

MINUTE ITEM
This Calendar Item No. 26
was approved as Minute Item
No. 26 by the State Lands
Commission by a vote of 3
to 0 at its 5/31/89
meeting

CALENDAR ITEM

A)
S) Statewide 26 05/31/89
W 5077
Pace

ACTUAL REVENUES FOR THE FIRST NINE MONTHS OF 1988-89
AND REVENUE ESTIMATES FOR 1988-89 AND 1989-90

Figures indicating the actual revenue from State Lands Commission leases for the past fiscal year, 1987-88, the revenue to date for the first nine months of the current year and the estimated revenue for 1988-89 and 1989-90 are shown on the attached Exhibit "A".

For each major oil, gas or geothermal property, the staff has considered production levels, prices, costs, taxes or payments deductible from gross revenues and the percentage of net profits or royalty to the State.

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 NINE MONTHS OF 1988-89 AND THE ESTIMATES FOR 1988-89 AND 1989-90 AND AUTHORIZE ITS USE AS THE ESTIMATED STATE LANDS COMMISSION REVENUES.

EXHIBIT "A"

ESTIMATED REVENUE

	<u>Actual Revenue</u> <u>July-Mar 1988-89</u>	<u>Est. Revenue</u> <u>1988-89 FY</u>	<u>Est. Revenue</u> <u>1989-90 FY</u>
<u>Oil and Gas</u>			
Statewide	\$20,100,000	\$ 28,000,000	\$ 25,000,000
L. B. Operations Ch. 138/64	\$62,600,000	\$ 88,000,000	\$110,000,000
Total (Subject to Section 6217 PRC)	\$82,700,000	\$116,000,000	\$135,000,000
<u>Geothermal</u>	\$ 3,900,000	\$ 5,000,000	\$ 5,000,000

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 from 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.

The State and the City of Long Beach were successful in a legal action against a Long Beach tidelands operating contractor, Long Beach Oil Development Company, in regard to the contractor's share of windfall profit taxes being charged against the net profits account. The decision has been appealed. The potential \$12 million in additional revenue should be received in the 1989-90 fiscal year. The 1987 Long Beach Unit Article 9 oil pricing review and adjustment revenue received will be \$2.8 million in 1988-89 and \$0.6 million in 1989-90. A \$1.8 million dry gas pricing suit award in favor of the State from the City of Long Beach and sustained on appeal will be paid in 1989-90.

Major assumptions are:

1. That crude oil prices used for the balance of the current year are adjusted for each lease from a Wilmington Field price of \$15.40 per bbl. for 17° API crude, except for 22° Ellwood Field crude at \$12.95. A \$0.20 per degree oil gravity differential was used in the adjustment. Crude oil pricing will

probably continue to be unstable during the next year with a continuation of the current trend of rapid response up and down of posted prices to spot market trends. Crude prices had increased sharply during the last five months from near an all time ten-year low. Prices peaked and have declined. Some further moderation in prices have been used for the period of the revenue estimate. The actual average crude price for State royalty and net profit oil revenue to date in fiscal 1988-89 is \$11.67 per barrel varying between \$7.45 and \$16.50 per barrel.

2. That the Long Beach Unit Eighth Interim Area Assignments of July 1, 1987 for Tract 1 and 2 will continue through the estimate period. Final equity area assignments are to be finalized by the end of the 1989-90 F.Y.
3. That prices for The Geysers Geothermal Field steam sold under PG&E contracts will escalate 3 percent next year, steam production rates from those State leases will decline slightly.
4. That geothermal lease PRC 5217, in The Geysers Geothermal Field, placed on production in March 1988 will produce at about 70 percent of plant capacity, dependent upon plant maintenance problems, well productivity and hydrocurtailment.
5. That geothermal lease PRC 5206, placed on production in September 1988, will produce at normal plant utilization levels.
6. That steam sales prices for the two net profits geothermal leases will follow projections based on the current Producers Price Index and Fossil Fuel Index with an estimated increase of about 4 percent per year.
7. 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 for existing contracts.

8. That settlement of the legal case between Atlantic Richfield-Mobil and the State pertaining to processing charges to royalty proceeds for natural gas on PRC 3120 and PRC 3242 will be paid from funds held in a protest account and reduction of future royalty payments.

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