MINUTE ITEM

This Calendar Item No. 38 was approved as Minute Item No. 38 by the State Lands Commission by a vote of 2 to 0 at its 8/29/85 meeting.

CALENDAR ITEM

38

08/29/85
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A)
) Statewide
S)

APPROVE THE REPORT COVERING ACTUAL REVENUE FOR 1984-85 AND REVENUE ESTIMATES FOR 1985-86, 1986-87 AND 1987-88

Supplemental language to the 1981-82 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 a report for these years as shown on the attached Exhibit "A".

AB 884: N/A.

EXHIBIT: A. Revenue Detail - Actual and Forecast.

IT IS RECOMMENDED THAT THE COMMISSION:

1. APPROVE THE REPORT COVERING ACTUAL REVENUE FOR 1984-85 AND THE ESTIMATES FOR FUTURE YEARS, AND AUTHORIZE ITS PRESENTATION FOR THE STATE LANDS COMMISSION REVENUE REPORT TO THE STATE LEGISLATURE AND THE GOVERNOR.

EXHIBIT "A"

ESTIMATED REVENUE

	Actual Revenue 1984-85 FY	Est.Revenue 1985-86 FY	Est.Revenue 1986-87 FY	Est.Revenue 1987-88 FY
Oil and Gas				
Statewide	109,867,852	95,000,000	90,000,000	85,000,000
L.B. Operations Ch. 138/64	408,338,436	370,000,000	335,000,000	290,000,000
Total (Subject to Section 6217 PRC)	518,206,288	465,000,000	425,000,000	375,000,000
Geothermal (General Fund)	12,126,361	11,500,000	10,500,000	10,000,000

The revenue estimates are based on extrapolated oil, gas and geothermal steam 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.

Major assumptions are:

1. That crude oil prices used in the revenue forecast reflect current California price cuts and worldwide price declines. A moderate price change is continued during the forecast period. There is the possibility of more drastic price changes within the next year, and if they occur, revenue revisions will be made promptly.

2. That operating costs, excluding activity and gross fluid changes, will escalate in the Long Beach Tidelands net profits contracts at five percent per year.

3. That retroactive payback adjustments resulting from Seventh Interim Equity Area Assignments continue.

4. That the production rate on Platform "HOLLY" will remain constant at the current level through 1986-87, and then decline.

5. That the production rate decline on other oil and gas leases will be controlled by oil pricing with continued drilling approved by the Commission.

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6. That electrical-generating prices utilizing geothermal steam will decline under the steam sales provisions due to declining fossil fuel prices and to a greater share of PG&E's power being generated with nuclear fuel.

7. That new gas discoveries on PRC 2933 and PRC 2920, Molino Offshore Gas Field, will yield approximately $700,000/month additional royalty revenue beginning in the second quarter of fiscal year 1985-86.

8. That current bonuses over posted price on the sale of royalty oil to the highest bidder will continue.

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 prices and costs in the Long Beach net profits contracts.

B. Changes in Equity Assignments for Tract 1 or Tract 2, Long Beach Unit.

C. Coal Oil Point Development, PRC 308-309, PRC 3242 and PRC 3120, being placed on production, presently projected for late 1988. However, permitting of the project is being delayed by State and local agencies.

D. Development plans being completed for PRC 2879, Cojo Field, and the project being placed on production. Delays in the permitting process are expected from Santa Barbara County and Coastal Commission.

E. Development plans being completed for the Hercules Project, PRC 2920, and the project being placed on production. Delay in permitting is expected from Santa Barbara County and Coastal Commission.

F. Leasing of quit-claim parcels, Santa Barbara County offshore, and successful exploration on those leases.

G. Reduction in oil or gas production rates, sliding scale royalty rates or net profit payments from offshore Santa Barbara County leases. These could result because of voter initiative, Board of Supervisors' actions, Santa Barbara County Air Pollution Control District or Coastal Commission development restriction, which would place a production limit in the area and could result in proration of production.

H. Continued oil and gas exploration, discoveries and development on Statewide leased lands.

I. The leasing of State Tidelands from Point Conception to Point Arguello with attendant bonuses, successful exploration and discoveries, and development of known resources resulting from offsetting discoveries on the federal OCS. This will be successful only if a jurisdictional dispute with the Coastal Commission is resolved.

J. The leasing of State Tidelands from Point Arguello to Point Sal with attendant bonuses, successful exploration and discoveries. It is unlikely that these lands will be leased before 1988.

K. Continued leasing and development of Statewide lands with geothermal potential.

L. Additional geothermal electrical generating plants coming on line utilizing State steam.

M. Resolution of the Elk Hills indemnity problems so that royalties from either the Elk Hills parcels themselves or parcels acquired in lieu thereof are received by the State.

N. Contracts renewal in 1989 for Long Beach Tidelands Prior Development Parcel and Parcel "A".

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