

MINUTE ITEM

This Calendar Item No. C84
was approved as Minute Item
No. 84 by the State Lands
Commission by a vote of 3
to 0 at its 02/12/97
meeting.

CALENDAR ITEM

C84

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02/12/97

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W 17113

Landry

**CONSIDER APPROVAL OF THE FIRST AMENDMENT OF THE 1996-97
PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET,
REVISING ECONOMIC PROJECTIONS AND
MAJOR PLANNING ASSUMPTIONS,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

BACKGROUND:

The City of Long Beach has submitted to the Commission the First Amendment of the 1996-97 Plan of Development and Operations and Budget, Long Beach Unit, covering the period July 1, 1996 through June 30, 1997, providing updated economic projections and major planning assumptions. This report provides the actual performance for the first quarter of Fiscal Year 1996-97 and revised projections for the remaining quarters of the Fiscal Year. Changes in the latest approved budget of \$150,550,000 and to the distribution to the five budget categories have been proposed in a "First Modification" submitted separately. The revised economic projections are illustrated in Exhibits "A" and "B". Revisions to oil production projections are illustrated in Exhibit "C".

The average oil and gas rates for the first quarter of the 1996-1997 Fiscal Year were reported to be 42,912 bbls/day of oil (588 bbls/day less than originally estimated) and 8,784 MCF/day of gas (351 MCF/day less than forecast). The lower than planned oil and gas rates are primarily due to unanticipated declines in production in the Cut Recovery Block 1 Waterflood and in new horizontally completed wells, producing wells shut-in due to loss of offsetting water injection capacity, fewer wells being drilled, and lower than expected new well oil production rates. Lower than predicted volumes are expected to continue throughout the Plan period. The cumulative recoveries and injection through September, 1996 are as follows:

Oil Production	820,883,653 Barrels
Gas Production	217,577,469 MCF
Water Production	3,894,193,459 Barrels
Water Injection	5,504,426,806 Barrels

Cumulative Injection - Gross Production Ratio is 1.167 Bbls/Bbl.

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CALENDAR ITEM NO. C84 (CONT'D)

The revised economic projections reflect the combined effects of lower produced fluid volumes, increased drilling activity, and higher oil prices. The overall effect of these variations resulted in an increase in quarterly Net Profit of \$9.8 Million. Original major planning assumptions were based on an average oil price of \$12.75/bbl and an average gas price of \$1.75/mcf. Revised oil and gas prices, expenditures, and net profits for Fiscal Year 1997 are shown in the table below. In response to higher than expected oil prices, the number of active drilling rigs has been increased from one to two.

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 96-97	ESTIMATED SECOND QUARTER FY 96-97	ESTIMATED THIRD QUARTER FY 96-97	ESTIMATED FOURTH QUARTER FY 96-97	TOTAL FISCAL YEAR 96-97
Oil Revenue	64.8	49.8	49.4	51.4	215.4
Gas Revenue	1.5	1.4	1.4	1.5	5.8
Expenditures	(43.5)	(40.9)	(43.6)	(42.9)	(170.9)
Net Profit	22.8	10.3	7.2	10.0	50.3
Original	13.0	16.0	14.6	14.9	58.5
Change	+9.8	(5.7)	(7.4)	(4.9)	(8.2)
Oil Price/BBL	\$16.41	\$12.75	\$12.75	\$12.75	\$13.70
Gas Price/MCF	\$1.96	\$1.75	\$1.75	\$1.75	\$1.78

The Commission's staff has reviewed the First Amendment, including the estimated production, injection, expenditures, and revenue and has prepared the attached Exhibits "A", "B", and "C" to represent graphically the changes covered in this amendment.

PERMIT STREAMLINING ACT DEADLINE:

N/A

CALENDAR ITEM NO. C84 (CONT'D)

OTHER PERTINENT INFORMATION

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

Authority: Public Resources Code section 21065 and Title 14
California Code of Regulations, section 15378.

EXHIBITS:

- A. Fiscal Year 1996-97 Financial Projections
- B. Third Quarter 1996 Financial Performance
- C. Fiscal Year 1996-97 Oil Rate Projections
- D. Request for Approval of the First Amendment of the Annual Plan, Long Beach Unit, (July 1, 1996 through June 30, 1997) received from the City of Long Beach, Department of Oil Properties.

IT IS RECOMMENDED THAT THE COMMISSION:

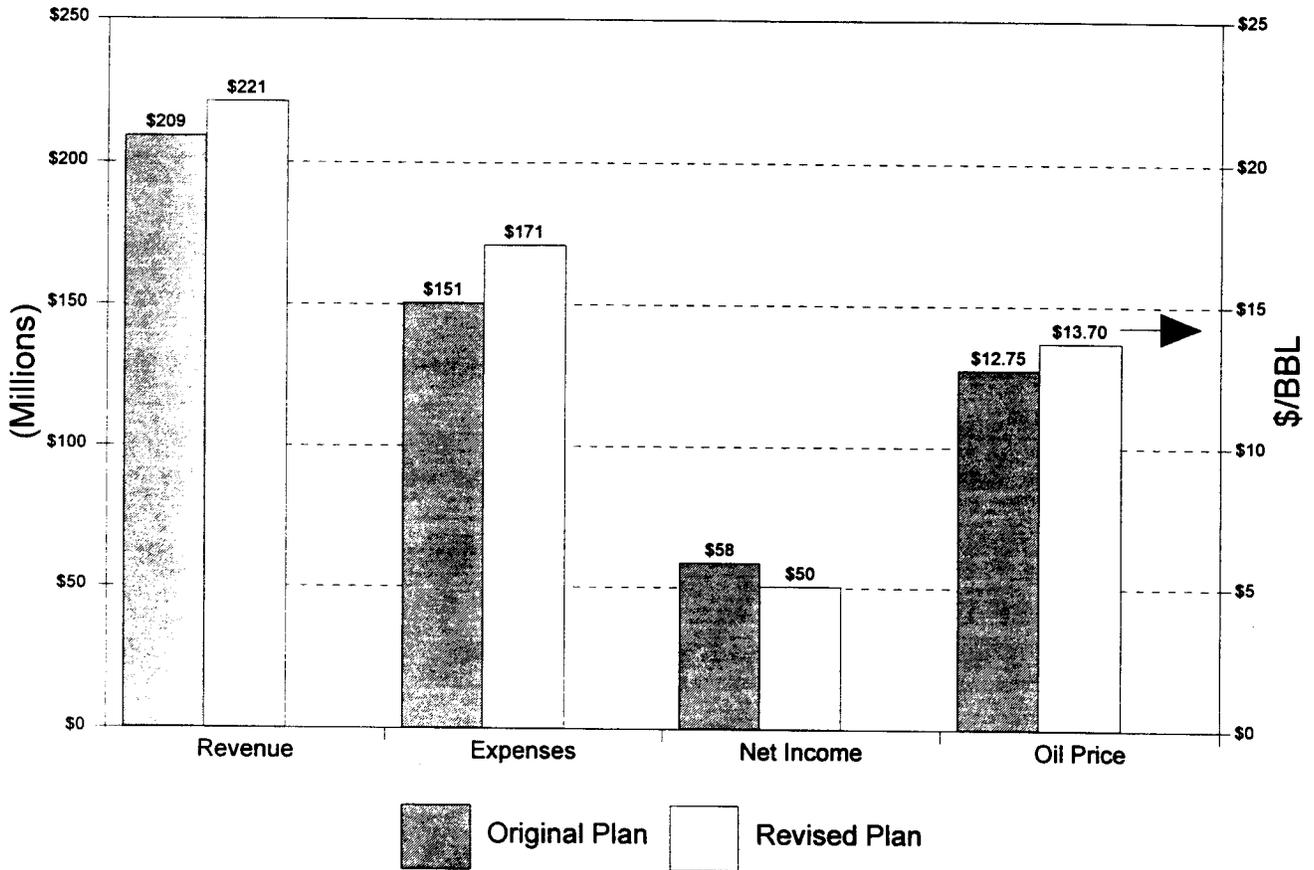
1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF CEQA PURSUANT TO TITLE 14 CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14 CALIFORNIA CODE OF REGULATIONS, SECTION 15378.
2. APPROVE THE FIRST AMENDMENT OF THE PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, LONG BEACH UNIT, FOR THE PERIOD JULY 1, 1996 THROUGH JUNE 30, 1997.

LBU FINANCIAL PERFORMANCE

FISCAL YEAR 1996-97 ANNUAL PLAN

Exhibit A

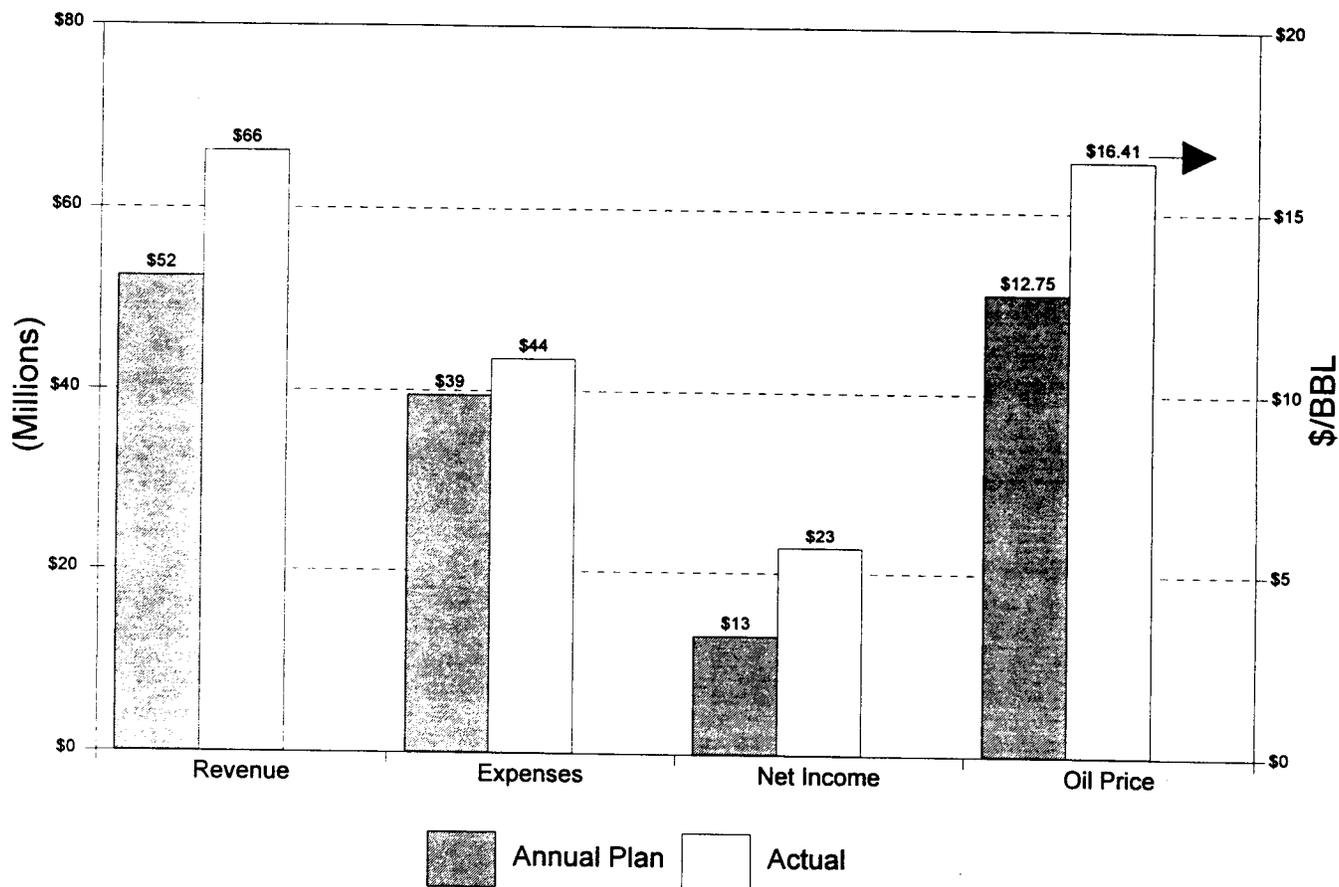
September 1996



LBU FINANCIAL PERFORMANCE

THIRD QUARTER 1996

Exhibit B

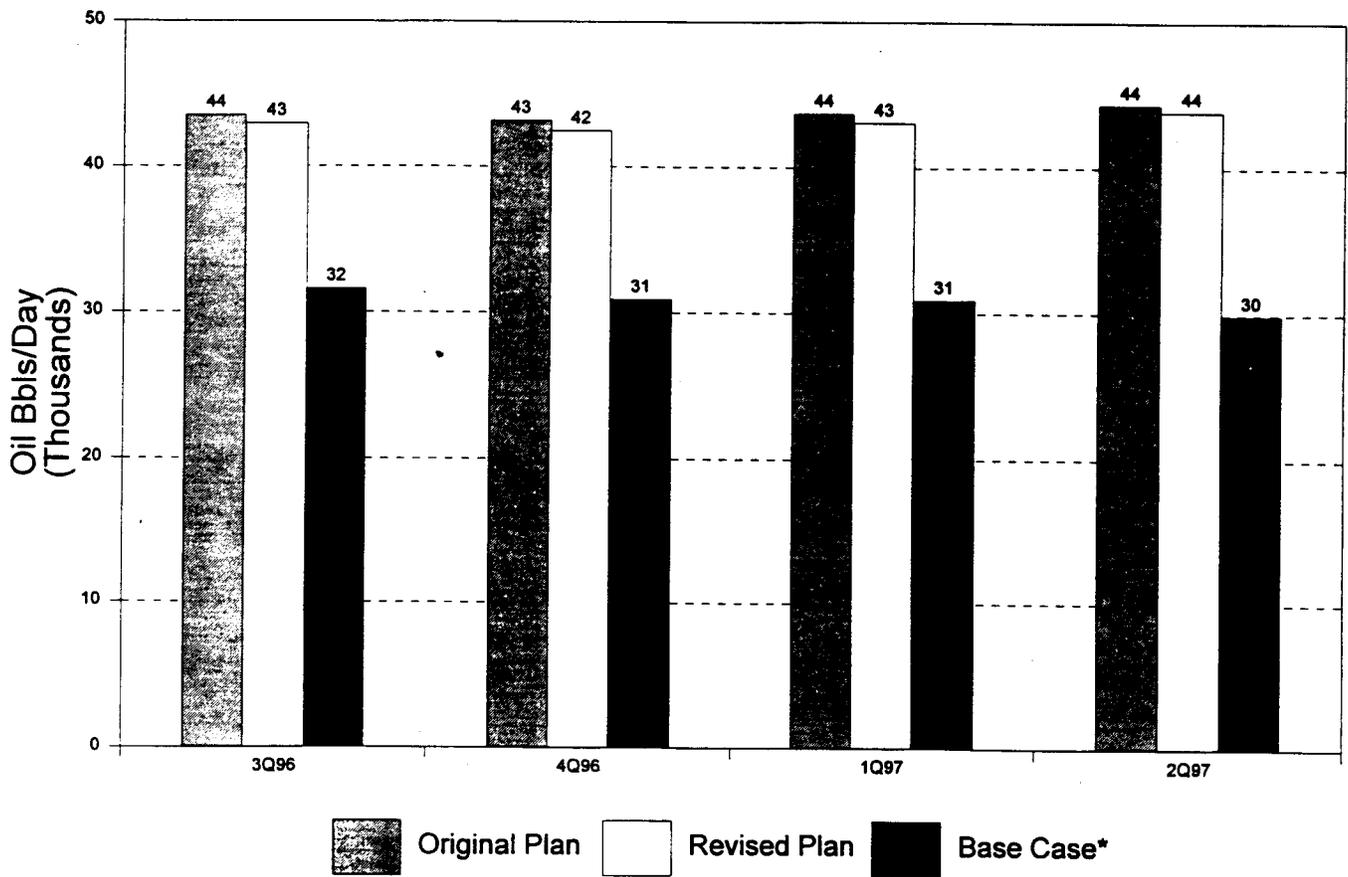


LBU OIL RATE PROJECTIONS

FISCAL YEAR 1995-96 ANNUAL PLAN

Exhibit C

Revised Sep-95



*Prediction if Optimized Waterflood Not Implemented

**CITY OF LONG BEACH**

DEPARTMENT OF OIL PROPERTIES

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

January 14, 1997

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

Subject: **REQUEST FOR APPROVAL OF THE FIRST AMENDMENT OF THE
ANNUAL PLAN, LONG BEACH UNIT
(JULY 1, 1996 THROUGH JUNE 30, 1997)**

Dear Mr. Mount:

In accordance with provisions of Part IV, Section A, of the Annual Plan, we are submitting for your approval this First Amendment of the Annual Plan covering the period July 1, 1996 through June 30, 1997.

This report reviews first quarter operations and includes revised Economic Projections and Major Planning Assumptions tables. Later revisions of the tables may be required to reflect changing conditions. Also attached is statistical data for wells, and production and injection volumes.

An analysis of Unit activities and the status of funds in each of the five budget categories is presented below.

DEVELOPMENT DRILLING

The Development Drilling category provides funding for all drilling and re-drilling activity, and maintenance and replacements of drilling equipment within the Unit.

Operations Review

Highlights for drilling operations during the quarter include:

- One drilling rig was in operation throughout the first quarter.

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- Three wells were redrilled and completed as producers: one in the Union Pacific Ford zone, and two in the Ranger zone.
- Four wells were fractured.
- Well C137 was drilled to total depth. Problems with a stuck tool during the drilling operation caused the well to be plugged back and abandoned in-zone.
- The drilling rig on Island Grissom was prepared for an October 1996 start-up.

On September 30, 1996 the total number of wells was 1,319, of which 876 were producers and 443 were injectors. Excluded from these totals are 31 abandoned wells - 9 producers and 22 injectors.

Budget to Actual Variance

The Development Drilling category has budget of \$22,445,000, of which \$5,312,100, of 23.7 percent, is expended. The Plan originally provided funds for approximately 40 new and redrilled wells.

The latest estimate for expenditures in this category through the end of the fiscal period is \$31.0 million. A Plan Modification requesting approval to spend at this level will be submitted as required by Part IV, Section B of the Annual Plan. The increased spending level anticipates that 50 wells will be drilled. This will be accomplished by operating two rigs for four months during the fiscal period, and scaling back to one for the remaining months.

OPERATING EXPENSE

The Operating Expense Category provides funding for the ongoing cost of day-to-day well production and injection operations necessary for producing, processing, and delivering crude oil and gas, and for all electric power costs.

Operations Review

During the first quarter the Unit oil production rate averaged 42,912 bbls/day, which was 588 bbls/day less than originally estimated, and gas production averaged 8,784 mcf/day, which was 351 mcf/day less than originally estimated in the Major Planning Assumptions section of the Annual Plan. Oil shipments during the period averaged 42,899 bbls/day, and gas shipments averaged 8,294 mcf/day.

Water injection averaged 638,285 bbls/day, which was 61,087 bbls/day less than originally estimated in the Major Planning Assumptions section of the Annual Plan.

Water production averaged 530,986 bbls/day, which is 59,215 bbls/day less than

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originally estimated.

Production and injection volumes during the Plan period were lower than estimated in the Annual Plan, and below expected ranges in the Program Plan. Lower than estimated volumes are a result of: 1) production in the Cut-Recovery Block 1 area of the waterflood being less than originally anticipated in the Plan, 2) actual decline rates for horizontally completed wells were greater than anticipated, 3) water injection volumes dropped which required shutting in production to maintain voidage injection ratios, 4) drilling performance for the fiscal period was less than expected, and 5) actual wells drilled and completed were less than budgeted.

Budget to Actual Variance

The Operating Expense Category has a budget of \$50,106,000, of which \$16,552,483, or 33.0 percent, is expended. The latest estimate for expenditures in this category through the end of the fiscal period is \$54.8 million. The higher spending level is primarily related to an increase in investment type wellwork activity, e.g., fracturing, profile modifications, recompletions and conversions-well type.

There were no significant non-well project expenditures in this category for the quarter.

OTHER PLANT

The Other Plant Category provides funds for maintenance, repairs, upgrades, and additions of surface facilities and pipelines, and costs for general field services.

Operations Review

Projects with significant expenditures during the quarter include the following:

- Circuit breaker coordination study;
- Process hazards analysis;
- Facility design for Cogeneration;
- Replace water injection totalizers and wiring;
- Skim basin vapor recovery on Island White;
- Reclaimed water expansion;
- Convert vent to flare at the J-4 site;
- Modification of the gas scrubber system at the J-2 site;
- Installation of a gas processing facility;
- Replace piping on Island Freeman;
- Replace piping on Island White;
- Repair and routine maintenance of oil treating vessels: and
- Repair and routine maintenance to water injection pumps and motors.

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Budget to Actual Variance

The Other Plant Category has a budget of \$30,378,000, of which \$7,825,960, or 25.8 percent, is expended. The latest estimate for expenditures in this category through the end of the fiscal period is \$32.1 million.

UNIT FIELD LABOR AND ADMINISTRATIVE

The Unit Field Labor and Administrative Category provides funding for salaries, benefits, training and other expenses of all Unit personnel, and costs for other Unit support activities. Unit support activities include costs for professional and temporary services, data processing and general office equipment and materials, Unit Operator billable costs, ARCO Long Beach, Inc. billable costs, management projects, extraordinary losses and claims, and prior year adjustments.

Budget to Actual Variance

The Unit Field labor and Administrative Category has a budget of \$33,601,000, of which \$8,470,898, or 25.2 percent, is expended. It is anticipated that expenditures in this category will exceed budget. The latest estimate for expenditures is \$33.8 million.

The Unit Field Labor and Administrative Category had significant project expenditures during the quarter for:

- 3D seismic survey;
- Headquarters relocation;
- Nodal analysis; and
- Tax work reimbursement.

TAXES, PERMITS, AND ADMINISTRATIVE OVERHEAD

The Taxes, Permits and Administrative Overhead Category provides funding for specific taxes, permits, licenses, land leases, and all administrative overhead costs for the Unit.

Budget to Actual Variance

The Taxes, Permits and Administrative Overhead Category has a budget of \$14,020,000, of which \$5,340,143, or 38.1 percent, is expended. Fiscal year expenditures for this category are now estimated at \$19.2 million. A Plan Modification requesting approval to spend at this level will be submitted as required by Part IV, Section B of the Annual Plan. The increased spending level is a result of a significantly higher tax assessment

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by the Los Angeles County Tax Assessor for Mining Rights and Improvements and Personal Property Taxes, which has been appealed.

Additionally, unanticipated costs for the California Oil Spill Prevention and Administration Fee have to be paid. Work is underway to determine if this fee is applicable to the Long Beach Unit operations.

SUMMARY

The Unit has a budget of \$150,550,000, of which \$43,501,583, or 28.9 percent, was expended through September 30, 1996. The latest estimate for expenditures through June 30, 1997 is \$170.9 million. A Plan Modification will be submitted for your approval during the third quarter of the fiscal period for categories expected to exceed 120% of budget.

First quarter profit of \$22.8 million is \$9.8 million more than originally estimated. Greater than anticipated first quarter profit is attributed to higher than anticipated oil and gas prices.

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

Very truly yours,



Xenophon C. Colazas
Director

XCC:slg

FIN 312.003

Attachments

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B. Economic Projections

(Data in Thousands of Dollars)

	ACTUAL FIRST QUARTER FY96/97	BUDGET FIRST QUARTER FY96/97	LATEST EST. SECOND QUARTER FY96/97	BUDGET SECOND QUARTER FY96/97	LATEST EST. THIRD QUARTER FY96/97	BUDGET THIRD QUARTER FY96/97	LATEST EST. FOURTH QUARTER FY96/97	BUDGET FOURTH QUARTER FY96/97	LATEST EST. TOTAL FISCAL YEAR FY96/97	ORIGINAL TOTAL BUDGET FY96/97
ESTIMATED REVENUE										
Oil Revenue	\$64,762	\$51,026	\$49,804	\$50,604	\$49,396	\$50,121	\$51,442	\$51,421	\$215,404	\$203,172
Gas Revenue	1,497	\$1,471	\$1,436	\$1,459	\$1,424	\$1,445	\$1,483	\$1,482	\$5,839	\$5,856
TOTAL REVENUE	\$66,259	\$52,496	\$51,240	\$52,063	\$50,820	\$51,565	\$52,925	\$52,903	\$221,243	\$209,028
ESTIMATED EXPENDITURES										
Development Drilling	\$5,312	\$5,084	\$6,839	\$5,084	\$10,299	\$6,126	\$8,550	\$6,151	\$31,000	\$22,445
Operating Expense	16,552	14,135	12,279	11,430	12,279	11,364	13,690	13,178	\$54,800	\$50,106
Other Plant	7,826	8,161	8,898	7,671	7,848	7,551	7,528	6,996	\$32,100	\$30,378
Unit Field Labor & Administrative	8,471	8,472	8,437	8,472	8,446	8,472	8,446	8,184	\$33,800	\$33,601
Taxes, Permits & Admin Overhead	5,340	3,648	4,464	3,393	4,732	3,488	4,664	3,493	\$19,200	\$14,020
TOTAL EXPENDITURES	\$43,502	\$39,499	\$40,917	\$36,049	\$43,604	\$37,000	\$42,878	\$38,002	\$170,900	\$150,550
NET PROFIT	\$22,757	\$12,997	\$10,323	\$16,014	\$7,216	\$14,565	\$10,047	\$14,902	\$50,343	\$58,477

C. Major Planning Assumptions

(Data in Thousands of Dollars)

	ACTUAL FIRST QUARTER FY96/97	BUDGET FIRST QUARTER FY96/97	LATEST EST. SECOND QUARTER FY96/97	BUDGET SECOND QUARTER FY96/97	LATEST EST. THIRD QUARTER FY96/97	BUDGET THIRD QUARTER FY96/97	LATEST EST. FOURTH QUARTER FY96/97	BUDGET FOURTH QUARTER FY96/97	LATEST EST. TOTAL FISCAL YEAR FY96/97	ORIGINAL TOTAL BUDGET FY96/97
OIL										
ACTUAL SHIPPED (1,000 BBL)	3,947									
PRODUCED (1,000 BBL) (B/D)	3,948 42,912	4,002 43,500	3,906 42,459	3,969 43,141	3,874 43,047	3,931 43,678	3,991 43,855	4,033 44,319	15,719 43,066	15,935 43,658
GAS										
ACTUAL SHIPPED (1,000 MCF)	763									
PRODUCED (1,000 MCF) (MCF/D)	808 8,784	840 9,135	820 8,916	833 9,060	814 9,040	826 9,172	838 9,210	847 9,307	3,280 8,987	3,346 9,168
WATER PRODUCTION										
(1,000 BBL) (B/D)	48,851 530,986	54,298 590,201	51,657 561,494	54,689 594,442	51,405 571,164	53,943 599,372	52,735 579,504	55,186 606,444	204,648 560,679	218,117 597,581
WATER INJECTION										
(1,000 BBL) (B/D)	56,772 638,285	64,342 699,372	60,529 657,926	64,949 705,970	60,289 669,875	63,971 710,786	61,880 679,997	65,338 718,002	241,420 661,424	258,600 708,494
WELL PRICE (\$/BBL)	\$16.41	\$12.75	\$12.75	\$12.75	\$12.75	\$12.75	\$12.75	\$12.75	\$12.75	\$12.75
GAS PRICE (\$/MCF)	\$1.96	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75	\$1.75

NUMBER OF WELLS

As of September 30, 1996

	<u>Producers</u>	<u>Injectors</u>	<u>Total</u>
Grissom	182	93	275
White	149	90	239
Chaffee	212	112	324
Freeman	228	87	315
Pier J (inc. THX)	<u>105</u>	<u>61</u>	<u>166</u>
Total	876	443	1,319
Tar V	11	2	13
Ranger (All Areas)	667	345	1012
Upper & Lower Terminal VI, VII	62	34	96
Terminal (Blocks VIII, 90)	59	35	94
Union Pacific-Ford (All Areas)	74	27	101
237 (All Areas	<u>3</u>	<u>0</u>	<u>3</u>
Total	876	443	1,319

(Figures exclude 9 abandoned producers and 22 abandoned injectors)

PRODUCTION - OIL

	Average B/D 7/1/96 - 9/30/96	Cumulative Bbls. 9/30/96
Grissom	9,631	147,353,147
White	7,959	139,730,956
Chaffee	10,473	174,520,403
Freeman	10,812	228,618,999
Pier J (incl. THX)	<u>4,037</u>	<u>130,660,138</u>
Total	42,912	820,883,653
Tar V	124	1,323,341
Ranger (All Areas	28,650	621,102,273
Upper & Lower Terminal VI, VII	5,016	67,226,435
Terminal (Blocks VIII, 90)	4,464	44,321,011
Union Pacific-Ford (All Areas)	4,658	83,051,982
237 (All Areas)	<u>0</u>	<u>3,858,611</u>
Total	42,912	820,883,653

PRODUCTION - GAS

	Average mcf/d 7/1/96 - 9/30/96	Cumulative mcf 9/30/96
Grissom	834	20,921,848
White	2,526	34,374,432
Chaffee	2,236	57,943,109
Freeman	2,102	80,796,954
Pier J (incl. THX)	<u>1,086</u>	<u>23,541,126</u>
Total	8,784	217,577,469
Tar V	71	555,784
Ranger (All Areas	6,222	137,960,744
Upper & Lower Terminal VI, VII	868	8,875,378
Terminal (Blocks VIII, 90)	684	12,726,022
Union Pacific-Ford (All Areas)	939	53,194,272
237 (All Areas)	<u>0</u>	<u>4,265,269</u>
Total	8,784	217,577,469

PRODUCTION - WATER

	Average B/D 7/1/96 - 9/30/96	Cumulative Bbls. 9/30/96
Grissom	133,291	924,709,257
White	106,179	730,771,124
Chaffee	95,745	585,389,705
Freeman	121,679	907,082,142
Pier J (incl. THX)	<u>74,092</u>	<u>746,241,231</u>
Total	530,986	3,894,193,459
Tar V	487	5700527
Ranger (All Areas)	442,466	3,375,197,163
Upper & Lower Terminal VI, VII	48,233	293,477,422
Terminal (Blocks VIII, 90)	22,266	80,816,536
Union Pacific-Ford (All Areas)	17,534	135,813,921
237 (All Areas)	<u>0</u>	<u>3,187,890</u>
Total	530,986	3,894,193,459

INJECTION WATER

	Average B/D 7/1/96 - 9/30/96	Cumulative Bbls. 9/30/96
Grissom	166,633	1,301,660,221
White	123,773	1,087,738,884
Chaffee	119,626	1,146,612,869
Freeman	146,019	1,000,309,692
Pier J (incl. THX)	<u>82,234</u>	<u>968,105,140</u>
Total	638,285	5,504,426,806
Tar V	1,390	13,926,929
Ranger (All Areas)	518,464	4,729,695,327
Upper & Lower Terminal VI, VII	59,336	369,414,740
Terminal (Blocks VIII, 90)	32,051	174,161,258
Union Pacific-Ford (All Areas)	27,044	217,228,552
237 (All Areas)	<u>0</u>	<u>0</u>
Total	638,285	5,504,426,806