

MINUTE ITEM

This Calendar Item No. C113 was approved as Minute Item No. 113 by the California State Lands Commission by a vote of 3 to 0 at its 6-19-98 meeting.

CALENDAR ITEM

C113

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06/19/98

S 29

W 17114

S. Curran

CONSIDER APPROVAL OF THE THIRD AMENDMENT OF THE FY 1997-98 ANNUAL PLAN, REVIEWING THIRD QUARTER OPERATIONS, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

APPLICANT:

City of Long Beach
Department of Oil Properties
Mr. Dennis M. Sullivan
211 East Ocean Blvd., Suite 500
Long Beach, California 90802

BACKGROUND:

The City of Long Beach has submitted to the Commission the Third Amendment of the FY 1997-98 Annual Plan, Long Beach Unit, covering the period July 1, 1997 through June 30, 1998. This report provides the actual performance for the Third Quarter of Fiscal Year 1997-98 original projection of the fourth quarter, and revised projections for 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 Third Quarter of the 1997-98 Fiscal Year were reported to be 44,956 bbls/day of oil (1,734 bbls/day more than originally estimated) and 9,583 MCF/day of gas (939 MCF/day more than forecasted). The cumulative recoveries and injection through March 1998 are as follows:

| | |
|---|------------------------|
| Oil Production | 844,357,504 Barrels |
| Gas Production | 222,569,696 MCF |
| Water Production | 4,198,637,943 Barrels |
| Water Injection | 5,865,510, 662 Barrels |
| Cumulative Injection Gross Production Ratio is 1.16 Bbls/Bbl. | |

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The revised economic projections reflect the net combined effects of higher produced fluid volumes, higher costs, and lower oil prices. Lower than planned oil prices resulted in a decrease of \$12.0 Million in the Third Quarter net profit. Original major planning assumptions were based on an average oil price of \$15.50/bbl and an average gas price of \$2.25/mcf. Actual oil and gas prices, expenditures, and net profits for the third quarter and estimated values for the fourth quarter of Fiscal Year 1997-98 are shown in the table below. Although substantially lower oil prices (\$10.32 per barrel of oil) were experienced for the third quarter of the fiscal year, the City of Long Beach projected oil price of \$15.50/bbl will remain unchanged for the final quarter. In response to the low oil prices, the two active drilling rigs were idled and the well work over rigs were reduced from nine to four. Also, projects were delayed and the number of contract personnel reduced. It is anticipated by the City of Long Beach these cost reduction efforts will remain in effect through the fourth quarter.

| CITY OF LONG BEACH PROJECTION | | | | | |
|-------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|---|----------------------|
| MILLION DOLLARS | | | | | |
| TOTAL | ACTUAL FIRST QUARTER FY 97-98 | ACTUAL SECOND QUARTER FY 97-98 | ACTUAL THIRD QUARTER FY 97-98 | ESTIMATED FOURTH QUARTER FY 97-98 | FISCAL YEAR 97-98 |
| Oil Revenue | 60.120 | 60.034 | 41.750 | 61.272 | 241.830 |
| Gas Revenue | 1.886 | 2.405 | 2.019 | 1.779 | 7.021 |
| Expenditures | 50.979 | 50.364 | 40.856 | 47.031 | 191.500 |
| Net Profit | 11.027 | 13.076 | 2.914 | 16.019 | 43.040 |
| Original | 12.728 | 13.655 | 14.949 | 16.019 | 57.350 |
| Change | (1.700) | (0.579) | (12.035) | 0.000 | (14.310) |
| Oil Price/BBL | \$14.99 | \$15.24 | \$10.32 | \$15.50 | \$14.00 |
| Gas Price/MCF | \$2.25 | \$2.86 | \$2.34 | \$2.25 | \$2.25 |

Commission staff has reviewed the Third Amendment, including the estimated production, injection, expenditures, and revenue and has prepared the attached Exhibits A, B, and C to represent graphically the changes

CALENDAR ITEM NO. C113 (CONT'D)

covered in this amendment.

The Commission staff finds the Third Amendment consistent with the Program Plan, however, Commission staff disagrees with the City of Long Beach projection for the fourth quarter. Oil prices have continued to decline and this decline shows no signs of abatement. Commission staff has estimated a fourth quarter oil price of \$9.00/bbl. A price in this range will result will result in the State receiving no oil revenue in the fourth quarter. Aggressive steps to offset the reduced revenue have been implemented by the City of Long Beach and the Field Contractor.

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.

EXHIBITS:

- A. Fiscal Year 1997-98 Financial Projections
- B. Third Quarter Fiscal Year 1997-98 Financial Performance
- C. Fiscal Year 1997-98 Oil Rate Projections
- D. Letter Requesting Approval of Third 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

CALENDAR ITEM NO. C113 (CONT'D)

PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065
AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION
15378.

AUTHORIZATION:

APPROVE THE THIRD 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, AND REQUEST THAT THE CITY OF LONG
BEACH PREPARE A REVISED ESTIMATE OF FOURTH QUARTER
EARNINGS.

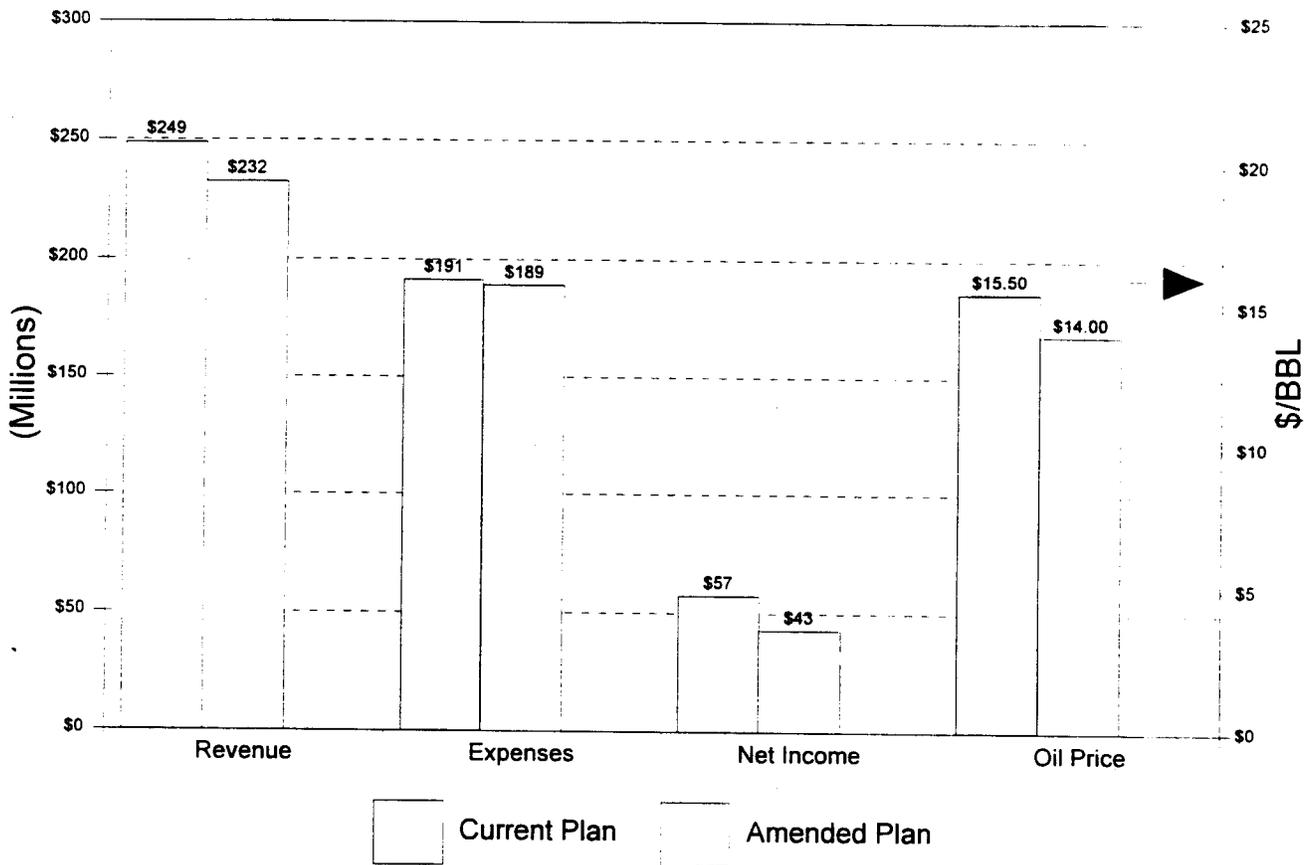
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LBU FINANCIAL PERFORMANCE

FISCAL YEAR 1997-98 ANNUAL PLAN

Exhibit A

Revised May-98

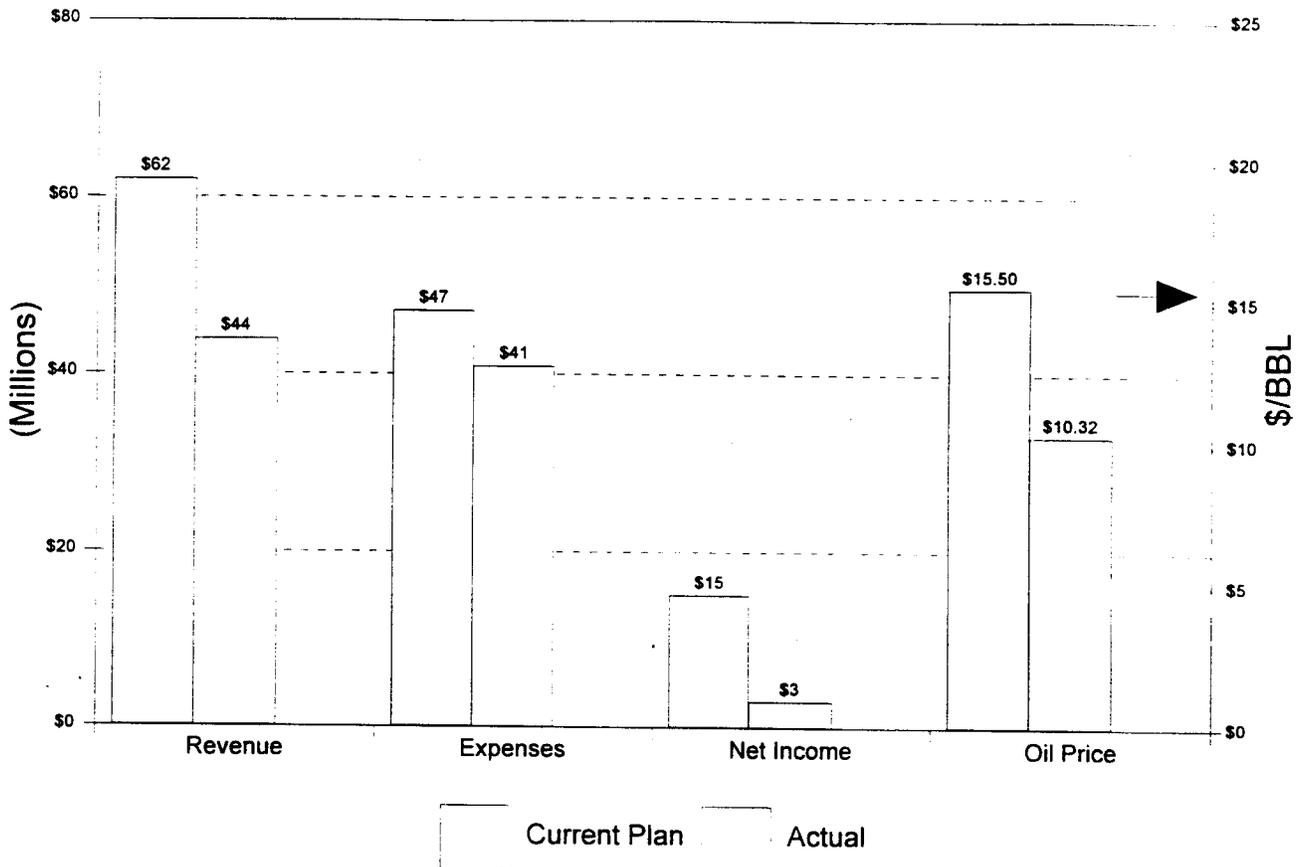


LBU FINANCIAL PERFORMANCE

THIRD QUARTER FY1997-98

Exhibit B

Revised May-98

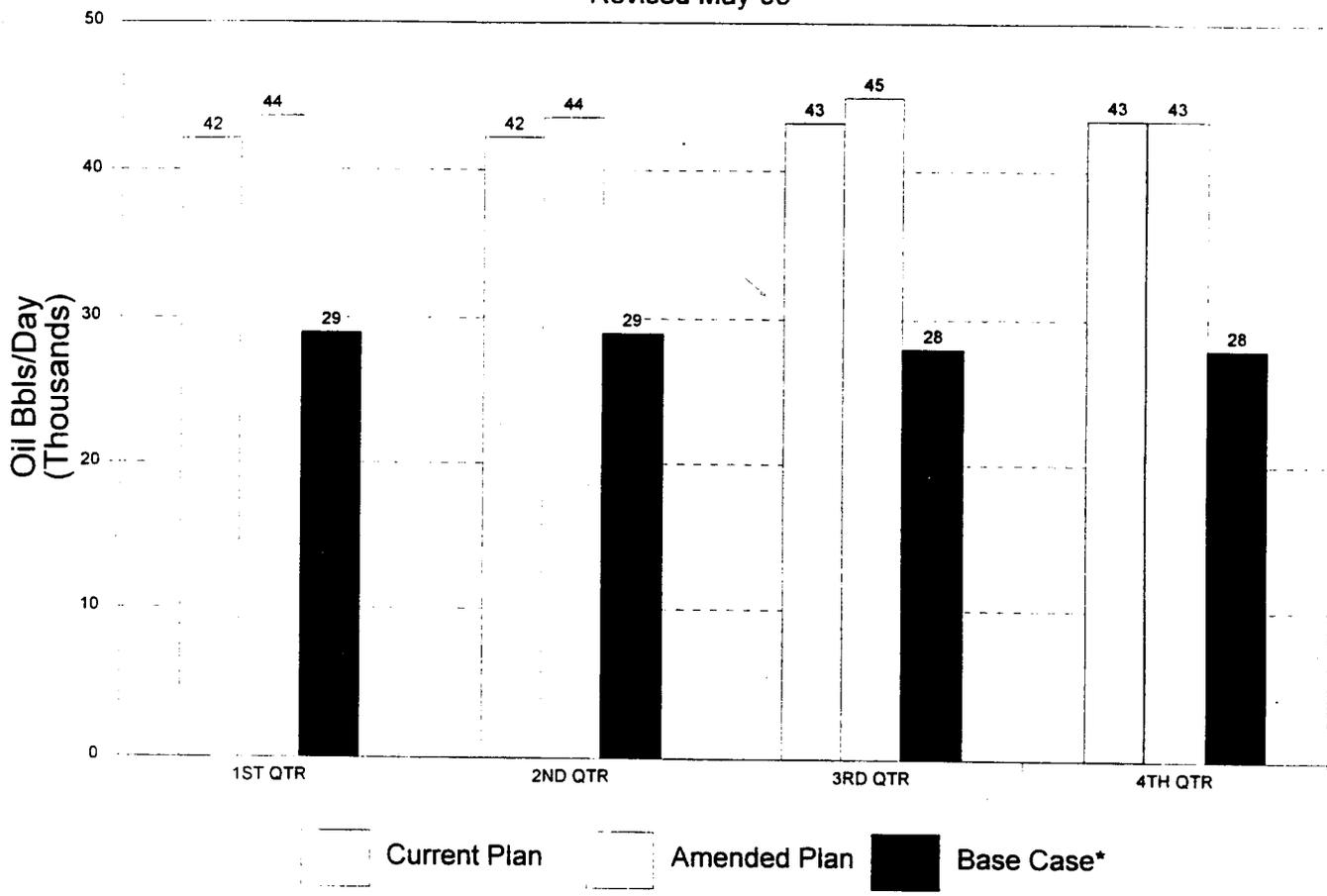


LBU OIL RATE PERFORMANCE

FISCAL YEAR 1997-98 ANNUAL PLAN

Exhibit C

Revised May-98



*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

May 12, 1998

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 Third 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 Third Amendment of the Annual Plan covering the period July 1, 1997 through June 30, 1998.

This report reviews third 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:

- An average of 0.84 drilling rig was operated in the third quarter. One drilling rig was laid down on January 98, 1998, and the second drilling rig was laid down on March 9, 1998. There were no drilling rigs being operated at the end of the quarter.

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- Eleven wells were completed in the period. Four producers and two injections were completed in the Ranger zone. Four producers and one injector were completed in the Union Pacific Ford zone.

On March 31, 1998, the total number of wells was 1,331, of which 874 were producers and 457 were injectors. Excluded from these totals are 34 abandoned wells, 10 of which are producers and 24 injectors.

Budget to Actual Variance

The Development Drilling category has a budget of \$39,200,000, of which \$29,099,000, or 74.2 percent, is expended. The Plan originally provided funds for approximately 48 new and redrilled wells.

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 third quarter the Unit oil production rate averaged 44,956 bbls/day, which was 1,734 bbls/day more than estimated; and gas production averaged 9,583 mcf/day, which was 939 mcf/day more than estimated in the budget.

Water injection averaged 694,639 bbls/day, which was 1,417 bbls/day less than originally estimated in the budget. Water production averaged 596,152 bbls/day, which is 21,296 bbls/day more than estimated.

Budget to Actual Variance

The Operating Expense Category has a budget of \$61,700,000, of which \$47,291,000, or 76.7 percent, is expended. The higher spending level is primarily related to an increase in electrical costs due to higher fluid volumes.

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

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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 included the following:

- Skim basin vapor recovery upgrade, Grissom
- Sand filters for reclaimed water
- Clean-up water well, White
- Pump and motor repair
- Tank and vessel repair

Budget to Actual Variance

The Other Plant Category has a budget of \$34,800,000, of which \$22,988,000, or 66.1 percent, is expended.

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 \$35,700,000, of which \$27,352,000, or 76.6 percent, is expended.

The Unit Field Labor and Administrative category had no significant project expenditures during the quarter.

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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 \$20,100,000, of which \$15,469,000, or 77.0 percent, is expended.

SUMMARY

The Unit has a budget of \$191,500,000, of which \$142,199,000, or 74.3 percent, was expended through March 31, 1998.

Significant steps were taken in the second and third quarter to reduce expenditures. These steps included reducing contract personnel, delaying projects, and reducing drilling from 2 to 0 rigs and wellwork from 9 to 4 workover rigs. The effect of these reductions is reflected in a decrease of \$6.2 million in actual expenditures in the third quarter relative to those budgeted for the quarter. This is in response to a decline in average oil prices from \$15.24 per barrel in the second quarter to \$10.32 per barrel in the third quarter. Cost reduction efforts are continuing and a further decline in expenditures will be reflected in next quarter's amendment.

Total profit through the first three quarters of \$27.0 million is \$14.3 million less than originally estimated, primarily due to much lower oil prices than anticipated.

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 Sessions, your approval of this proposed Amendment is requested.

Sincerely,



Dennis M. Sullivan
Director

DMS:slg

FIN 312.033

Attachments

| | |
|---------------|--------|
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B. Economic Projections

| (Data in Thousands of Dollars) | ACTUAL FIRST QUARTER FY97/98 | ACTUAL SECOND QUARTER FY97/98 | ACTUAL THIRD QUARTER FY97/98 | BUDGET THIRD QUARTER FY97/98 | BUDGET FOURTH QUARTER FY97/98 | PROJ ACTUAL TOTAL FISCAL YEAR FY97/98 | BUDGET TOTAL FISCAL YEAR FY97/98 | % PROJECTED OVER/UNDER(-) BUDGET FY97/98 |
|-----------------------------------|---------------------------------------|--|---------------------------------------|---------------------------------------|--|--|---|---|
| ESTIMATED REVENUE | | | | | | | | |
| Oil Revenue | \$60,120 | \$61,034 | \$41,751 | \$60,295 | \$61,272 | \$224,177 | \$241,830 | -7.30% |
| Gas Revenue | 1,886 | 2,405 | 2,019 | 1,751 | 1,779 | 8,089 | 7,021 | 15.21% |
| TOTAL REVENUE | \$62,006 | \$63,439 | \$43,770 | \$62,046 | \$63,050 | \$232,265 | \$248,851 | -6.66% |
| ESTIMATED EXPENDITURES | | | | | | | | |
| Development Drilling; | \$9,260 | \$9,698 | \$10,141 | \$9,380 | \$10,120 | \$39,219 | \$39,200 | 0.05% |
| Operating Expense | 17,721 | 17,786 | 11,784 | 14,538 | 14,982 | 62,273 | 61,700 | 0.93% |
| Other Plant | 8,250 | 8,573 | 6,165 | 9,074 | 8,509 | 31,497 | 34,800 | -9.49% |
| Unit Field Labor & Administrative | 10,172 | 8,939 | 8,241 | 8,890 | 8,700 | 36,052 | 35,700 | 0.99% |
| Taxes, Permits & Admin Overhead | 5,577 | 5,367 | 4,525 | 5,215 | 4,720 | 20,189 | 20,100 | 0.44% |
| TOTAL EXPENDITURES | \$50,979 | \$50,364 | \$40,856 | \$47,097 | \$47,031 | \$189,230 | \$191,500 | -1.19% |
| NET PROFIT | \$11,027 | \$13,076 | \$2,914 | \$14,949 | \$16,019 | \$43,036 | \$57,351 | -24.96% |

C. Major Planning Assumptions

| (Data in Thousands of Dollars) | ACTUAL FIRST QUARTER FY97/98 | ACTUAL SECOND QUARTER FY97/98 | ACTUAL THIRD QUARTER FY97/98 | BUDGET THIRD QUARTER FY97/98 | BUDGET FOURTH QUARTER FY97/98 | PROJ ACTUAL TOTAL FISCAL YEAR FY97/98 | BUDGET TOTAL FISCAL YEAR FY97/98 | % PROJECTED OVER/UNDER(-) BUDGET FY97/98 |
|-------------------------------------|------------------------------|-------------------------------|------------------------------|------------------------------|-------------------------------|---------------------------------------|----------------------------------|--|
| OIL PRODUCTION: | | | | | | | | |
| ACTUAL SHIPPED (1,000 BBL) | 4,012 | 4,003 | 4,046 | | | | | |
| PROJ PROD (1,000 BBL) AVERAGE B/D | 43,604 | 43,519 | 44,956 | 3,890 43,222 | 3,953 43,440 | 16,014 43,874 | 15,602 42,745 | 2.64% |
| GAS PRODUCTION: | | | | | | | | |
| ACTUAL SHIPPED (1,000 MCF) | 839 | 842 | 863 | | | | | |
| PROJ PROD (1,000 MCF) AVERAGE MCF/D | 9,123 | 9,150 | 9,583 | 778 8,644 | 791 8,688 | 3,335 9,136 | 3,120 8,548 | 6.88% |
| WATER PRODUCTION: | | | | | | | | |
| ACTUAL (1,000 BBL) | 52,063 | 52,769 | 53,654 | | | | | |
| PROJECTED (1,000 BBL) AVERAGE B/D | 565,904 | 573,576 | 596,152 | 51,737 574,856 | 52,575 577,746 | 211,061 578,249 | 207,507 568,511 | 1.71% |
| WATER INJECTION | | | | | | | | |
| ACTUAL (1,000 BBL) | 62,652 | 63,404 | 62,518 | | | | | |
| PROJECTED (1,000 BBL) AVERAGE B/D | 680,998 | 689,175 | 694,639 | 62,645 696,056 | 63,490 697,692 | 252,064 690,587 | 253,158 693,529 | -0.42% |
| ACT AVG OIL PRICE (\$/BBL) | \$14.99 | \$15.24 | \$10.32 | | | | | |
| ACT AVG GAS PRICE (\$/MCF) | \$2.25 | \$2.86 | \$2.34 | | | | | |
| PROJ AVG OIL PRICE (\$/BBL) | | | | \$15.50 | \$15.50 | \$14.00 | \$15.50 | -9.69% |
| PROJ AVG GAS PRICE (\$/MCF) | | | | \$2.25 | \$2.25 | \$2.43 | \$2.25 | 7.81% |

NUMBER OF WELLS

As of March 31, 1998

| Location | Producers | Injectors | Total |
|-----------------------------------|------------|------------|-------------|
| Grissom | 189 | 93 | 282 |
| White | 149 | 92 | 241 |
| Chaffee | 212 | 116 | 328 |
| Freeman | 221 | 95 | 316 |
| Pier J (Inc. THX) | 103 | 61 | 164 |
| Total | 874 | 457 | 1331 |
| Tar V | 11 | 2 | 13 |
| Ranger (All Areas) | 660 | 357 | 1017 |
| Upper & Lower Terminal VI, VII | 66 | 35 | 101 |
| Terminal (Blocks VIII, 90) | 59 | 33 | 92 |
| Union Pacific-Ford (All Areas) | 75 | 30 | 105 |
| 237 (All Areas) | 3 | 0 | 3 |
| Total | 874 | 457 | 1331 |

(Figures exclude 10 abandoned producers and 24 abandoned injectors)

PRODUCTION - OIL

| | Average B/D 1/1/98 - 3/31/98 | Cumulative Bbls. 3/31/98 |
|---|---------------------------------|-----------------------------|
| Grissom | 10066 | 152576906. |
| White | 8613 | 144081951. |
| Chaffee | 11889 | 180584912. |
| Freeman | 10784 | 234442497. |
| Pier J (Inc. THX) | 3596 | 132671238. |
| TOTAL | 44948 | 844357504. |
| | | |
| Tar V | 111 | 1388051. |
| Ranger (All Areas) | 29217 | 636402797. |
| Upper Terminal & Lower Terminal VI, VII | 5100 | 69961625. |
| Terminal (Blocks VIII, 90) | 3618 | 46460245. |
| Union Pacific-Ford (All Areas) | 6902 | 86286175. |
| 237 (All Areas) | 0 | 3858611. |
| TOTAL | 44948 | 844357504. |

PRODUCTION - GAS

| | Average MCF/D 1/1/98 - 3/31/98 | Cumulative MCF 3/31/98 |
|---|-----------------------------------|---------------------------|
| Grissom | 541 | 21380105. |
| White | 1240 | 35464387. |
| Chaffee | 2952 | 59279503. |
| Freeman | 3887 | 82321878. |
| Pier J (Inc. THX) | 1085 | 24123823. |
| TOTAL | 9705 | 222569696. |
| | | |
| Tar V | 61 | 588240. |
| Ranger (All Areas) | 5835 | 141196453. |
| Upper Terminal & Lower Terminal VI, VII | 872 | 9386053. |
| Terminal (Blocks VIII, 90) | 1271 | 13241055. |
| Union Pacific-Ford (All Areas) | 1666 | 53892626. |
| 237 (All Areas) | 0 | 4265269. |
| TOTAL | 9705 | 222569696. |

PRODUCTION - WATER

| | Average B/D 1/1/98 - 3/31/98 | Cumulative Bbls. 3/31/98 |
|--|---------------------------------|-----------------------------|
| Grissom | 135981 | 996102908. |
| White | 123585 | 792259064. |
| Chaffee | 108505 | 638947362. |
| Freeman | 143242 | 980830824. |
| Pier J (Inc. THX) | 87168 | 790497785. |
| TOTAL | 598481 | 4198637943. |
| | | |
| Tar V | 844 | 6092450. |
| Ranger (All Areas) | 481708 | 3625212747. |
| Upper Terminal & Lower Terminal VI,VII | 59043 | 322407348. |
| Terminal (Blocks VIII,90) | 26023 | 93749705. |
| Union Pacific-Ford (All Areas) | 30863 | 147987803. |
| 237 (All Areas) | 0 | 3187890. |
| TOTAL | 598481 | 4198637943. |

INJECTION WATER

| | Average B/D 1/1/98 - 3/31/98 | Cumulative Bbls. 3/31/98 |
|--|---------------------------------|-----------------------------|
| Grissom | 169605 | 1390809753. |
| White | 114280 | 1153848592. |
| Chaffee | 140947 | 1217649721. |
| Freeman | 167828 | 1084876308. |
| Pier J (Inc. THX) | 101873 | 1018326288. |
| TOTAL | 694533 | 5865510662. |
| | | |
| Tar V | 1652 | 14804925. |
| Ranger (All Areas) | 552513 | 5020903799. |
| Upper Terminal & Lower Terminal VI,VII | 69138 | 402082689. |
| Terminal (Blocks VIII,90) | 33661 | 193193316. |
| Union Pacific-Ford (All Areas) | 37569 | 234525933. |
| 237 (All Areas) | 0 | 0. |
| TOTAL | 694533 | 5865510662. |