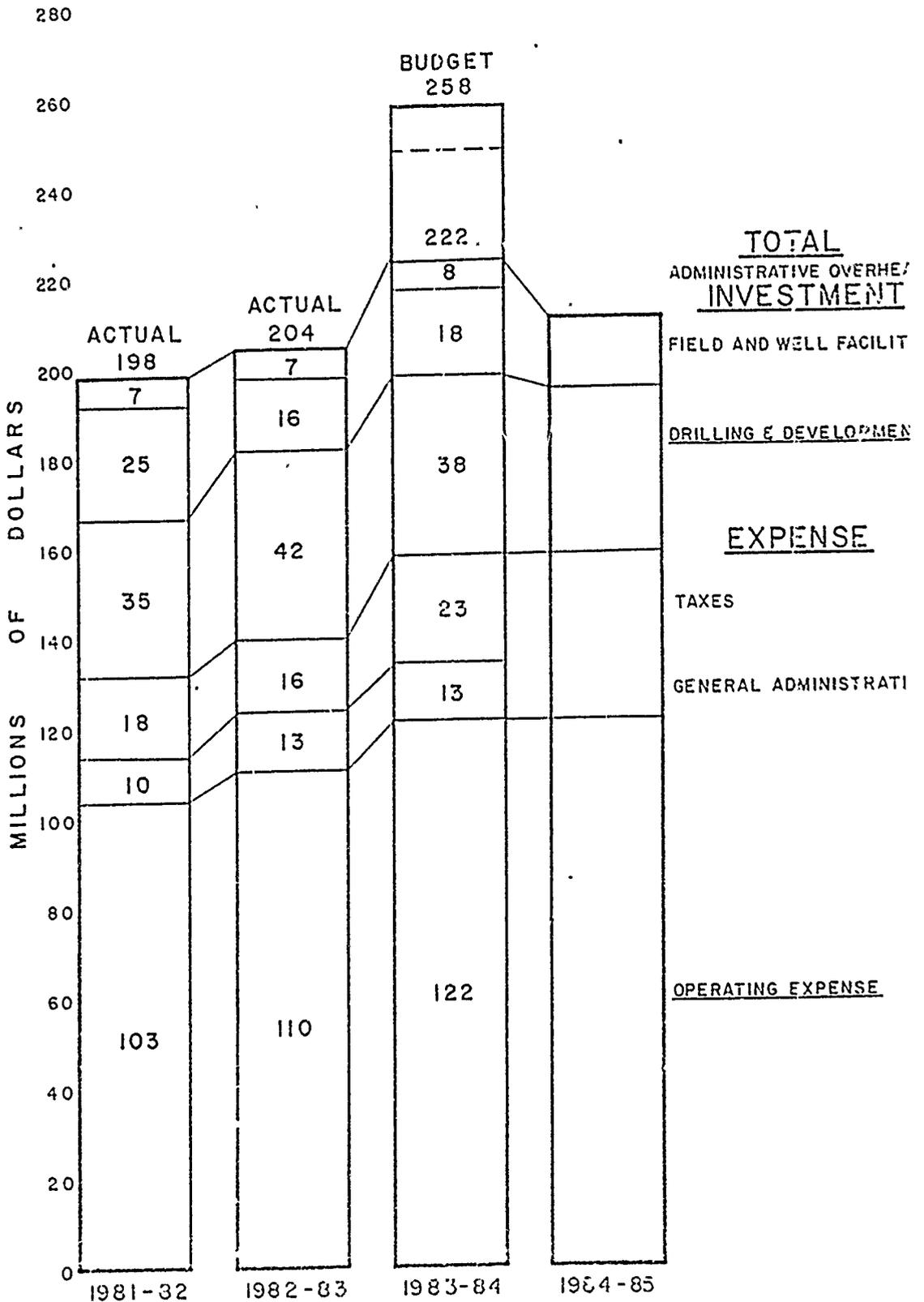
LONG BEACH UNIT PRODUCING WELLS



3 YEARS BY SCHEIDT
100 X 100 DIVISION
KEUFFEL & ASSOCIATES

Added 1/20/83

CALENDAR PAGE	157.6
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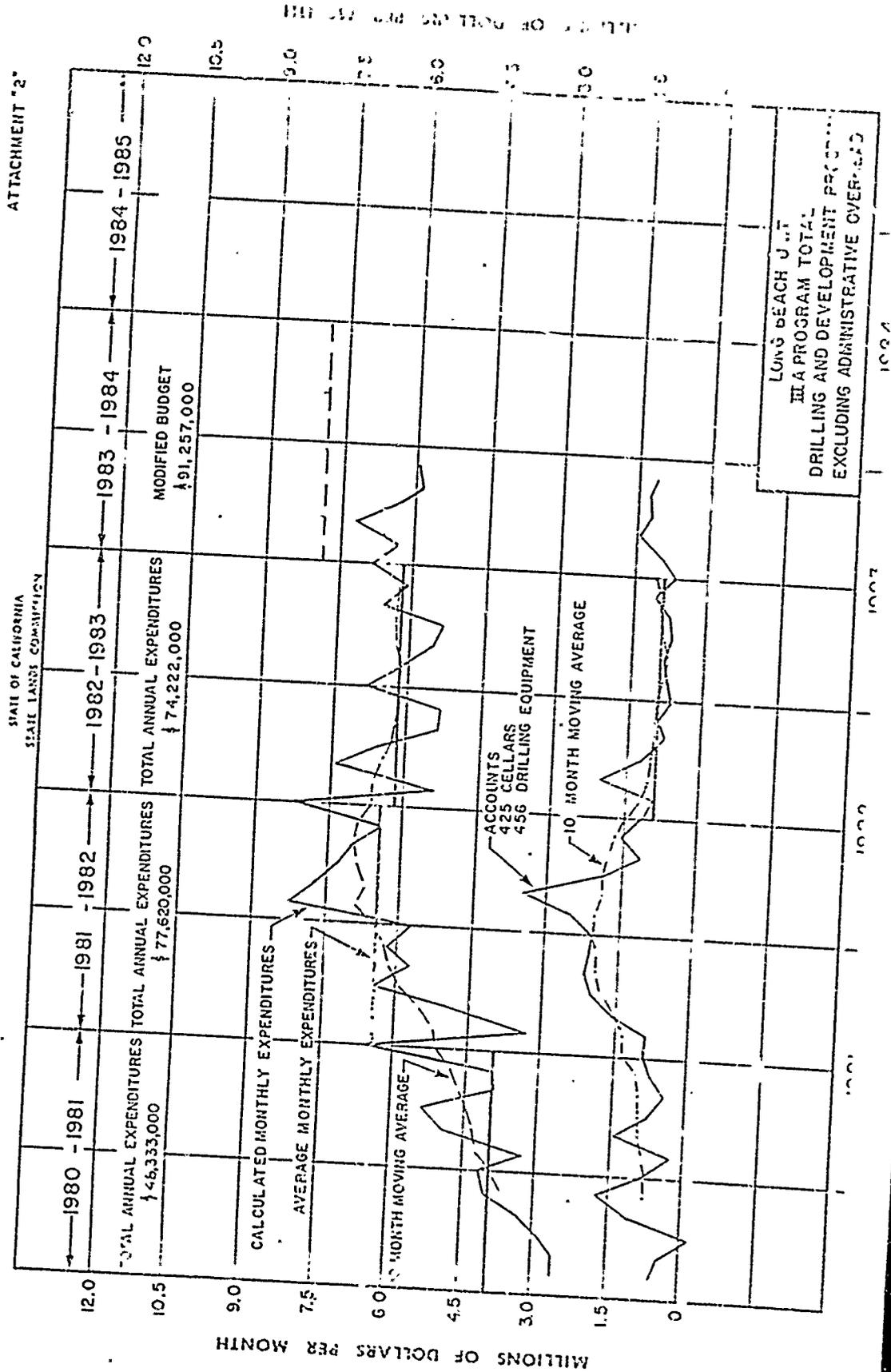


LONG BEACH UNIT EXPENDITURES

Added 1/20/83

CALENDAR PAGE	157.7
MINUTE PAGE	191

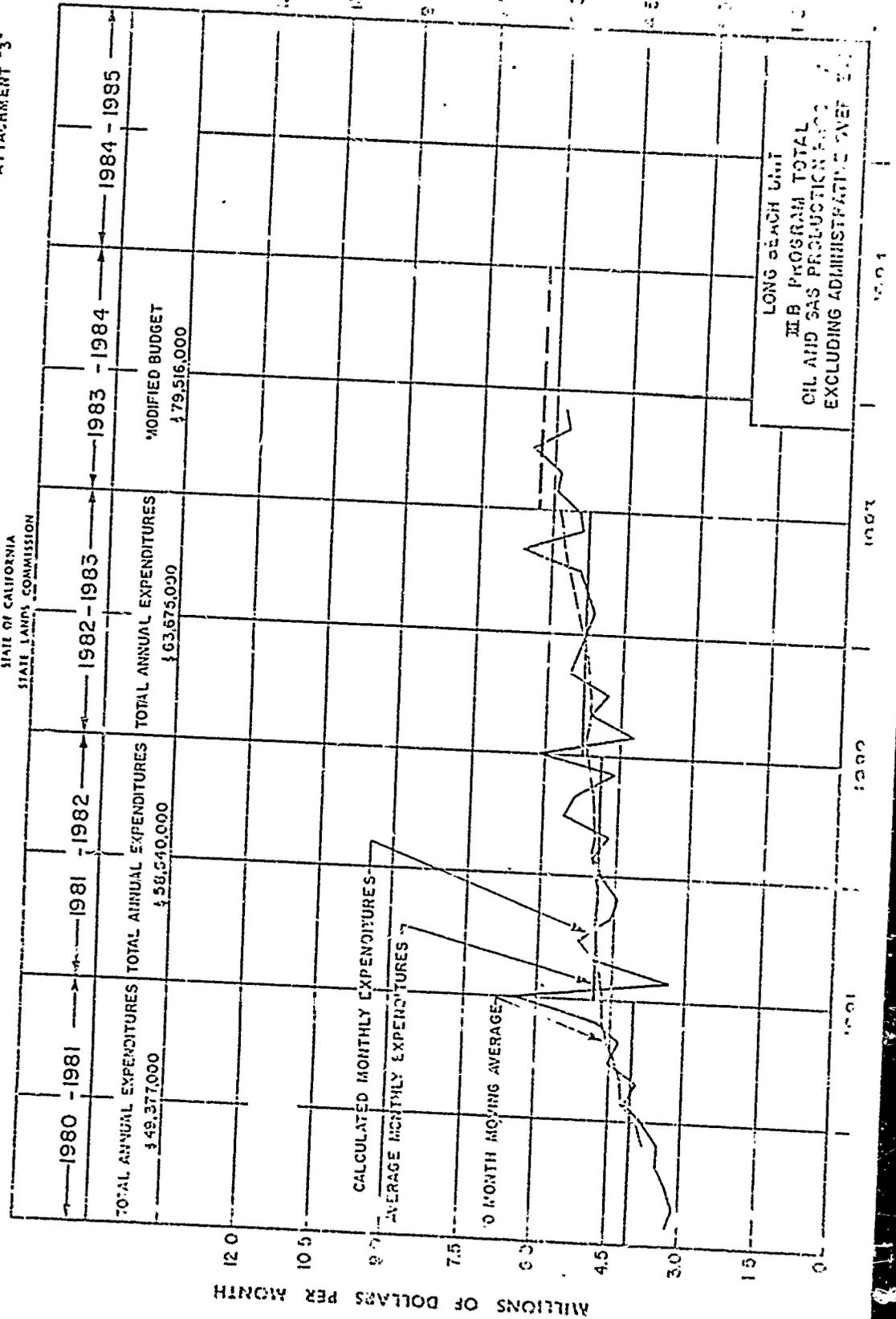
Added 1/20/83



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MINUTE PAGE 192

ATTACHMENT "3"

STATE OF CALIFORNIA
STATE LANDS COMMISSION



LONG BEACH UNIT
IIB PROGRAM TOTAL
CIL AND SAS PRODUCTION EXPENSE
EXCLUDING ADMINISTRATIVE OVERHEAD

MILLIONS OF DOLLARS PER MONTH

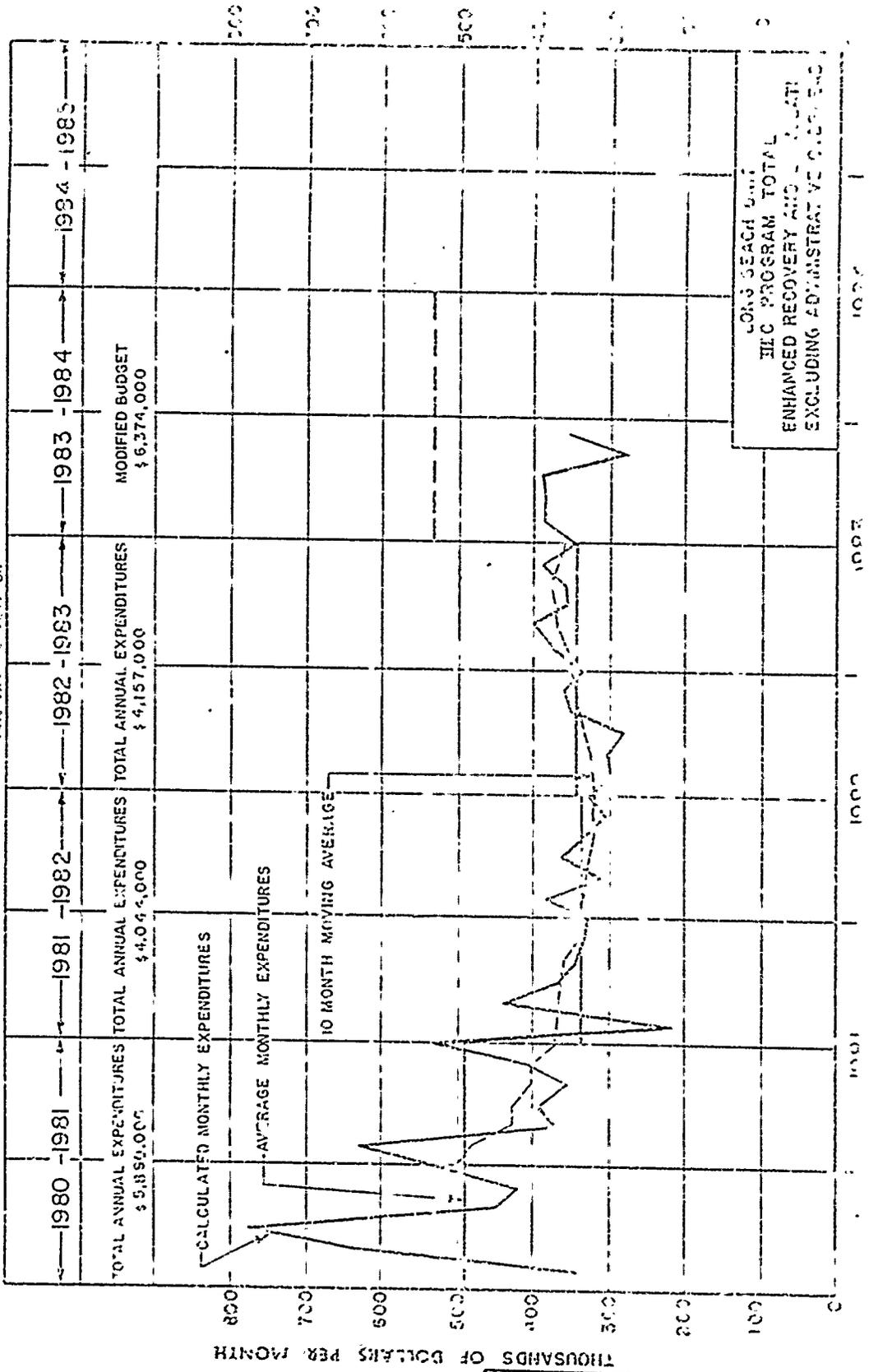
Added 1/20/83

CALENDAR PAGE 57.9
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ADDENDUM 1/20/83

ATTACHMENT "4"

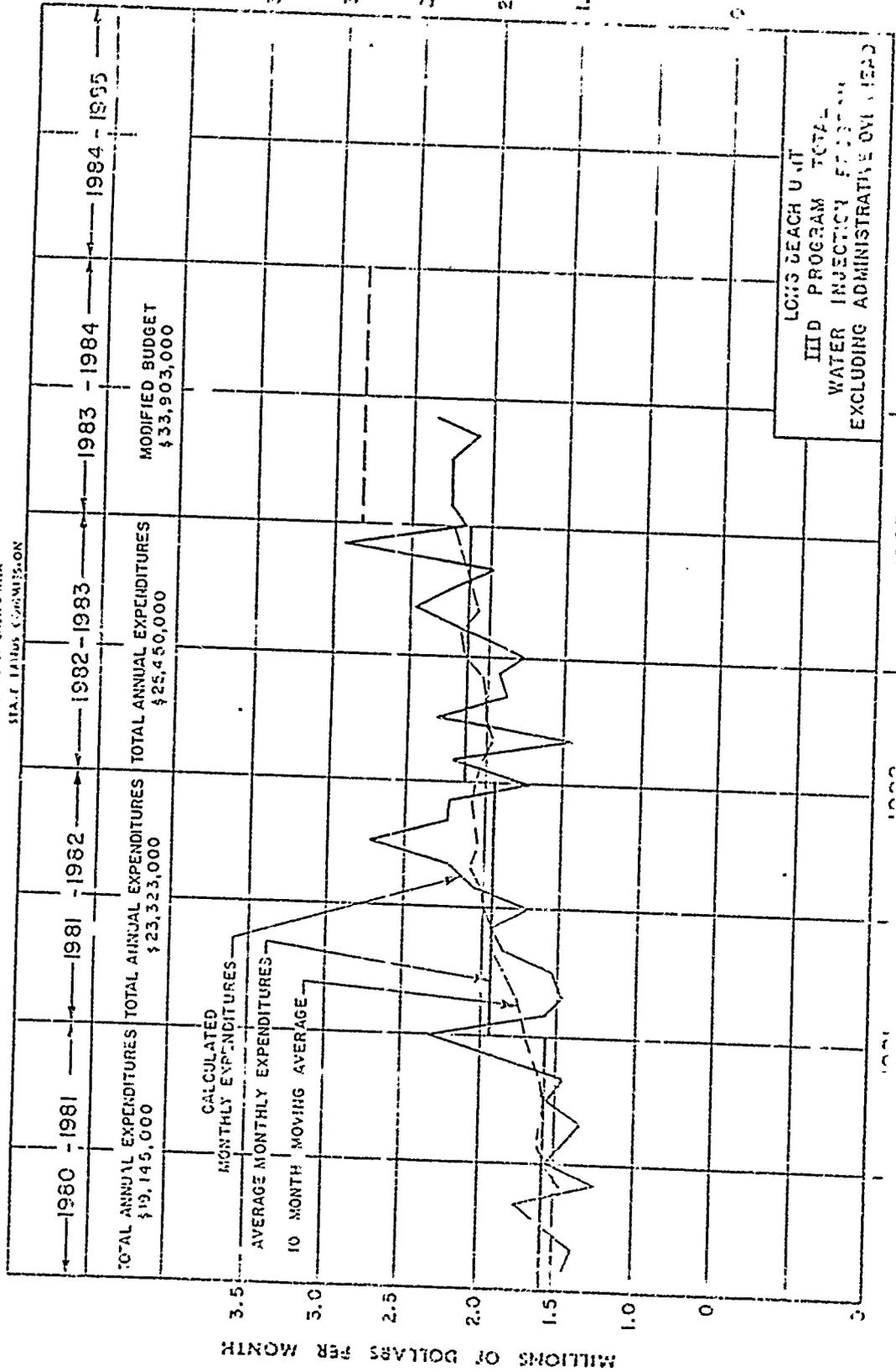
STATE OF CALIFORNIA
STATE JAN. 1, 1980 - 1983



LONG BEACH UNIT
IIC PROGRAM TOTAL
ENHANCED RECOVERY AND HEALTH
EXCLUDING ADMINISTRATIVE COSTS

ATTACHMENT "5"

STATE OF CALIFORNIA
STATE LANDS COMMISSION



MILLIONS OF DOLLARS PER MONTH

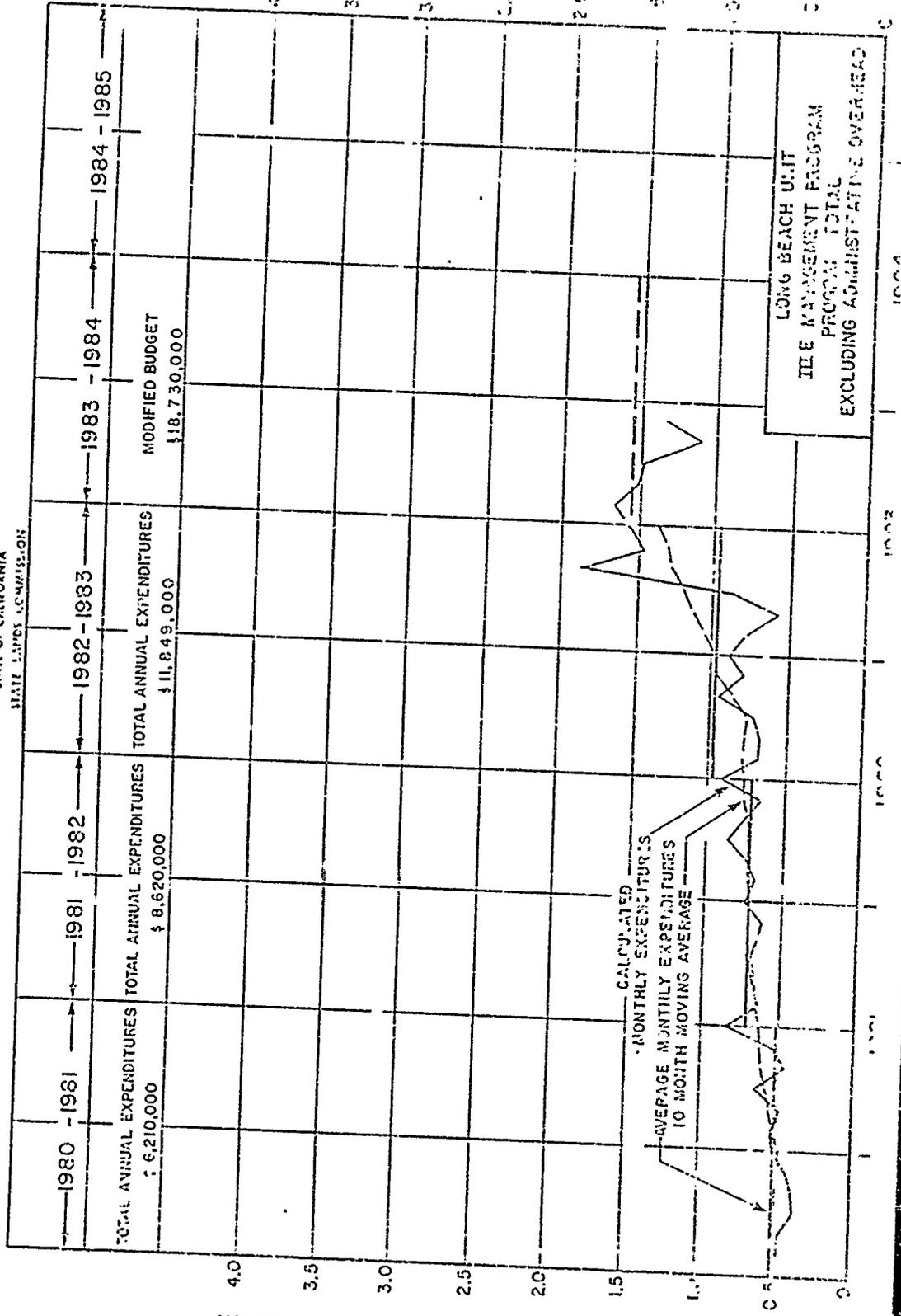
Added 1/20/83

CALENDAR PAGE 157.11
MINUTE PAGE 195

Added 1/20/83

ATTACHMENT "6"

STATE OF CALIFORNIA
STATE EVIDES COMMISSION



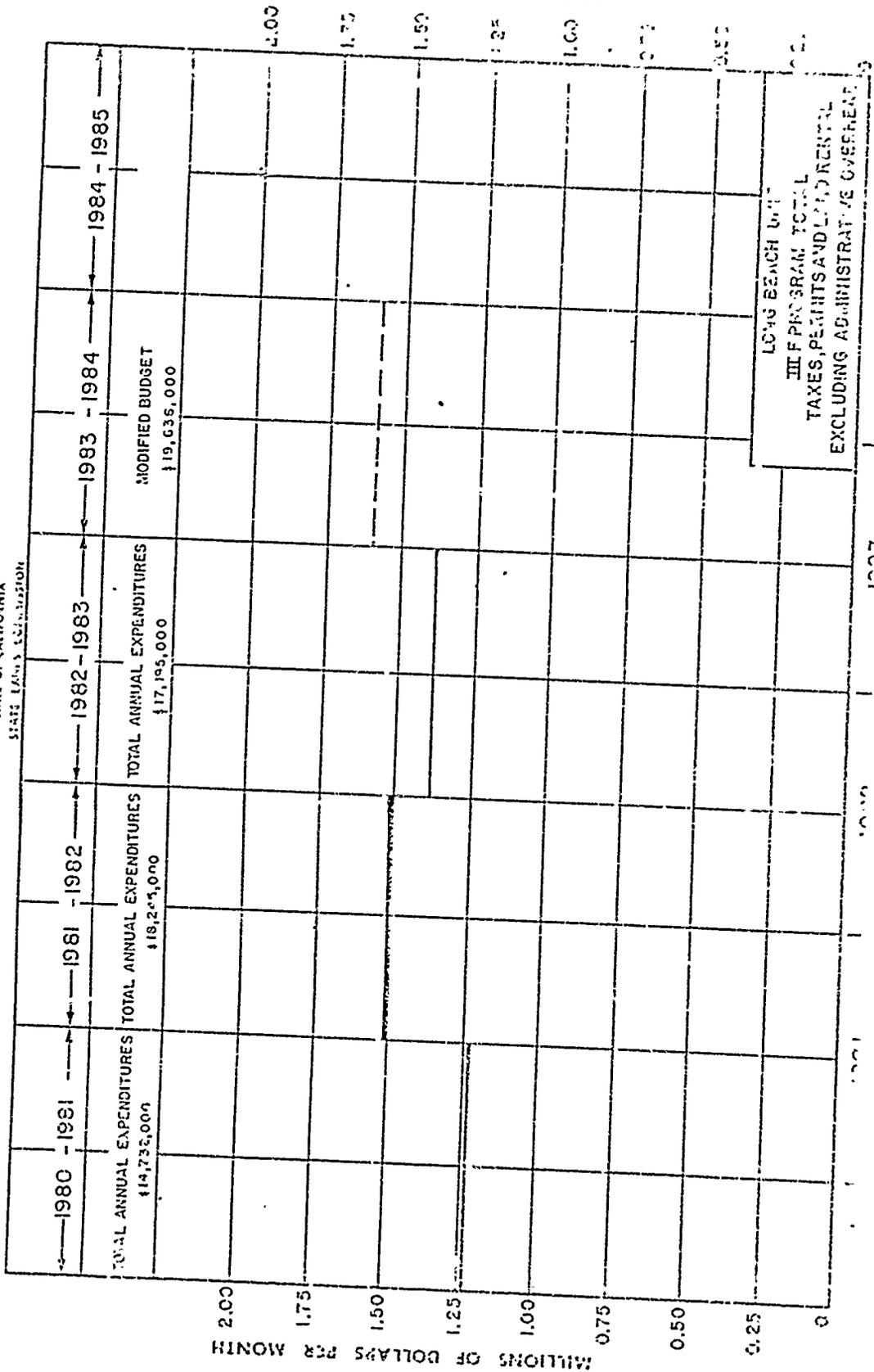
MILLIONS OF DOLLARS PER MONTH

CALENDAR PAGE	157.12
MINUTE PAGE	1.05

Added 1/20/83

ATTACHMENT 7*

STATE OF CALIFORNIA
STATE LANDS COMMISSION



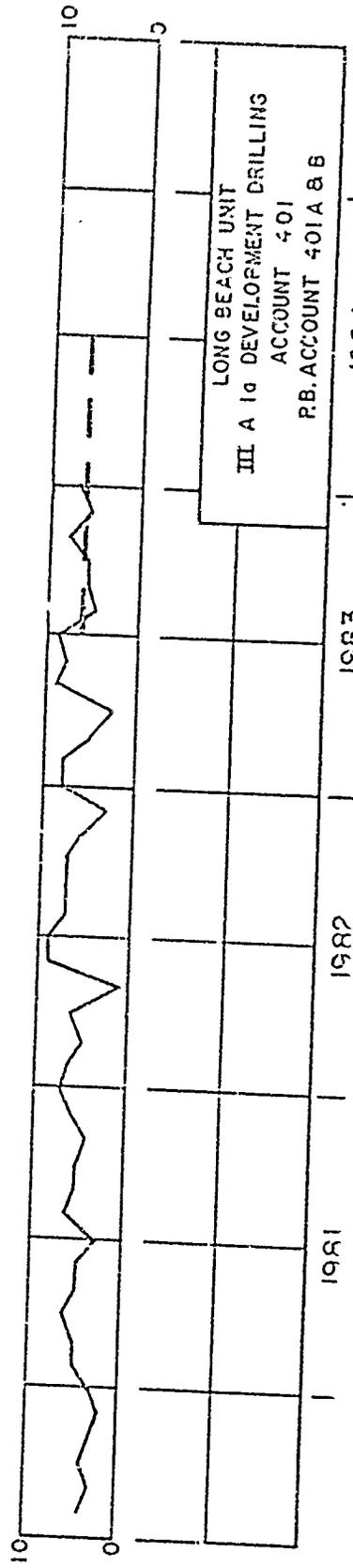
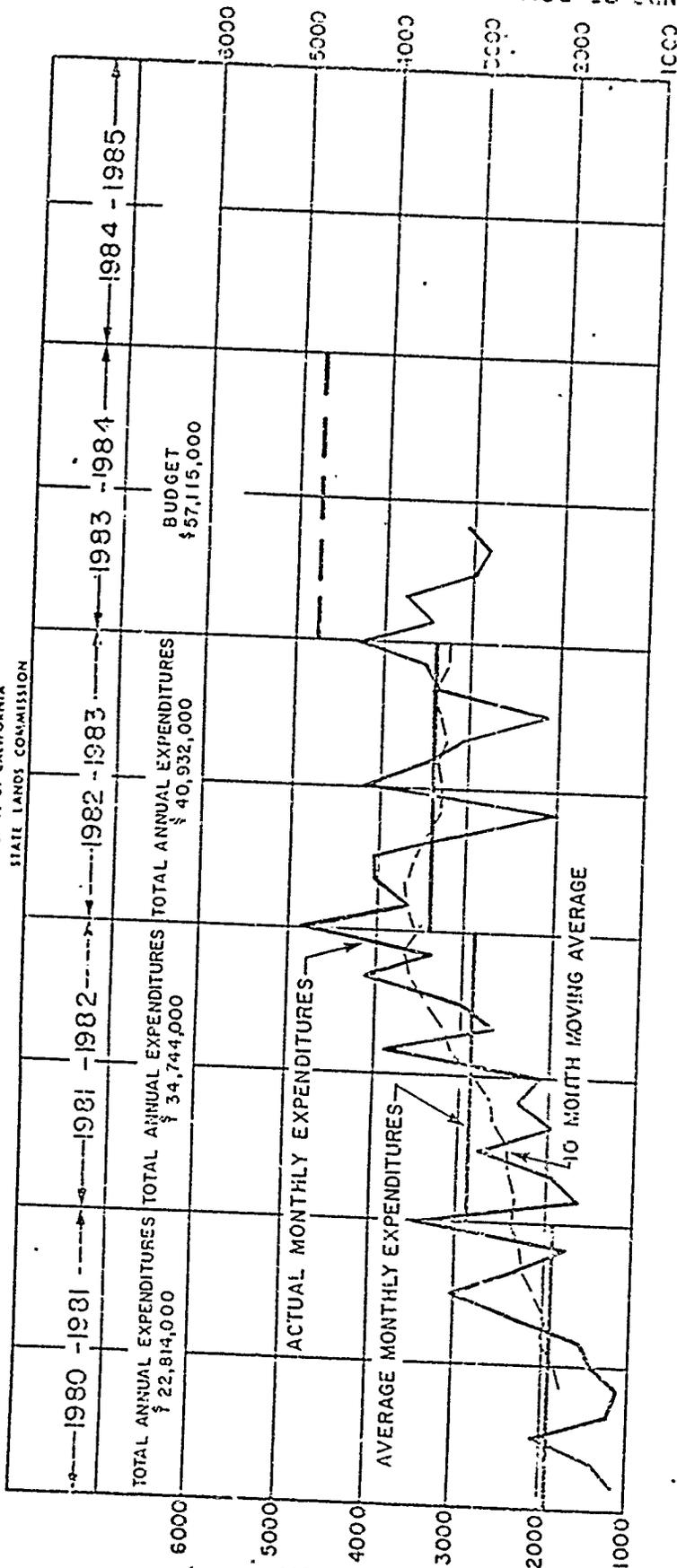
REPORT OF THE STATE LANDS COMMISSION

LONG BEACH UNIT
III PROGRAM TOTAL
TAXES, PERMITS AND LAND RENTAL
EXCLUDING ADMINISTRATIVE OVERHEAD

Added 1/20/83

ATTACHMENT "8"

STATE OF CALIFORNIA
STATE LANDS COMMISSION



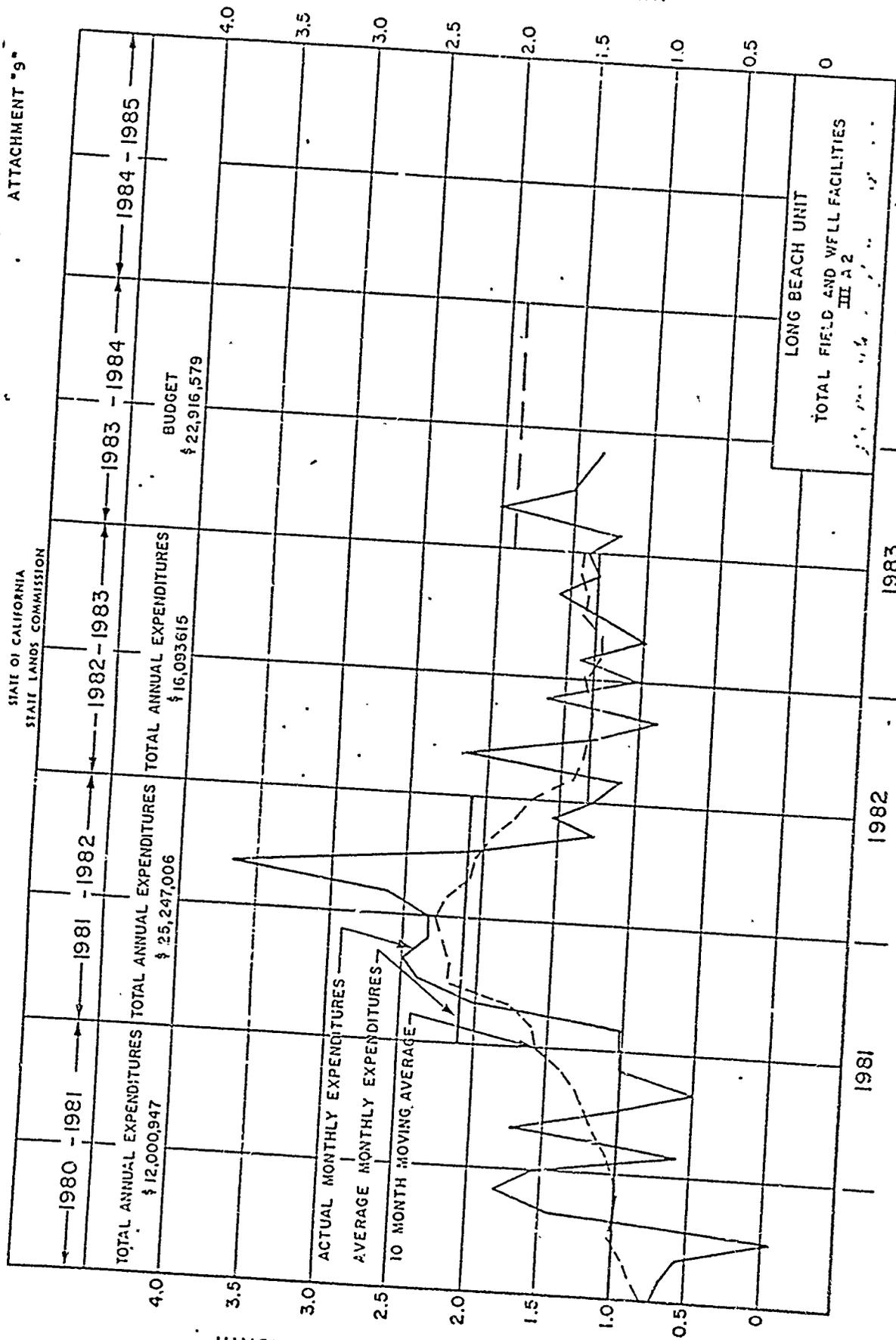
LONG BEACH UNIT
III A 10 DEVELOPMENT DRILLING
ACCOUNT 401
RB. ACCOUNT 401A & B

NO. OF WELLS THOUSANDS PER MONTH

Added 1/20/83

STATE OF CALIFORNIA
STATE LANDS COMMISSION

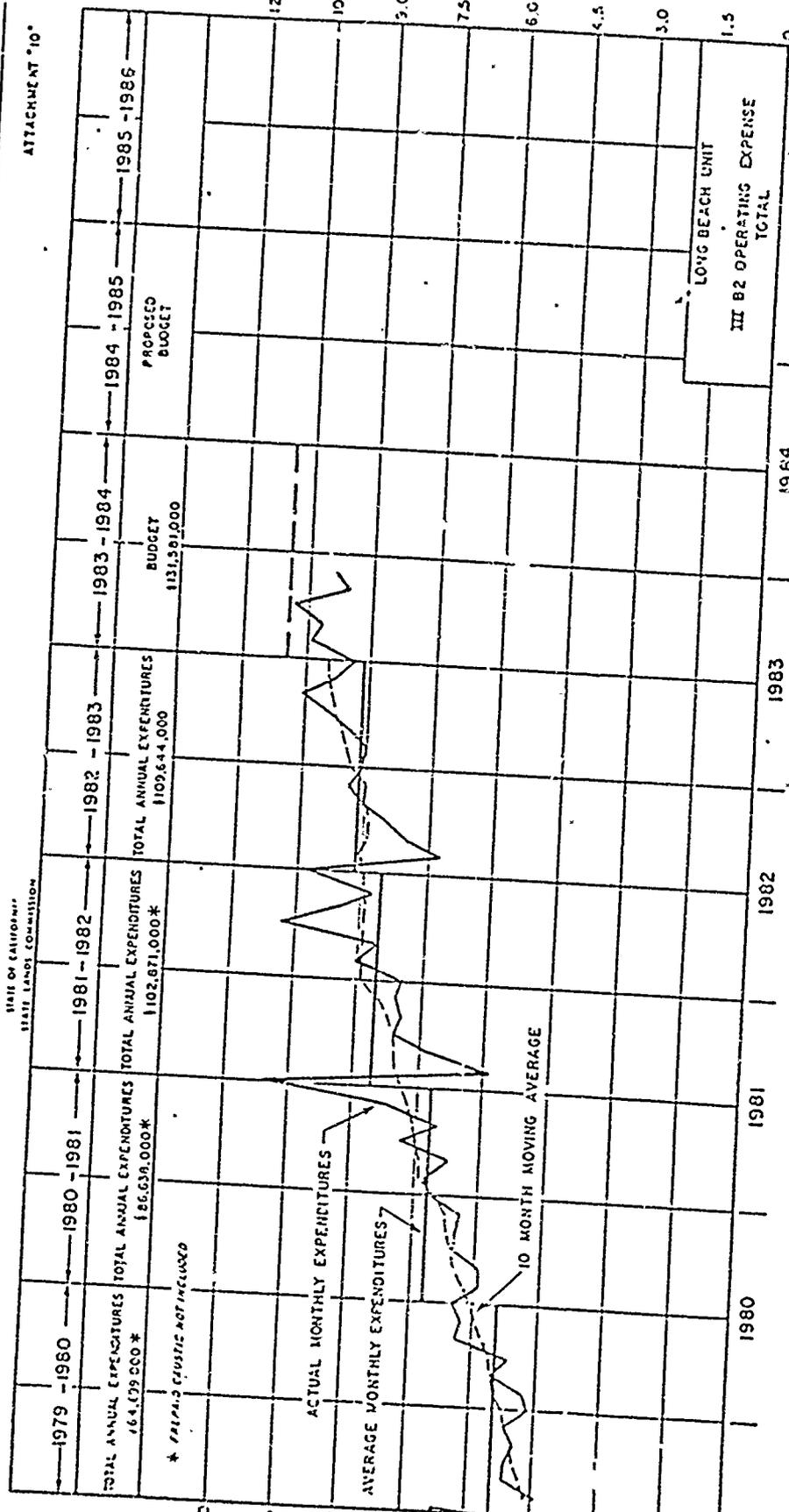
ATTACHMENT "9"



MILLIONS OF DOLLARS PER MONTH

MILLIONS OF DOLLARS PER MONTH

Added 1/20/83



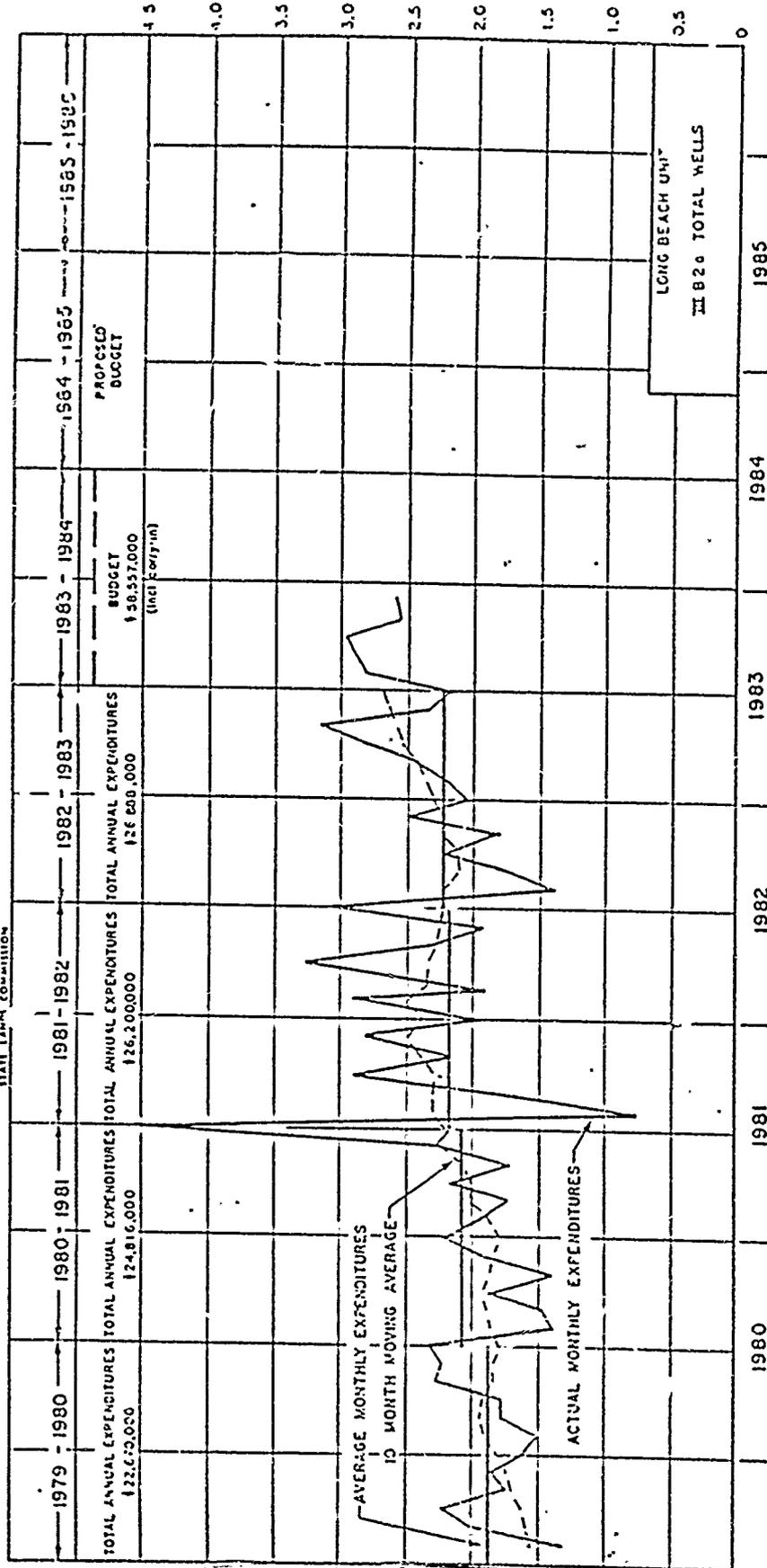
OF DOLLARS PER MONTH

CALENDAR PAGE 157.16
MINUTE PAGE 200

Added 1/20/83

ATTACHMENT 'II'

STATE OF CALIFORNIA
STATE LEGISLATIVE COMMISSION

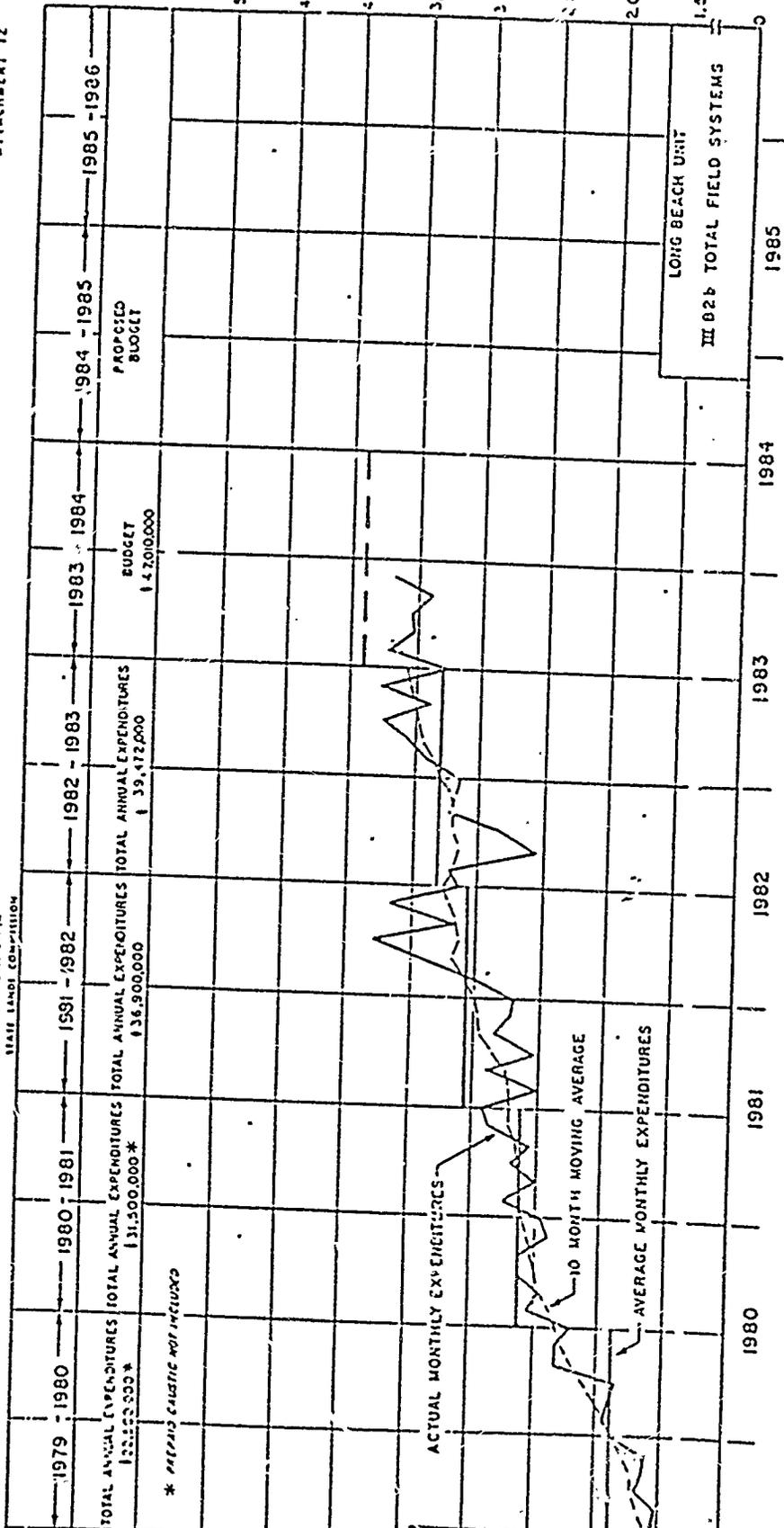


CALENDAR PAGE 157.17
DOLLARS PER MONTH
MINUTE PAGE 201

Added 1/20/83

ATTACHMENT #12

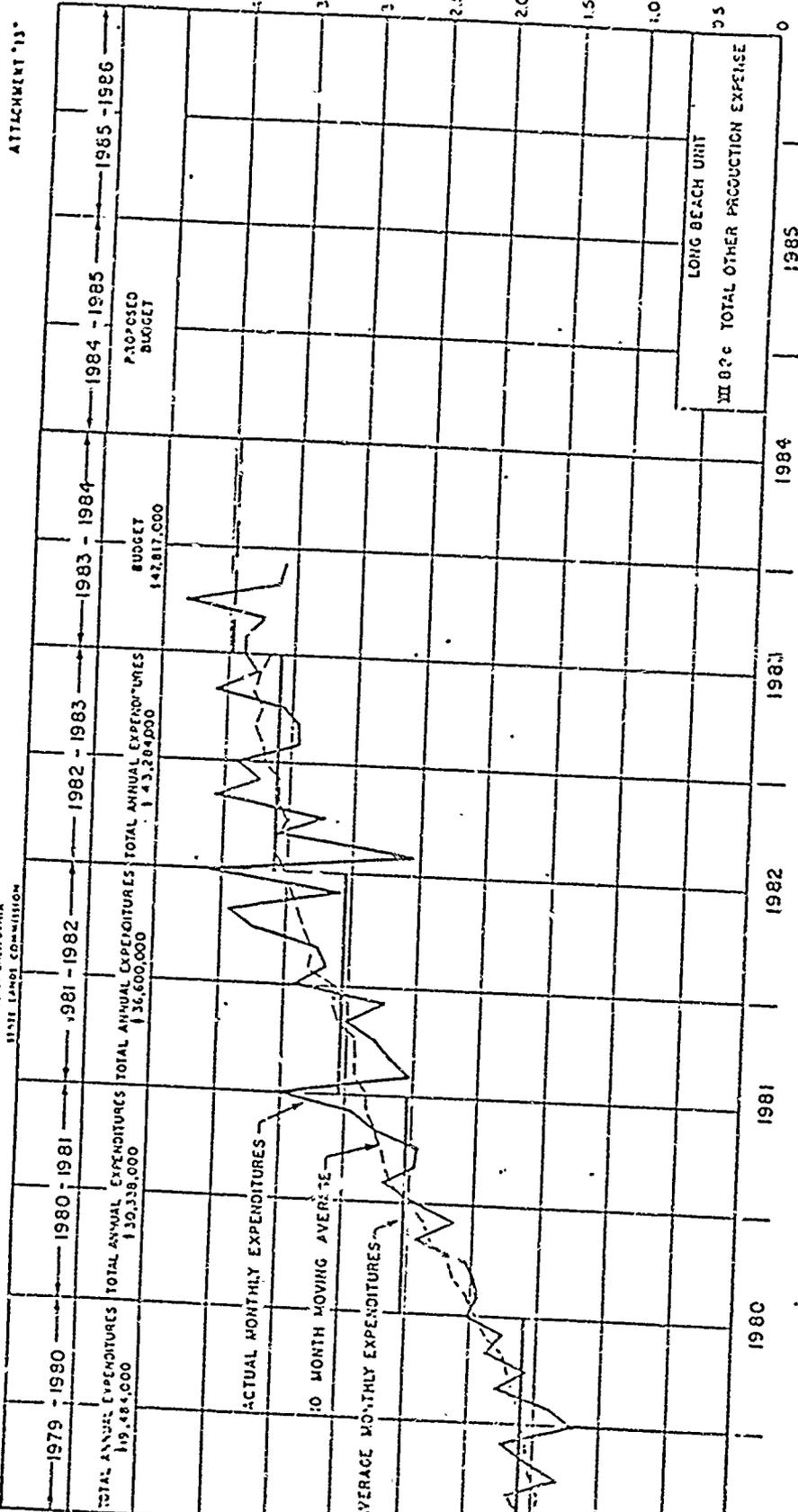
STATE OF CALIFORNIA
STATE LAND COMMISSION



MILLIONS OF DOLLARS PER MONTH
CALENDAR YEAR
PAGE 202
8/17/83

Added: 1/20/83

STATE OF CALIFORNIA
STATE LAND COMMISSION



MILLIONS OF DOLLARS PER MONTH

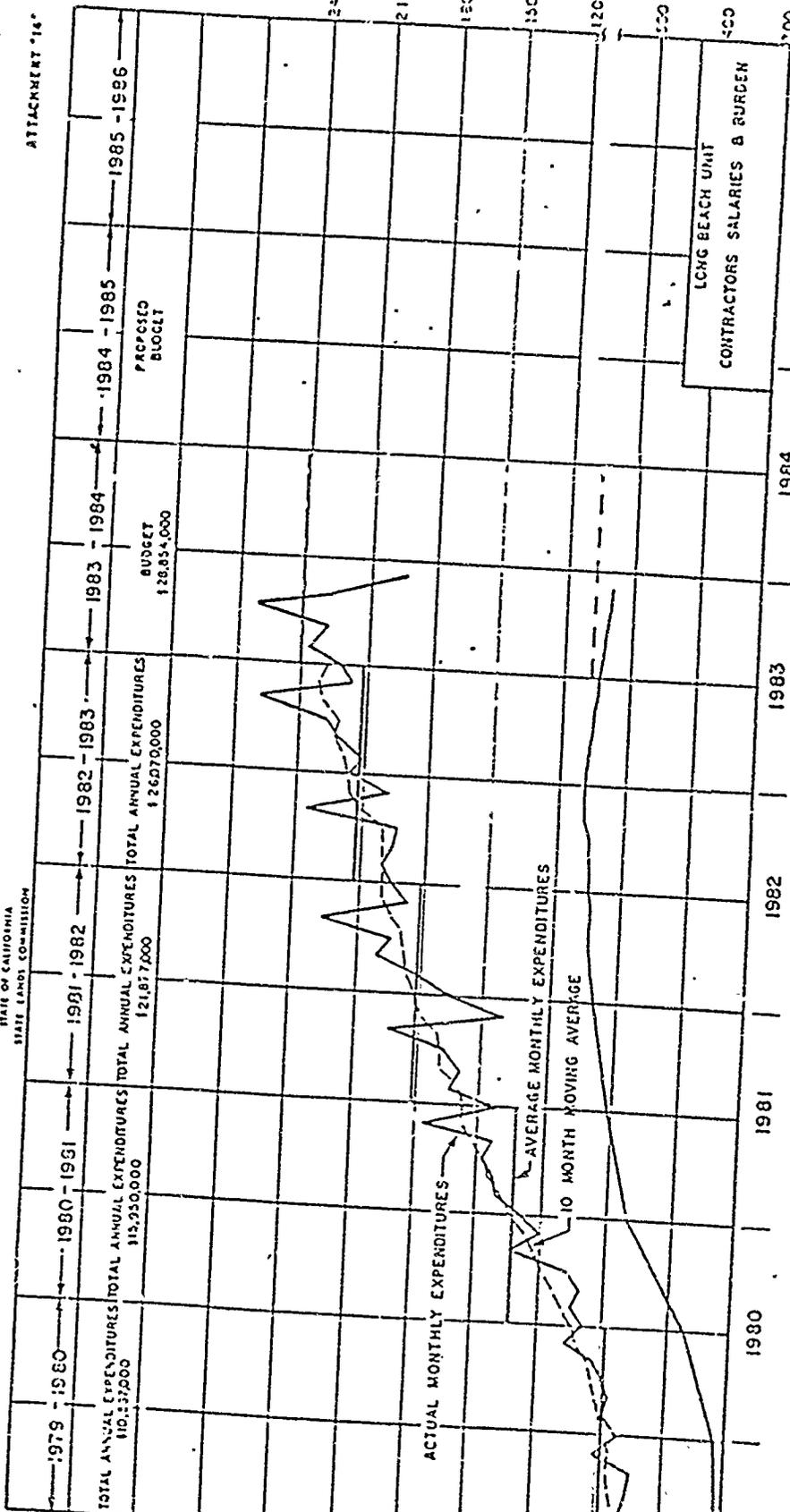
CALENDAR PAGE 203
8157.19
203

LONG BEACH UNIT
TOTAL OTHER PRODUCTION EXPENSE

Added 1/20/83

STATE OF CALIFORNIA
STATE LABOR COMMISSION

ATTACHMENT '14'



OF DOLLARS PER MONTH
2400
2100
1500

CALENDAR PAGE 18
NO. OF MONTHS 20
208

THOUSANDS OF EMPLOYEES
200
150
100

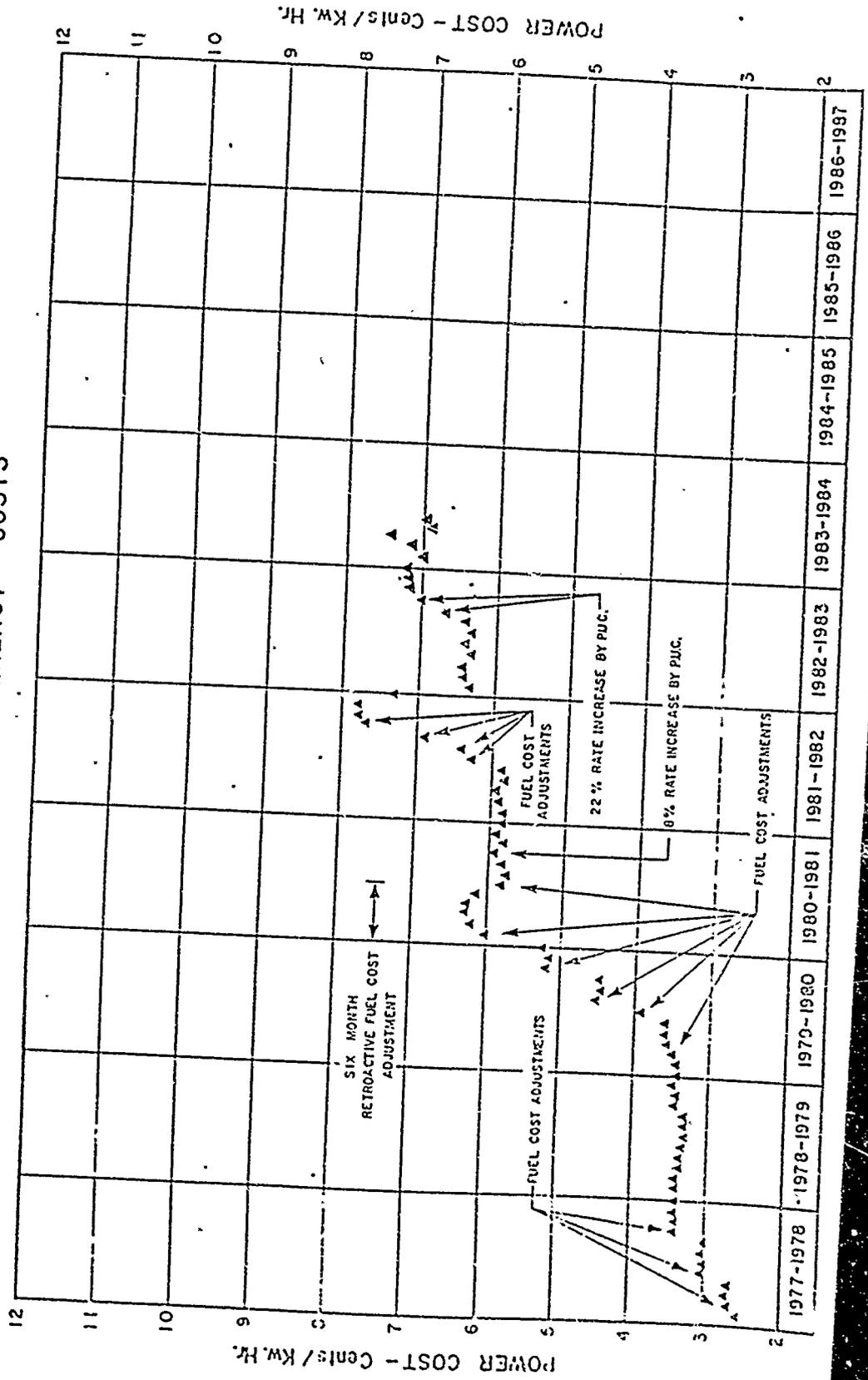
LONG BEACH UNIT
CONTRACTORS SALARIES & BURDEN

1980 1981 1982 1983 1984 1985

Added 1/20/83

ATTACHMENT "16"

LONG BEACH UNIT
ELECTRICAL ENERGY COSTS



CALENDAR PAGE 157.22
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