

MINUTE ITEM

This Calendar Item No. C47
was approved as Minute Item
No. 47 by the State Lands
Commission by a vote of 3
to 0 at its 11-9-93
meeting.

CALENDAR ITEM

C47

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11/09/93
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APPROVE THE FIRST MODIFICATION OF THE 1993-1994
ANNUAL PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET
PROPOSING TRANSFER OF FUNDS
LONG BEACH UNIT, WILMINGTON OIL FIELD
LOS ANGELES COUNTY

BACKGROUND:

The City of Long Beach has submitted for Commission approval the First Modification of the 1993-1994 Annual Plan of Development and Operations and Budget, Long Beach Unit, covering the period July 1, 1993 through June 30, 1994, proposing the transfer of funds between budget categories to align with changes in the Unit's new accounting system. The Modification does not change the approved budget of \$168,700,000. This transfer of funds is in accordance with the provisions of Part IV, Section B of the 1993-94 Annual Plan.

Previously, expenditures were grouped by detail accounts assigned to budget subcategories/categories. The new accounting structure groups these expenditures by "Cost Drivers"/Category, which do not directly relate to the old account structure. The new grouping of expenditures has made it necessary to transfer budget funds between the Categories.

This transfer will move funds from "Development Drilling" [-\$4,800,000] and "Operating Expense" [-\$18,500,000] into "Other Plant" [+\$3,400,000]; "Unit Field Labor and Administrative" [+\$13,900,000], and "Taxes, Permits and Administrative Overhead" [+\$6,000,000] as shown below.

Category/Cost Driver	Million Dollars	
	Original	Adjusted
Development Drilling	\$47.5	\$42.7
Operating Expenses	\$64.4	\$45.9
Other Plant	\$24.5	\$27.9
Unit Field Labor & Administrative	\$21.8	\$35.7
Taxes, Permits & Administrative Overhead	\$10.5	\$16.5
TOTAL	\$168.7	\$168.7

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The economic projections as submitted by the Department of Oil Properties, City of Long Beach (Exhibit "A") is also shown below.

PROJECTED IN MILLIONS OF DOLLARS					
	Actual Third Quarter 1993	Estimated Fourth Quarter 1993	Estimated First Quarter 1994	Estimated Second Quarter 1994	Total
Total Revenue	\$51.7	\$57.9	\$57.1	\$58,277	\$225
Total Expenditures	\$38.2	\$43.5	\$43.5	\$43,513	\$168.7
Total Net Profit	\$13.5	\$14.4	\$14.8	\$14,764	\$56.3

STATUTORY AND OTHER REFERENCES:

A. P.R.C.: Div. 6, Parts 1 and 2; Div. 13.

B. Cal. Code Regs.: Title 3, Div. 3; Title 14, Div. 6.

AB 884:

N/A

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Code Regs. 15378.

EXHIBIT:

- A. Letter Requesting Approval of the First Modification to the Annual Plan of Development and Operations and Budget

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.

CALENDAR ITEM NO. C47 (CONT'D)

2. APPROVE THE FIRST MODIFICATION OF THE ANNUAL PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, FOR THE PERIOD JULY 1, 1993 THROUGH JUNE 30, 1994.

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**CITY OF LONG BEACH**

DEPARTMENT OF OIL PROPERTIES

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802 • (310) 590-6354 • FAX 590-6191

October 20, 1993

Mr. P. B. Mount II, Chief
Mineral Resources Management Division
State Lands Commission
200 Oceangate, 12th Floor
Long Beach, California 90802

Subject: REQUEST FOR APPROVAL OF THE FIRST MODIFICATION OF THE ANNUAL PLAN, LONG BEACH UNIT (JULY 1, 1993 THROUGH JUNE 30, 1994)

Dear Mr. Mount:

In accordance with the provisions of Part IV, Section B of the Annual Plan, we are submitting for your approval of the First Modification of the Annual Plan covering the period July 1, 1993 through June 30, 1994.

This Modification transfers funds between budget categories to align with changes in the Unit's new accounting structure. Previously, expenditures were grouped by detail accounts assigned to budget subcategories/categories. The new accounting structure groups these expenditures by "Cost Drivers"/Category, which do not directly relate to the old account structure. The new grouping of expenditures has made it necessary to transfer budget funds between the Categories. The Modification does not change the approved budget of \$168,700,000.

As in the past, the Unit's budget and expenditures will be provided in five Categories. Detail of actual expenses within the Categories will also continue to be provided.

Significant changes to the Categories include:

1. The previous accounting structure included salaries, wages, benefits and training in several Categories. The new accounting structure will capture these costs as one Cost Driver in one Category. As a result, the "Staff Expense" Category will be retitled "Unit Field Labor and Administrative" to better reflect the new category makeup.

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2. The previous accounting structure captured electricity costs in several Categories. The new accounting structure will capture all electricity costs as one Cost Driver in the "Operating Expense" Category.

3. The previous accounting structure included Administrative Overhead in each Category. The new accounting structure will capture all Administrative Overhead as one Cost Driver in one Category. As a result, the "Taxes, Licenses, and Permits" Category will be retitled "Taxes, Permits, and Administrative Overhead" to better reflect the Category makeup.

Three months of actual expenses have now been recorded under the new accounting structure. Based on these expenses and current expectation for future expenditures, funds have been transferred between Categories.

After approval of this request, the revised Category budgets and Cost Driver makeup for each Category will be as follows:

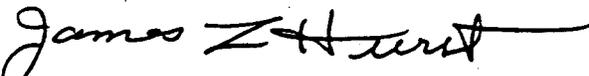
<u>Category/Cost Driver</u>	<u>Million Dollars</u>	
	<u>Original</u>	<u>Adjusted</u>
Development Drilling	\$ 47.5	\$ 42.7
Rig Move-In		
Plug & Abandon (Drilling)		
Drill & Case Surface Hole		
Drill & Case Intermediate Hole		
Drill & Log to Total Depth		
Completion Activities		
Unscheduled Activity		
Other Drilling Costs		
Operating Expenses	\$ 64.4	\$ 45.9
Acidizing		
Inner Liner		
Fracturing		
Clean Out Fill		
Plug & Abandon		
Profile Modification		
Recomplete		
Increase Displacement		
Conversion - Lift Method		
Conversion - Well Type		
Other Downhole Operations		
Down Hole Failure		
Restore Rate		
Eliminate Casing Pressure		
Power from SCE		

<u>Category/Cost Driver</u>	<u>Million Dollars</u>	
	<u>Original</u>	<u>Adjusted</u>
Other Plant	\$ 24.5	\$ 27.9
General Chemical Treatment		
Preventive Maintenance		
Reactive Maintenance		
General Field Charges		
Safety & Environmental		
Capital Improvements		
Unit Field Labor and Administrative	\$ 21.8	\$ 35.7
THUMS Labor Charges		
General & Administrative		
Taxes, Permits and Admin. Overhead	\$ 10.5	\$ 16.5
Taxes, Licenses & Permits		
Administrative Overhead		
TOTAL	<u>\$168.7</u>	<u>\$168.7</u>

Based on the above changes, Part I Section B. (Economic Projections) of the Annual Plan will change as shown on the Attachment 1. Part III (Itemized Budget of Expenditures) will be modified as shown on Attachment 2. Also attached is the proposed Budget Statement.

The City of Long Beach, as Unit Operator of the Long Beach Unit, approves this proposed Modification. In accordance with Section 5 of Chapter 138, 1964 First Extraordinary Session, your approval of this proposed Modification is requested.

Very truly yours,



for Xenophon C. Colazas
Director

XCC:slg

FIN 312.002

Attachment

cc: Charles Warren, Executive Officer, SLC

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9. ECONOMIC PROJECTIONS
(Data in Thousand Dollars)

Attachment 1

	ACTUAL THIRD QUARTER 1993	ESTIMATED FOURTH QUARTER 1993	ESTIMATED FIRST QUARTER 1994	ESTIMATED SECOND QUARTER 1994	TOTAL
ESTIMATED REVENUE					
Oil Revenue	\$49,665	\$56,116	\$55,393	\$56,519	\$217,693
Gas Revenue	2,020	1,758	1,720	1,758	\$7,256
TOTAL REVENUE	\$51,685	\$57,874	\$57,113	\$58,277	\$224,949

ESTIMATED EXPENDITURES					
Development Drilling	\$8,513	\$11,395	\$11,396	\$11,396	\$42,700
Operating Expense	11,631	\$11,423	\$11,423	\$11,423	\$45,900
Other Plant	5,984	\$7,305	\$7,305	\$7,305	\$27,900
Unit Field Labor & Administrative	8,753	\$8,983	\$8,982	\$8,982	\$35,700
Taxes, Leases & Administrative Overhead	3,279	\$4,407	\$4,407	\$4,407	\$16,500
TOTAL EXPENDITURES	\$38,160	\$43,513	\$43,513	\$43,513	\$168,700

NET PROFIT	\$13,525	\$14,361	\$13,600	\$14,764	\$56,249
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Part III
Itemized Budget of Expenditures

A. Development Drilling Category **\$42,700,000**

The Development Drilling Category of expenditures encompasses all drilling and re-drilling activity, and maintenance and replacements of drilling equipment within the Unit. Funds for development drilling were based on the assumption that three drilling rigs would be active during the Plan year.

Drilling and completing new wells, and re-drilling and recompleting existing wells accounts for approximately 90 percent of anticipated expenditures in this Category. Included in these activities is funding for rig move-in, drilling and casing, completion activities, and unscheduled activity (fishing operations, cement squeezing, logging, contract drilling services, etc.).

For planning, it was assumed that during the Plan period 60 - 70 wells will be either drilled or re-drilled. Exact specifications regarding the distribution of wells, bottom hole locations, and completion intervals will be determined by ARCO Long Beach, Inc. These decisions will be influenced by contributions from other parties, results from ongoing engineering studies, and new well performance. This information will be reviewed at regularly scheduled Unit forums. Further, a semi-annual listing of wells to be drilled will be submitted for review and discussion at the Voting Parties meetings.

Also included in this Category are funds for purchasing major drilling equipment and all direct costs for support and maintenance (repair, expense replacement) of Unit-owned drilling rigs and equipment. Funds are specifically included for upgrading the rig moving system and for electrical upgrades.

B. Operating Expense Category **\$45,900,000**

The Operating Expense Category of expenditures encompasses the ongoing costs of day-to-day well production and injection operations necessary for producing, processing, and delivering crude oil and gas, and for all electric power charges. The Plan for this Category was based on estimated oil production of 44.4 MBOPD, estimated gas production of 9.1 MMCFPD, and a water injection requirement of 580 MBWPD. Anticipated operating expenses were based on November 30, 1992 well counts of 643 active production wells and 294 active injection wells.

The day-to-day costs for well production and injection operations represents approximately 50 percent of the funding provided in this Category. Included are funds for acidizing, fracturing, routine well work, well conversions, and other charges incurred to service or otherwise maintain a well.

Funds are also provided in this Category for electricity. Cost for electric power is based on estimated kilowatt useage of 408,000,000 Kwh at an average rate of \$0.055/Kwh.

C. Other Plant Category

\$27,900,000

The Other Plant Category of expenditures encompasses costs for maintainance, repairs, upgrades, additions of surface facilities and pipelines, and costs for general field services.

Approximately 25 percent of the funding in the Other Plant Category is for capital expenditures for all Unit systems, including the following: oil gathering, treating, storage, and transfer; gas gathering and treating; scale and corrosion control; produced water handling; waste disposal; leasehold improvements; electrical system; fresh water system; fire protection and safety system, marine equipment, and automotive equipment.

Special projects include installing an AWT compressor, installing a flotation cell at the J-2 site, design upgrade for the skim basin vapor recovery system, replacing injection totalizers, upgrading water injection signal wiring, purchase of variable speed drive controllers, centralize the island shut-in system, upgrade the microwave communication system, replace power feeder cables of the load centers, replacing field rolling stock, upgrade the alarm annunciator system, upgrade radio communications, install cellar pumps, upgrade load centers, purchase oil spill response equipment, and new surface paving. Also included are funds for miscellaneous capital purchases of computer hardware and software, replace a VAX computer, upgrade the Ingres database package and support, and network the island personal computers. Funds are also provided to decrease the number of locations classified as hazardous by the National Electric Code, replace a barge fender system, perform fire assessments, diesel tank remediation costs, perform area shut-ins, replace electrical circuit breakers, and repair sculpture forms. Other projects may be undertaken as required.

Funding for general field and operating costs includes, but is not limited to, charges for general labor, equipment rentals, and materials for general maintenance activities, e.g., painting, welding, electrical, etc., of all Unit systems, including the following: oil gathering, treating, storage, and transfer; gas gathering and treating; scale and corrosion control; produced water handling; waste disposal; leasehold improvements; electrical system; fresh

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water system; fire protection and safety system, marine equipment, and automotive equipment. Funds are also provided for chemical purchases and laboratory related charges for chemical treatment of produced and injected fluids; Lomita Gas processing charges; small tools and other miscellaneous field activities.

D. Unit Field Labor and Administrative \$35,700,000

The Unit Field Labor and Administrative Category of expenditures encompasses all costs for Unit personnel, as well as costs for Unit support activities.

Funding for Unit personnel includes costs of salaries, wages, benefits, training, and expenses of all Thums employees and ARCO loaned executives. These costs represent approximately 67 percent of the Category total.

Funding for Unit support activities includes costs for professional and temporary services necessary for the completion of support activities, expense charges for data processing and general office equipment and materials, Unit Operator billable costs, ARCO Long Beach Inc. billable costs, special management projects, extraordinary losses and claims, and prior year adjustments.

E. Taxes, Permits, Licenses, and Administrative Overhead \$16,500,000

The Taxes, Permits, Licenses, and Administrative Overhead category of expenditures includes funds for specific taxes, permits, licenses, land leases, and all administrative overhead costs for the Unit.

Funding is provided for taxes levied on personal property, mining rights, and oil production; for the Petroleum and Gas Fund Assessment, annual well permits and renewals, Conservation Committee of California Oil Producers Assessment, land leases, and pipeline right-of-way costs. These costs represent approximately 63 percent of the Category total.

Funding is also provided in this Category for all Administrative Overhead as called for in Exhibit F of the Unit Operating Agreement.

Statement
 Cur. Period: SEPT-94

Currency: USD
 No specific Company requested

Budget Category	Original Budget	Revised Budget	Current Month	FYTD Expenditure	Percent Expended	Unexpended Balance	FYTD Budget	(Over/Under) FYTD Budget
DEVELOPMENT DRILLING	42,700,000	42,700,000	3,519,507	8,513,461	19.9	34,186,539	10,675,000	-20.2
OPERATING EXPENSE	45,900,000	45,900,000	4,026,801	11,630,981	25.3	34,269,019	11,475,000	1.4
OTHER PLANT	27,900,000	27,900,000	2,299,144	5,983,626	21.4	21,916,374	6,975,000	-14.2
UNIT FIELD LABOR & ADMINISTRATIVE	35,700,000	35,700,000	3,127,297	8,753,316	24.5	26,946,684	8,925,000	-1.9
TAXES, PERMITS, & ADMIN. OVERHEAD	16,500,000	16,500,000	1,268,267	3,278,610	19.9	13,221,390	4,125,000	-20.5
Unit Totals	168,700,000	168,700,000	14,241,017	38,159,994	22.6	130,540,006	42,175,000	-9.5