

MINUTE ITEM

This Calendar Item No. 28
was submitted for information
only, no action thereon
being necessary.

CALENDAR ITEM

A & S (Statewide)

28

03/02/88
W 5077
Pace

ACTUAL REVENUES FOR THE FIRST SIX MONTHS OF 1987-88
AND REVENUE ESTIMATES FOR 1987-88, 1988-89, 1989-90

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 revenues 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 REVENUES FOR THE FIRST SIX MONTHS OF 1987-88 AND THE ESTIMATES FOR FUTURE YEARS, AND AUTHORIZE ITS USE IN THE STATE LANDS COMMISSION REVENUE

(ADDED 02/29/88)

EXHIBIT "A"

ESTIMATED REVENUE

	<u>Actual Revenue</u> <u>July-Dec 1987</u>	<u>Est. Revenue</u> <u>1987-88 FY</u>	<u>Est. Revenue</u> <u>1988-89 FY</u>
<u>Oil and Gas</u>			
Statewide	\$ 30,452,000	\$ 45,000,000	\$ 25,000,000
L.B. Operations Ch. 138/64	\$120,477,000	\$170,000,000	\$ 60,000,000
Total (Subject to Section 6217 PRC)	\$150,929,000	\$215,000,000	\$ 85,000,000
<u>Geothermal</u>	\$ 2,717,000	\$ 5,000,000	\$ 5,800,000

The revenue estimates are based on extrapolated oil, gas and geothermal steam production rates, prices and operating costs. Applicable sliding scale royalty percentages are used for the projected production rates. For net profits sharing contracts, expenditures are included for anticipated investment projects, fluid production and injection rates and level of support activity. Included in the 1987-88 revenue estimate are \$26 million of refunds and interest recovered in July, 1987 because of the State and City of Long Beach winning the Long Beach Unit Field Contractor's Windfall Profit Tax net profit contract case. There will be follow-up suits in the other Long Beach tidelands net profits contracts with potential additional revenues of \$10 million in 1987-88 or 1988-89. The 1986 Article 9 oil pricing review and adjustment revenue in the Long Beach Unit will be \$3.4 million for 1987-88 and \$.8 million for 1988-89. A \$1 million gas pricing suit award in favor of the State from the City of Long Beach will probably be paid in 1988-1989 after appeal.

Major assumptions are:

1. That crude oil prices used for the balance of the current year and the next fiscal year are adjusted for each lease from a current Wilmington Field posted price of \$10.90 per bbl. for 17° API crude, except for Ellwood Field crude where the posting for 22° crude is \$7.90. A \$0.20 per degree gravity differential was used in the adjustment. Crude oil pricing will probably continue to be unstable during the near short term so crude prices have been held constant during the estimate period. The actual average crude price for State royalty and net profit oil revenue in fiscal 1986-87 was \$11.06 per barrel, compared to the \$15.08 per barrel for the July-December, 1987 period and an estimated \$11.60 per barrel for January-June, 1988.

(ADDED 02/29/88)

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2. That the Long Beach Unit Eighth Interim Area Assignments of July 1, 1987 for Tract 1 and 2 will continue through 1988-1989.
3. That prices for The Geysers Geothermal Field steam sold under PG&E contracts will remain at current levels through 1988/89.
4. That PRC 5217 in The Geysers Geothermal Field will be placed on production in 1988-89 with payment of steam sales royalties.
5. That PRC 5206 in The Geysers Geothermal Field will be placed on production in 1988-89 with payment of steam sales royalties.
6. That projected revenue from the sale of royalty oil to the highest bidder from current and future sell-off contracts is based on current bonuses over the posted price.
7. That Long Beach Operations revenues do not reflect any Long Beach Unit expenditures for the construction of an electrical cogeneration facility or any reduced power rates from such a facility.

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; the relationship between oil prices and costs in the Long Beach net profits contracts; and steam prices and costs in the geothermal net profits contracts.
- B. Income from lease sale bonuses, land rental and/or production from unleased tracts, or leases currently not producing.
- C. Reduction in oil or gas production rates or sliding scale royalty rates from offshore Santa Barbara County leases due to actions by the State Lands Commission, Santa Barbara County Board of Supervisors, Santa Barbara County Air Pollution Control District or the California Coastal Commission.
- D. Reduction in prices received for state royalty oil and gas due to Santa Barbara County consolidation policies regarding onshore processing and transportation.
- E. Additional geothermal electrical generating plants coming on line utilizing State steam produced from existing leases.

- F. Leasing and development of state lands with geothermal potential.
- G. Resolution of the Elk Hills indemnity problems so that revenue from either the Elk Hills parcels themselves or parcels acquired in lieu thereof are received by the State.
- H. Contract rebidding in 1989 for Long Beach Tidelands Prior Development Lands.
- I. Final equity area assignments by April 1, 1990 for Tract 1 and 2 of the Long Beach Unit.