

MINUTE ITEM
This Calendar Item No. C68
was approved as Minute Item
No. 68 by the State Lands
Commission by a vote of 3
to 0 at its 11/7/97
meeting.

CALENDAR ITEM
C68

A 57, 58

11/07/97

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W 17114

D. Yuen

**CONSIDER APPROVAL OF THE FIRST MODIFICATION OF THE FY 1997-98
ANNUAL PLAN, PROPOSING INCREASED EXPENDITURES,
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

BACKGROUND:

The City of Long Beach has submitted to the Commission the First Modification of the FY 1997-98 Annual Plan, Long Beach Unit, covering the period July 1, 1997 through June 30, 1998, proposing to increase expenditures. Despite the increased expenditures, the expected net profits from the Long Beach Unit for FY 1997-98 will increase slightly from that forecasted in the original Annual Plan (changing from \$57.8 million to \$59.9 million).

Oil prices have been higher than anticipated. To take advantage of these higher prices, as well as build on the success of recent drilling activities, the Long Beach Unit requires additional funds to increase field activities, arrest the rate of production decline, and pay increases in taxes and regulatory fees. An increase in drilling and well work activity funded by higher oil prices will increase total State revenue. A summary of the proposed Budget changes and the distribution to the five Budget Categories are contained in the attached Exhibit A.

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), Commission 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.

EXHIBIT:

- A. Letter Requesting Approval of First Modification of the Annual Plan, Long Beach Unit, (July 1, 1997 - June 30, 1998)

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CALENDAR ITEM NO. C68 (CONT'D)

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

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.

AUTHORIZATION:

APPROVE THE FIRST MODIFICATION OF THE LONG BEACH UNIT ANNUAL PLAN, PROPOSING INCREASED EXPENDITURES, FOR THE PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998.



CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (562) 570-3900 • FAX 570-3922

October 31, 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 MODIFICATION OF THE ANNUAL PLAN, LONG BEACH UNIT (JULY 1, 1997 THROUGH JUNE 30, 1998)

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, 1997 through June 30, 1998.

This modification is required for expenditures to Plan Categories expected to exceed 120% of the approved budget. Although only three Plan Categories are expected to exceed 120% of budget, this modification will augment funding in each of the five Plan Categories to anticipated expenditure levels for the Plan period.

An analysis of significant changes to the Plan is presented below.

SUMMARY

Plan Category	1997-1998 Plan Amounts		
	Original	Augmen- tation	Revised
Development Drilling	\$23,100,000	\$16,100,000	\$39,200,000
Operating Expense	\$56,900,000	\$ 4,800,000	\$61,700,000
Facilities, Maintenance and Plant	\$29,000,000	\$ 5,800,000	\$34,800,000
Unit Field Labor and Administrative	\$34,200,000	\$ 1,500,000	\$35,700,000
Taxes, Permits, and Admin. Overhead	\$14,200,000	\$ 5,900,000	\$20,100,000
Total	\$157,400,000	\$34,100,000	\$191,500,000

Based upon first quarter production results and a projected average oil price of \$15.50 per barrel for oil and \$2.25 per MCF for gas, it is expected that net profits will increase by 4%, from the original budget of \$57.8 million to \$59.9 million.

DEVELOPMENT DRILLING

The Development Drilling Program for Fiscal Year 1997 contributed over 6 thousand barrels to the daily oil rate, and added 20 million barrels of reserves at a development cost per barrel of \$1.78. Expenditures for this Plan Category, expected to exceed budget by approximately 70%, reflect the desire to continue additional investments in this successful program. The anticipated spending level will result in an increase in drilling activity (from 35 to 48 wells) with more complex completions, including additional new well fracturing. This will be accomplished by operating two drilling rigs and two completion rigs during the entire Plan period, versus one drilling rig and one completion rig specified in the Original Plan.

OPERATING EXPENSE

Expenditures in this Plan Category are expected to exceed budget by approximately 8%. The anticipated increased spending level is due to additional planned well fracturing activity.

OTHER PLANT

Expenditures in this Plan Category are expected to exceed budgeted amounts by approximately 20%. Increased drilling and well work activity is driving increases in marine, warehouse, transportation, field maintenance, and additional purchased injection water costs. The higher spending level is also a result of additional major projects and a sub-sea pipeline survey.

UNIT FIELD LABOR AND ADMINISTRATIVE

Expenditures in this Plan Category are expected to exceed budget by approximately 4% due to increased staffing.

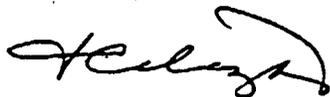
Mr. P. B. Mount II
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TAXES, PERMITS, AND ADMINISTRATIVE OVERHEAD

Expenditures in the Plan Category are expected to exceed budget by approximately 42%. The increased spending level is the result of a significantly higher tax assessment by the Los Angeles County Tax Assessor for Mining Rights and Improvements and Personal Property Taxes. We believe higher tax assessment is incorrect, and it has been appealed.

The City of Long Beach, as Unit Operator of the Long Beach Unit, approved 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.

Sincerely,



Xenophon C. Colazas
Director

XCC:slg

FIN 312.003

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