MINUTE ITEM
This Calendar Item No. C51
was approved as Minute Item
No. 51 by the State Lands
Commission by a vote of 3
to 0 at its May 3, 1995
meeting.

CALENDAR ITEM
C51

A 57, 58

S 29

05/03/95
W 17108
Landry

APPROVE THE FIRST MODIFICATION OF THE 1994-95
PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET,
PROPOSING TRANSFER OF FUNDS AND INCREASED EXPENDITURES,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY

BACKGROUND:
The City of Long Beach (City) has submitted for State Lands Commission (Commission) approval, the First Modification of the 1994-95 Plan of Development and Operations and Budget, Long Beach Unit, covering the period July 1, 1994 through June 30, 1995, proposing to increase expenditures by $6,966,000 (+4.9%) and transfer funds between budget categories. This will increase the previously approved $143,103,000 budget to $150,069,000. These modifications will prevent a disruption in field operations which will result from an expected depletion of funds in the "Operating Expense" budget category during Fiscal Year 1994-95.

"Operating Expense" is currently budgeted for $37,472,000. Actual costs in this category are now projected to be $49,538,000, or $12,066,000 higher than the original plan because of increased total fluid production. This projected $12,066,000 costs over run will be made up with the $6,966,000 increase in budgeted expenditures cited above, along with a transfer of $5,100,000 from the "Development Drilling" budget category.

"Development Drilling" is projected to be under-expended by $5,100,000 due to increased use of less costly non-rig well procedures, and improved well repair and completion techniques, which have reduced the need for drilling new replacement wells. Increased well work activity (stemming from higher than expected oil prices), increased total fluid production (requiring increased power usage), and a 10 percent increase in electricity rates were responsible for the cost overrun in "Operating Expense". The proposed transfer of funds from "Development Drilling" to "Operating Expense" is consistent with the shift in field practices to more non-rig type work and a corresponding drop in the number of wells drilled. Funds spent as of mid-Fiscal Year (December 31, 1994) coupled with higher oil prices ($13.63 vs. $11.50/bbl) have yielded substantially higher than expected profits and oil recovery. Net Profits during this period were increased by $23,700,000 to $51,100,000, of which the State received $32,700,000. A total of 8,708,000 bbls of oil were produced, 602,000 bbls more than projected. Attached

Exhibit "A" details the proposed changes along with these technical and financial gains in tabular form.

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 First Modification to 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.

2. APPROVE THE FIRST MODIFICATION OF THE PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, PROPOSING TRANSFER OF FUNDS AND INCREASED EXPENDITURES, LONG BEACH UNIT, FOR THE PERIOD JULY 1, 1994 THOUGH JUNE 30, 1995.

Exhibit A W 17108

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (310) 570-3900 • FAX 570-3922

March 1, 1995 REVISED 3/14/95

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, 1994 THROUGH JUNE 30, 1995)**

Dear Mr. Mount:

In accordance with the provision of Part IV, Section B, of the Annual Plan, we are submitting for your approval this First Modification of the Annual Plan covering the period July 1, 1994 through June 30, 1995.

This modification transfers funds between budget categories and increases the original budget by $6,966,000; from $143,103,000 to $150, 069,000. Modifications to the original budget are necessary to allow uninterrupted operations and continued expenditures through the Plan period in the Operating Expense Category.

The budget for the Operating Expense Category allows $37,472,000 for both well work and electricity. The latest estimate for continuing uninterrupted operations in the category is $49,538,000, which would result in a budget overexpenditure of $12,066,000.

The original budget for the Operating Expense Category was developed based on economics for production activity with an oil price of $11.50/bbl and a gas price of $2.50 /mcf. Higher oil prices in the first half of the fiscal period resulted in more favorable economics for well work, much of which had been deferred in the last half of fiscal year 1993-1994. As a result, production rig activity was increased which led to greater than planned well repair costs.

Electricity cost was also greater than planned due to increased kwh consumption from higher gross production, and a greater than planned rate increase from the electric company. The unanticipated rate increase from the electric company will result in an additional $1.5 million of electric cost. (A 3 percent increase was budgeted; actual increases are expected to total 10 percent). Increased gross fluids will result in an

additional $1.2 million of electric cost.

The same level of activity is anticipated through the end of the Plan period which will result in increased costs as follows:

OPERATING EXPENSE CATEGORY

	Original Budget	Actual 1/31/95 FYTD	Estimated 6/30/95 Expenditures
Well Repair Costs (MM$)	$16.5	$15.2	$25.8
Electricity	$21.0	$14.7	$23.7
Total Category (MM$)	**$37.5**	**$29.9**	**$49.5**

This increase in well work also contributed to significantly higher than planned production, revenues, and profit in the first half, as follows:

July 1, 1994 to December 31, 1994	**Planned**	**Actual**
Production:		
Oil (mbbl)	8,106	8,708
Gas (mmcf)	1,680	1,874
Revenue (MM$)	$97.4	$122.3
Expenditures (MM$)	$70.0	$71.2
Profit (MM$)	**$27.4**	**$51.1**

An $86.7 million profit for the fiscal period is anticipated, which is $36.6 million greater than the $50.1 million estimated in the original Plan.

Funds in the Development Drilling category are anticipated to be underexpended by approximately $5.1 million as a result of more efficient drilling operations and completion of fewer than planned wells. It is expected that of the 39 wells budgeted, 36 will be completed. This modification transfers the excess funds from the Development Drilling Category to the Operating Expense Category.

After approval of this request, the revised Category budgets will be as follows:

Plan Category	Thousand Dollars Original	Thousand Dollars Modified
Development Drilling	$ 25,833	$ 20,733
Operating Expense	37,472	49,538
Other Plant	28,135	28,135
Unit Field Labor & Administrative	36,389	36,389
Taxes, Permits & Admin Overhead	15,274	15,274
Total	**$143,103**	**$150,069**

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, and Article 2.06 of the Optimized Waterflood Program Agreement, your approval of this proposed Modification is requested.

Very truly yours,

Xenophon C. Colazas
Director

XCC:slg

FIN 312.003