

MINUTE ITEM

This Calendar Item No. C86 was approved as Minute Item No. 86 by the California State Lands Commission by a vote of 5 to 0 at its 2/27/98 meeting.

**CALENDAR ITEM
C86**

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02/27/98

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D. Yuen

CONSIDER APPROVAL OF THE FIRST AMENDMENT OF THE FY 1997-98 ANNUAL PLAN, 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 FY 1997-98 Annual Plan, Long Beach Unit, covering the period July 1, 1997 through June 30, 1998, revising economic projections and major planning assumptions. This report provides the actual performance for the First Quarter of Fiscal Year 1997-98 and revised projections for the remaining quarters of the Fiscal Year. There were no changes to the latest approved budget of \$191,500,000 or to the distribution to the five budget categories. The revised economic projections are illustrated in Exhibits A and B, attached hereto. Revisions to oil production projections are illustrated in Exhibit C, attached hereto.

The average oil and gas rates for the First Quarter of the 1997-98 Fiscal Year were reported to be 43,598 bbls/day of oil (388 bbls/day less than originally estimated) and 9,276 mcf/day of gas (479 mcf/day more than forecast). The slightly lower than planned oil rate is primarily due to delays in drilling and completing new wells. The cumulative recoveries and injection through September 1997 are as follows:

| | | |
|------------------|---------------|---------|
| Oil Production | 836,307,182 | Barrels |
| Gas Production | 220,834,738 | Mcf |
| Water Production | 4,092,005,620 | Barrels |
| Water Injection | 5,739,598,663 | Barrels |

Cumulative Injection - Gross Production Ratio is 1.165 Bbls/Bbl.

The revised economic projections reflect the net combined effects of higher oil prices and higher levels of investment. These factors nearly offset each other, leaving net

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profit levels essentially unchanged. Original major planning assumptions were based on an average oil price of \$13.00/bbl and an average gas price of \$1.75/mcf, but actual prices for the First Quarter were \$14.99/bbl and \$2.25/mcf. The additional revenues generated by these higher prices were reinvested into the field. First Quarter net profits were \$11.0 Million, which is \$1.5 Million less than originally forecasted. Revised oil and gas prices, expenditures, and net profits for Fiscal Year 1997-98 are shown in the table below. Two drilling rigs are expected to remain active for the entire fiscal year.

| MILLION DOLLARS | | | | | |
|-----------------|--|--|---|--|-------------------------|
| TOTAL | ACTUAL FIRST QUARTER FY 97-98 | ESTIMATED SECOND QUARTER FY 97-98 | ESTIMATED THIRD QUARTER FY 97-98 | ESTIMATED FOURTH QUARTER FY 97-98 | FISCAL YEAR 97-98 |
| Oil Revenue | 60.1 | 60.2 | 60.3 | 61.3 | 241.9 |
| Gas Revenue | 1.9 | 1.7 | 1.8 | 1.8 | 7.2 |
| Expenditures | 51.0 | 48.3 | 47.1 | 45.1 | 191.5 |
| Net Profit | 11.0 | 13.7 | 14.9 | 18.0 | 57.6 |
| Original | 12.5 | 15.0 | 14.8 | 15.4 | 57.8 |
| Change | -1.5 | -1.3 | +0.1 | +2.6 | -0.2 |
| Oil Price/BBL | \$14.99 | \$15.50 | \$15.50 | \$15.50 | \$15.37 |
| Gas Price/MCF | \$2.25 | \$2.25 | \$2.25 | \$2.25 | \$2.25 |

Commission 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.

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.

CALENDAR ITEM NO. **C86** (CONT'D)

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

EXHIBITS:

- A. Fiscal Year 1997-98 Financial Projections
- B. First Quarter Fiscal Year 1997-98 Financial Performance
- C. Fiscal Year 1997-98 Oil Rate Projections
- D. Letter Requesting Approval of First Amendment of the Annual Plan, Long Beach Unit, (July 1, 1997 - June 30, 1998)

PERMIT STREAMLINING ACT DEADLINE:

N/A

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 AMENDMENT OF THE LONG BEACH UNIT ANNUAL PLAN, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, FOR THE PERIOD JULY 1, 1997 THROUGH JUNE 30, 1998.

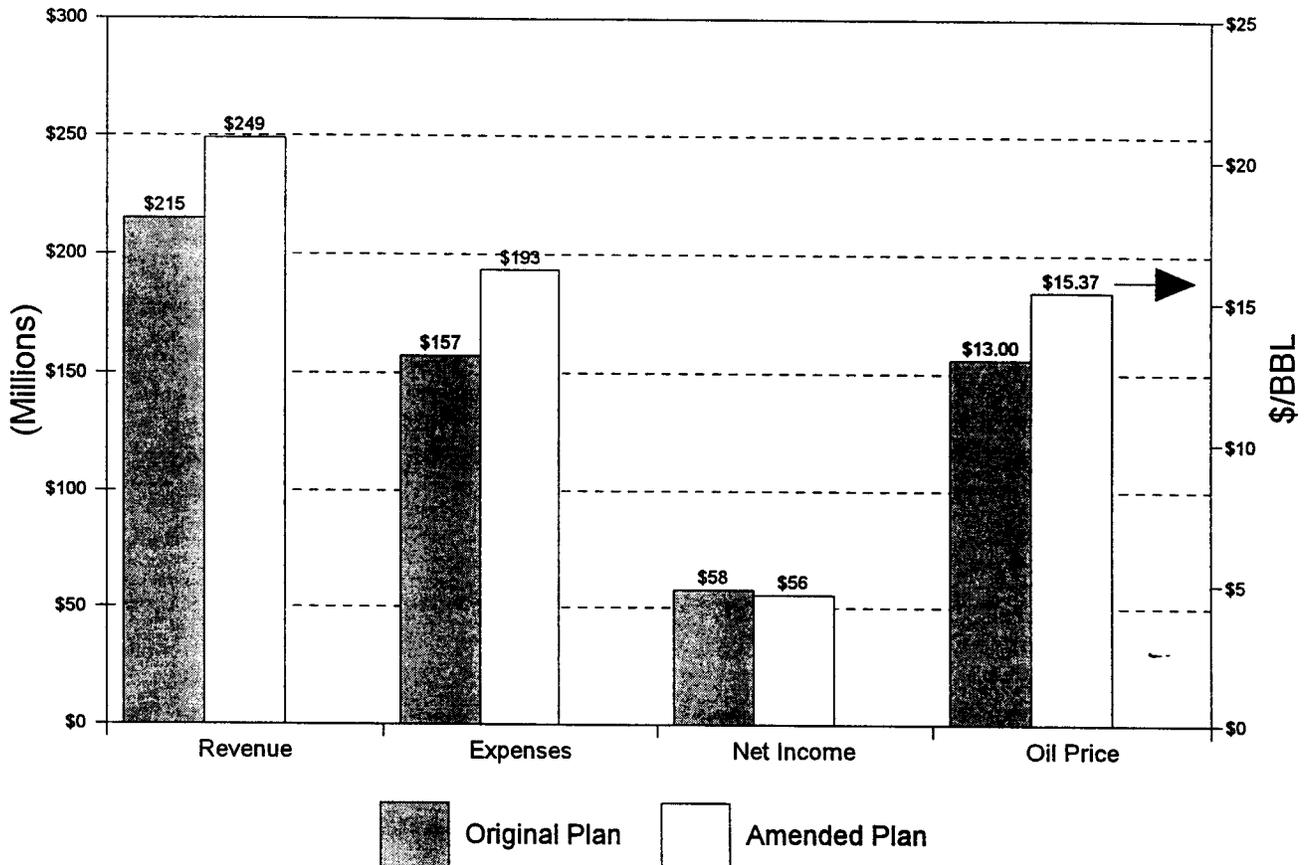
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LBU FINANCIAL PERFORMANCE

FISCAL YEAR 1997-98 ANNUAL PLAN

Exhibit A

Revised Dec-97

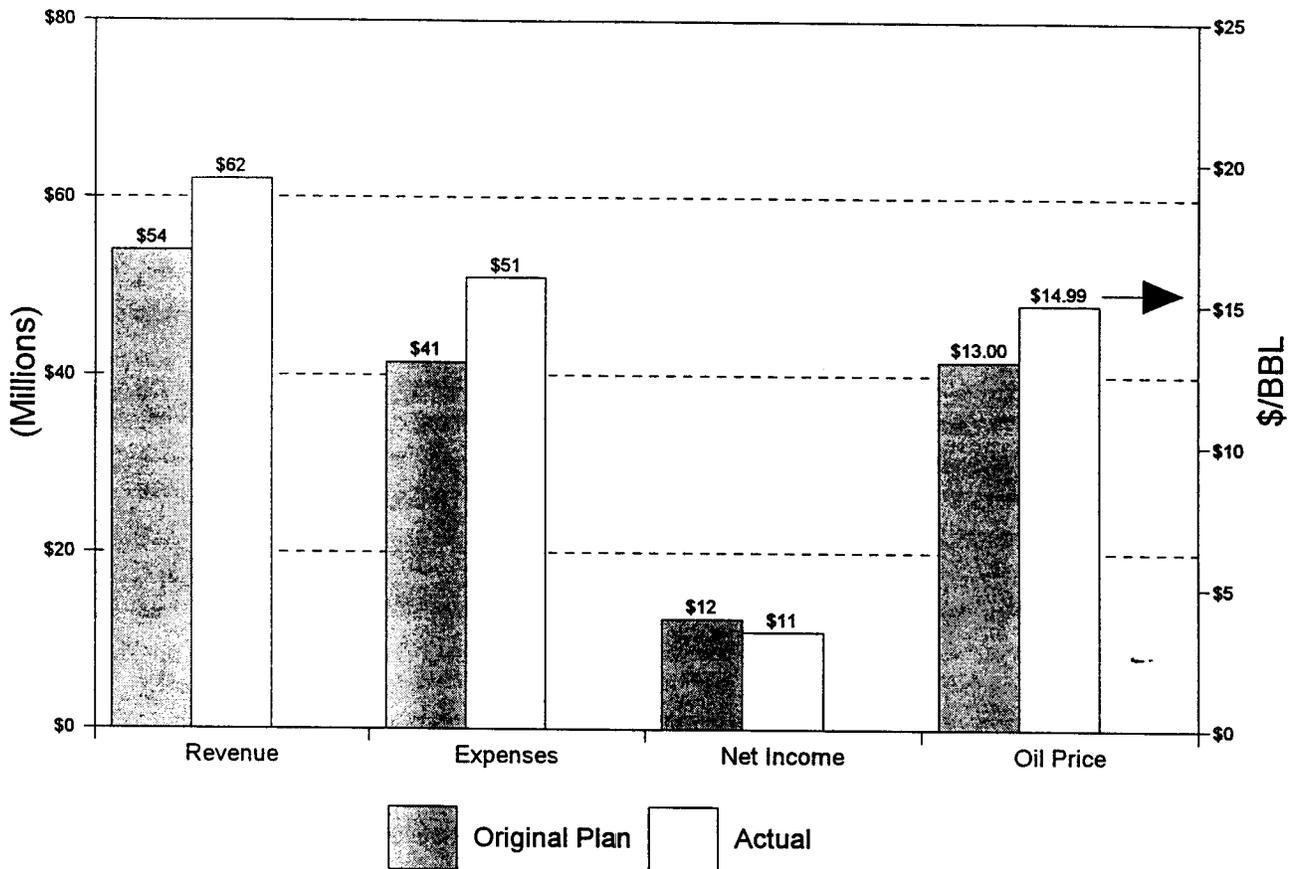


LBU FINANCIAL PERFORMANCE

FIRST QUARTER FY1997-98

Exhibit B

Revised Dec-97

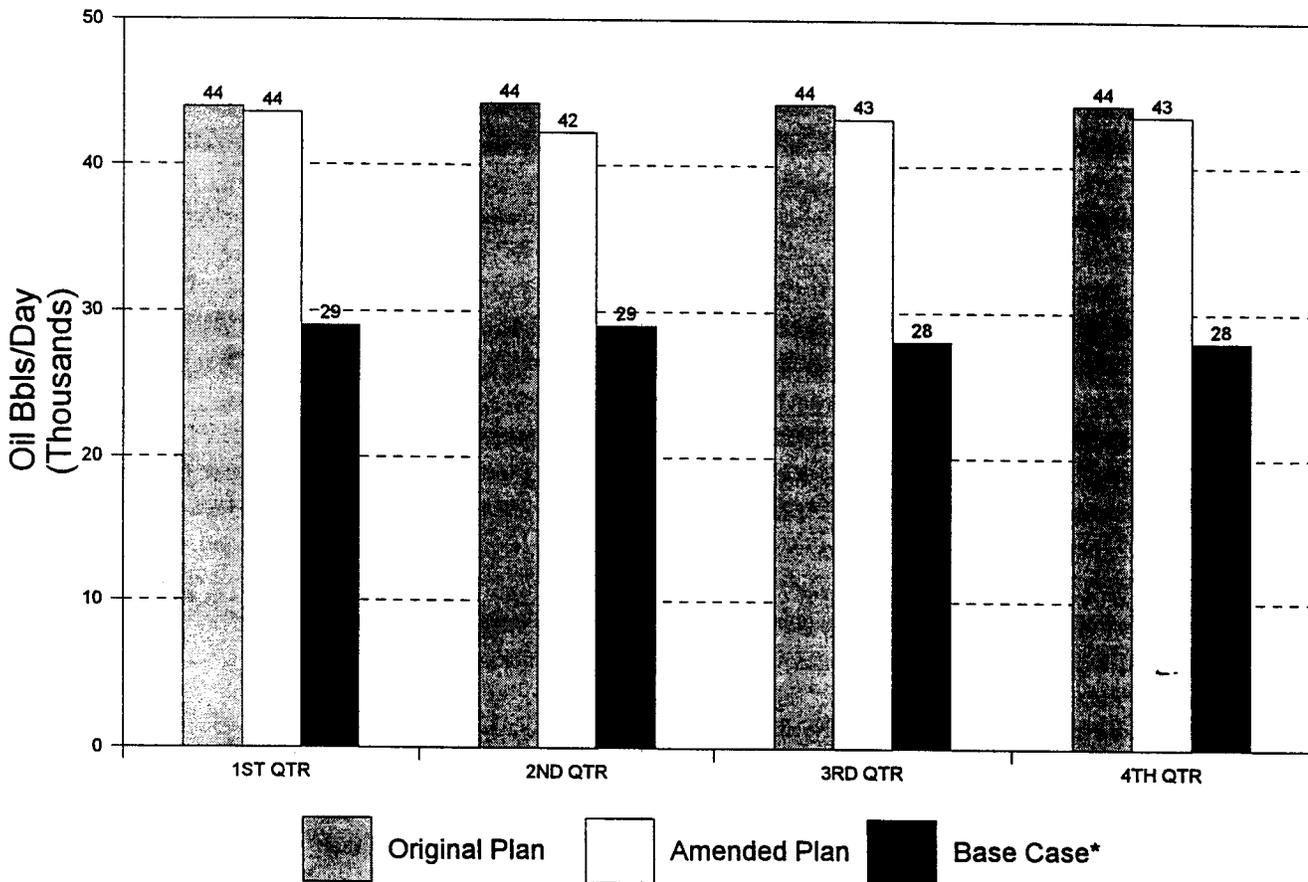


LBU OIL RATE PERFORMANCE

FISCAL YEAR 1997-98 ANNUAL PLAN

Exhibit C

Revised Dec-97



*Prediction if Optimized Waterflood Not Implemented

**CITY OF LONG BEACH**

DEPARTMENT OF OIL PROPERTIES

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

November 13, 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, 1997 THROUGH JUNE 30, 1998)**

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, 1997 through June 30, 1998.

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, as well as 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, as well as maintenance and replacements for drilling equipment within the Unit.

Operations Review

Highlights for drilling operations during the quarter include:

- Two drilling rigs were operated throughout the quarter.
- Six wells were completed in the period. Three producers and one injector were completed in the Ranger zone; one producer was completed in the Terminal zone; and one producer was completed in the Union Pacific Ford zone.

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On September 30, 1997, the total number of wells was 1,331, of which 875 were producers and 456 were injectors. Excluded from these totals are 32 abandoned wells, 9 of which are producers and 23 are injectors.

Budget to Actual Variance

The Development Drilling category had an original budget of \$23,100,000, of which \$9,260,000, or 40.1 percent, is expended. This Plan provided funds for approximately 35 new and redrilled wells.

The latest estimate for expenditures in this category through the end of the fiscal period is \$39.2 million. A Plan Modification requesting approval to spend at this level was submitted to and approved by the State Lands Commission on November 7, 1997 as required by Part IV, Section B of the Annual Plan. The increased spending level anticipates that 48 wells will be drilled. This will be accomplished by operating two rigs for the entire fiscal period.

OPERATING EXPENSE

The Operating Expense category provided 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 43,598 bbls/day, which was 388 bbls/day less than originally projected; and gas production averaged 9,276 mcf/day, which was 479 mcf/day more than originally projected in the Major Planning Assumptions section of the Annual Plan.

Water injection averaged 680,998 bbls/day, which was 7,039 bbls/day less than originally projected in the Major Planning Assumptions section of the Annual Plan. Water production averaged 565,904 bbls/day, which is 19,299 bbls/day less than originally projected.

Production and injection volumes during the Plan period were lower than projected in the Annual Plan and below expected ranges in the Program Plan. These lower volumes are a result of: 1) the pace of new completions is lagging the forecast by about one month; and 2) actual wells drilled and completed were less than budgeted.

Budget to Actual Variance

The Operating Expense category had an original budget of \$56,900,000, of which \$17,721,000, or 31.1 percent, is expended. The latest estimate for expenditures in this category through the end of the fiscal period is \$61.7 million. A Plan Modification requesting approval to spend at this level was submitted and approved November 7, 1997. The higher spending level is primarily related to an increase in investment type wellwork activity, e.g., fracturing, profile modifications, recompletions, and well type conversions.

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, additions of surface facilities and pipelines, and costs for general field services.

Operations Review

Projects with significant expenditures during the quarter include the following:

- Skim basin vapor recovery upgrade
- Gas liquids removal facility
- Seismic upgrades

Budget to Actual Variance

The Other Plant category had an original budget of \$29,000,000, of which \$8,250,000, or 28.5 percent, is expended. The latest estimate for expenditures in this category through the end of the fiscal period is \$34.8 million. A Plan Modification requesting approval to spend at this level was submitted and approved November 7, 1997. The higher spending level is a result of increased warehousing, marine transportation, and purchased injector water costs. These categories' higher spending level is being driven by increased drilling and wellwork activity. Additionally, the higher spending level is a result of increases in major surface projects and a subsea pipeline survey.

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, 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.

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Budget to Actual Variance

The Unit Field Labor and Administrative category had an original budget of \$34,200,000, of which \$10,172,000, or 29.7 percent, is expended. It is anticipated that expenditures in this category will exceed this budget. The latest estimate for expenditures in this category through the end of the fiscal period is \$35.7 million. A Plan Modification requesting approval to spend at this level was submitted and approved November 7, 1997.

The Unit Field Labor and Administrative category had significant project expenditures during the quarter for 3-D seismic interpretation, personal computers, reservoir studies, and an oil spill drill.

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 had an original budget of \$14,200,000, of which \$5,577,000, or 39.3 percent, is expended. Fiscal year expenditures for this category are now estimated at \$20.1 million. A Plan Modification requesting approval to spend at this level was submitted and approved on November 7, 1997. The increased spending level is a result of a significantly higher tax assessment by the Los Angeles County Tax Assessor for Mining Rights and Improvements and Personal Property Taxes, which has been appealed.

SUMMARY

The Unit had an original budget of \$157,400,000, of which \$50,979,000, or 32.4 percent, was expended through September 30, 1997. The latest estimate for expenditures through June 30, 1998 is \$191.5 million. A Plan Modification was submitted and approved November 7, 1997 to spend at this higher level.

First quarter profit of \$11.0 million is \$1.5 million less than originally estimated. Less than anticipated first quarter profit is attributed to higher spending.

P. B. Mount II
November 13, 1997
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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 FY97/98 | MOD BGDGT FIRST QUARTER FY97/98 | MOD BGDGT SECOND QUARTER FY97/98 | MOD BGDGT THIRD QUARTER FY97/98 | MOD BGDGT FOURTH QUARTER FY97/98 | MODIFIED TOTAL BUDGET FY97/98 | TREND TOTAL FISCAL YEAR FY97/98 | % TREND Over/(Under) MODIFIED BUDGET |
|-----------------------------------|--|---------------------------------------|--|---|--|---|--|--|---|
| ESTIMATED REVENUE | | | | | | | | | |
| Oil Revenue | | \$60,120 | \$60,046 | \$60,218 | \$60,295 | \$61,272 | \$241,830 | \$241,904 | 0.03% |
| Gas Revenue | | 1,886 | 1,743 | 1,748 | 1,751 | 1,779 | 7,021 | 7,164 | 2.03% |
| TOTAL REVENUE | | \$62,006 | \$61,789 | \$61,966 | \$62,046 | \$63,050 | \$248,851 | \$249,068 | 0.09% |
| ESTIMATED EXPENDITURES | | | | | | | | | |
| Development Drilling | | \$9,260 | \$10,585 | \$9,115 | \$9,380 | \$10,120 | \$39,200 | \$37,875 | -3.38% |
| Operating Expense | | 17,721 | 15,998 | 16,182 | 14,538 | 14,982 | 61,700 | 63,423 | 2.79% |
| Other Plant | | 8,250 | 7,773 | 9,444 | 9,074 | 8,509 | 34,800 | 35,277 | 1.37% |
| Unit Field Labor & Administrative | | 10,172 | 9,260 | 8,850 | 8,890 | 8,700 | 35,700 | 36,612 | 2.55% |
| Taxes, Permits & Admin Overhead | | 5,577 | 5,445 | 4,720 | 5,215 | 4,720 | 20,100 | 20,232 | 0.66% |
| TOTAL EXPENDITURES | | \$50,979 | \$49,061 | \$48,311 | \$47,097 | \$47,031 | \$191,500 | \$193,418 | 1.00% |
| NET PROFIT | | \$11,027 | \$12,728 | \$13,655 | \$14,949 | \$16,019 | \$57,351 | \$55,650 | -2.97% |

C. Major Planning Assumptions

| (Data in Thousands of Dollars) | | ACTUAL FIRST QUARTER FY97/98 | MOD BDGT FIRST QUARTER FY97/98 | MOD BDGT SECOND QUARTER FY97/98 | MOD BDGT THIRD QUARTER FY97/98 | MOD BDGT FOURTH QUARTER FY97/98 | MODIFIED TOTAL BUDGET FY97/98 | TREND TOTAL FISCAL YEAR FY97/98 | % TREND Over/(Under) MODIFIED BUDGET |
|------------------------------------|--|---------------------------------------|---|--|---|--|--|--|---|
| OIL | | | | | | | | | |
| ACTUAL SHIPPED (1,000 BBL) | | 4,012 | | | | | | 4,012 | |
| PRODUCED (1,000 BBL) | | 4,011 | 3,874 | 3,885 | 3,890 | 3,953 | 15,602 | 15,739 | |
| (B/D) | | 43,598 | 42,109 | 42,228 | 43,222 | 43,440 | 42,745 | 43,121 | 0.88% |
| GAS | | | | | | | | | |
| ACTUAL SHIPPED (1,000 MCF) | | 839 | | | | | | | |
| PRODUCED (1,000 MCF) | | 853 | 775 | 777 | 778 | 791 | 3,120 | 3,199 | |
| (MCF/D) | | 9,276 | 8,422 | 8,446 | 8,644 | 8,688 | 8,548 | 8,763 | 2.52% |
| WATER PRODUCTION | | | | | | | | | |
| (1,000 BBL) | | 52,063 | 51,524 | 51,671 | 51,737 | 52,575 | 207,507 | 208,045 | |
| (B/D) | | 565,904 | 560,046 | 561,636 | 574,856 | 577,746 | 568,511 | 569,987 | 0.26% |
| WATER INJECTION | | | | | | | | | |
| (1,000 BBL) | | 62,652 | 63,193 | 63,810 | 62,645 | 63,490 | 253,138 | 252,597 | |
| (B/D) | | 680,998 | 686,880 | 693,587 | 696,056 | 697,692 | 693,529 | 692,047 | -0.21% |
| CRUDE OIL PRICE (\$/BBL) | | \$14.99 | \$15.50 | \$15.50 | \$15.50 | \$15.50 | \$15.50 | \$15.37 | -0.84% |
| WELLHEAD GAS PRICE (\$/MCF) | | \$2.25 | \$2.25 | \$2.25 | \$2.25 | \$2.25 | \$2.25 | \$2.25 | 0.00% |

NUMBER OF WELLS

As of September 30, 1997

| Location | Producers | Injectors | Total |
|-----------------------------------|------------|------------|-------------|
| Grissom | 188 | 93 | 281 |
| White | 149 | 91 | 240 |
| Chaffee | 213 | 115 | 328 |
| Freeman | 221 | 95 | 316 |
| Pier J (Inc. THX) | 104 | 62 | 166 |
| Total | 875 | 456 | 1331 |
| Tar V | 11 | 2 | 13 |
| Ranger (All Areas) | 660 | 357 | 1017 |
| Upper & Lower Terminal VI, VII | 66 | 34 | 100 |
| Terminal (Blocks VIII, 90) | 60 | 34 | 94 |
| Union Pacific-Ford (All Areas) | 75 | 29 | 104 |
| 237 (All Areas) | 3 | 0 | 3 |
| Total | 875 | 456 | 1331 |

(Figures exclude 9 abandoned producers and 23 abandoned injectors)

PRODUCTION - OIL

| | Average B/D 7/1/97 - 9/30/97 | Cumulative Bbls. 9/30/97 |
|--|---------------------------------|-----------------------------|
| Grissom | 10035 | 150797566. |
| White | 8246 | 142579245. |
| Chaffee | 10994 | 178429405. |
| Freeman | 10734 | 232490827. |
| Pier J (Inc. THX) | 3589 | 132010139. |
| TOTAL | 43598 | 836307182. |
| | | |
| Tar V | 66 | 1365711. |
| Ranger (All Areas) | 28442 | 631187660. |
| Upper Terminal & Lower Terminal VI,VII | 5138 | 69037499. |
| Terminal (Blocks VIII,90) | 3793 | 45789933. |
| Union Pacific-Ford (All Areas) | 6159 | 85067768. |
| 237 (All Areas) | 0 | 3858611. |
| TOTAL | 43598 | 836307182. |

PRODUCTION - GAS

| | Average B/D 7/1/97 - 9/30/97 | Cumulative Bbls. 9/30/97 |
|--|---------------------------------|-----------------------------|
| Grissom | 1390 | 21264948. |
| White | 1428 | 35214484. |
| Chaffee | 2561 | 58709142. |
| Freeman | 2958 | 81709276. |
| Pier J (Inc. THX) | 938 | 23936888. |
| TOTAL | 9275 | 220834738. |
| | | |
| Tar V | 52 | 577153. |
| Ranger (All Areas) | 5768 | 140114157. |
| Upper Terminal & Lower Terminal VI,VII | 1028 | 9239445. |
| Terminal (Blocks VIII,90) | 1065 | 13041616. |
| Union Pacific-Ford (All Areas) | 1362 | 53597098. |
| 237 (All Areas) | 0 | 4265269. |
| TOTAL | 9275 | 220834738. |

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PRODUCTION - WATER

| | Average B/D 7/1/97 - 9/30/97 | Cumulative Bbls. 9/30/97 |
|--|---------------------------------|-----------------------------|
| Grissom | 137250 | 971923370. |
| White | 114128 | 771014594. |
| Chaffee | 97675 | 619508021. |
| Freeman | 134708 | 954772435. |
| Pier J (Inc. THX) | 82144 | 774787200. |
| TOTAL | 565905 | 4092005620. |
| | | |
| Tar V | 595 | 5934780. |
| Ranger (All Areas) | 467576 | 3538954189. |
| Upper Terminal & Lower Terminal VI,VII | 53590 | 311905487. |
| Terminal (Blocks VIII,90) | 22591 | 89066652. |
| Union Pacific-Ford (All Areas) | 21553 | 142956622. |
| 237 (All Areas) | 0 | 3187890. |
| TOTAL | 565905 | 4092005620. |

INJECTION WATER

| | Average B/D 7/1/97 - 9/30/97 | Cumulative Bbls. 9/30/97 |
|--|---------------------------------|-----------------------------|
| Grissom | 164816 | 1360488231. |
| White | 128015 | 1132878034. |
| Chaffee | 138751 | 1191965030. |
| Freeman | 154528 | 1054405082. |
| Pier J (Inc. THX) | 94888 | 966198999. |
| TOTAL | 680998 | 5705935376. |
| | | |
| Tar V | 1791 | 14495424. |
| Ranger (All Areas) | 551207 | 4921017583. |
| Upper Terminal & Lower Terminal VI,VII | 58559 | 389819719. |
| Terminal (Blocks VIII,90) | 36064 | 186627982. |
| Union Pacific-Ford (All Areas) | 33377 | 227637955. |
| 237 (All Areas) | 0 | 0. |
| TOTAL | 680998 | 5739598663. |

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