MINUTE ITEM
This Calendar Item No. C66 was approved as Minute Item No. 66 by the California State Lands Commission by a vote of 3 to 0 at its 9-3-99 meeting.

CALENDAR ITEM
C66

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09/03/99
W 17150
A. Reid

CONSIDER APPROVAL OF THE THIRD AMENDMENT OF THE FY 1998-99 ANNUAL PLAN, 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
Attn.: Mr. Dennis M. Sullivan
211 E. Ocean Blvd., Suite 500
Long Beach, CA 90802

BACKGROUND:

The City of Long Beach has submitted to the Commission the Third Amendment of the FY 1998-99 Annual Plan, Long Beach Unit, covering the period July 1, 1998 through June 30, 1999, Revising Economic Projections and Major Planning Assumptions. This report provides the actual performance for the Third Quarter of Fiscal Year 1998-99 and revised projections for the last quarter of the Fiscal Year. There were no changes to the latest approved budget of $191 Million 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. Commission staff does not believe that the projections are realistic and estimates the net profits will be much less.

The average oil and gas rates for the Third Quarter of the 1998-99 Fiscal Year were reported to be 40,492 bbls/day of oil (3,724 bbls/day less than originally estimated) and 9,356 MCF/day of gas (513 MCF/day more than forecast). The lower than planned oil rate is primarily due to lower oil prices. In response to low oil prices, the drilling program remained suspended through the Third Quarter.

Well workover rig count remains lower than budgeted and Unit projects have been further delayed. The cumulative recoveries and injection through March, 1999 are as follows:

Oil Production	859,537,264 Barrels
Gas Production	226,078,121 MCF
Water Production	4,427,651,584 Barrels
Water Injection	6,125,784,296 Barrels

Cumulative Injection - Gross Production Ratio is 1.16 bbls/bbl.

The revised economic projections reflect the net combined effects of lower produced fluid volumes, lower costs, and lower oil prices. In spite of the continued cost reduction program reported earlier in the year, lower than planned oil prices resulted in a decrease in the Third Quarter net profit to a negative $2.8 Million. This loss was primarily due to the continuing historically low oil prices, but also was greatly impacted by the one-time $5.1 Million OSPR settlement payment. Original major planning assumptions were based on an average oil price of $14.00 BBL/bbl and an average gas price of $2.00/mcf. Revised oil and gas prices, expenditures, and net profits for Fiscal Year 1998-99 are shown in the table below. Although substantially lower oil prices were experienced for the first three quarters of the fiscal year, the originally projected oil price of $14.00 BBL/bbl will remain unchanged for the final quarter. If oil prices remain at their current low levels, net profits for the final (fourth) quarter of Fiscal Year 1998-99 are expected to be less than budgeted.

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 1998-99	ACTUAL SECOND QUARTER FY 1998-99	ACTUAL THIRD QUARTER FY 1998-99	ESTIMATED FOURTH QUARTER FY 1998-99	FISCAL YEAR 1998-99
Oil Revenue	36,954	32,896	29,185	56,296	155,331
Gas Revenue	2,010	1,920	1,886	1,608	7,424
Expenditures	34,263	32,194	33,883	47,300	147,640
Net Profit	4,701	2.622	(2,812)	10,604	15,115
Original	8,163	10,875	10,404	10,604	40,046
Change	(3,462)	(8,253)	(13,215)	0	(24,931)
Oil Price/BBL	9.62	8.78	8.01	14.00	10.18
Gas Price/MCF	2.24	2.21	2.24	2.00	2.18

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 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.

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

EXHIBITS:

A. Fiscal Year 1998-99 Financial Projections
B. Third Quarter Fiscal Year 1998-99 Financial Performance
C. Fiscal Year 1998-99 Oil Rate Projections
D. Letter Requesting Approval of Third Amendment of the Annual Plan, Long Beach Unit, (July 1, 1998 - June 30, 1999)

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECMMENDED 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 THIRD AMENDMENT OF THE LONG BEACH UNIT ANNUAL PLAN, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, FOR THE PERIOD JULY 1, 1998 THROUGH JUNE 30, 1999, AND FIND THAT THE ANNUAL PLAN AS AMENDED IS CONSISTENT WITH THE PROGRAM PLAN.

Exhibit "A"

LBU FINANCIAL PERFORMANCE
FISCAL YEAR 1998-99 ANNUAL PLAN

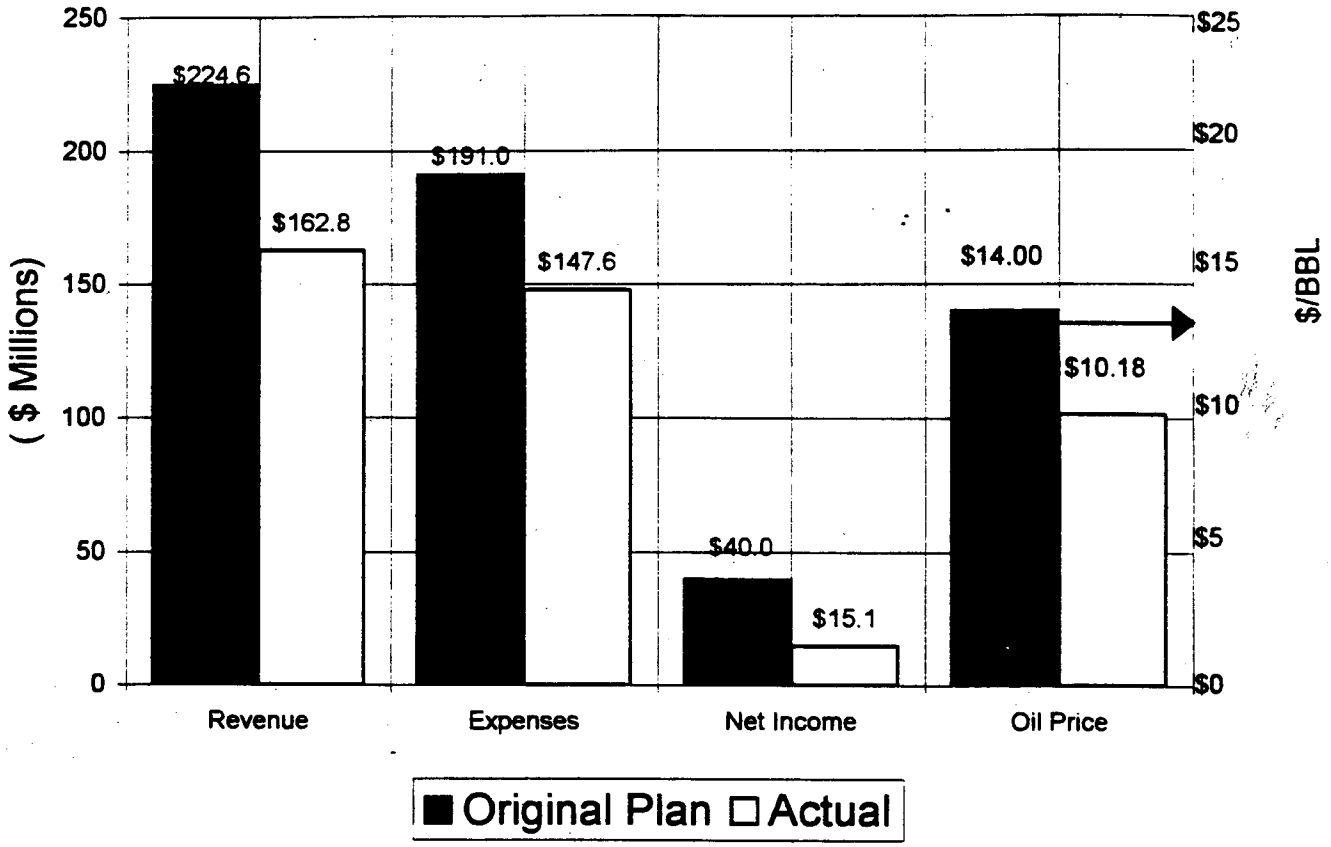

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Exhibit "B"

LBU FINANCIAL PERFORMANCE
THIRD QUARTER FY 1998-99

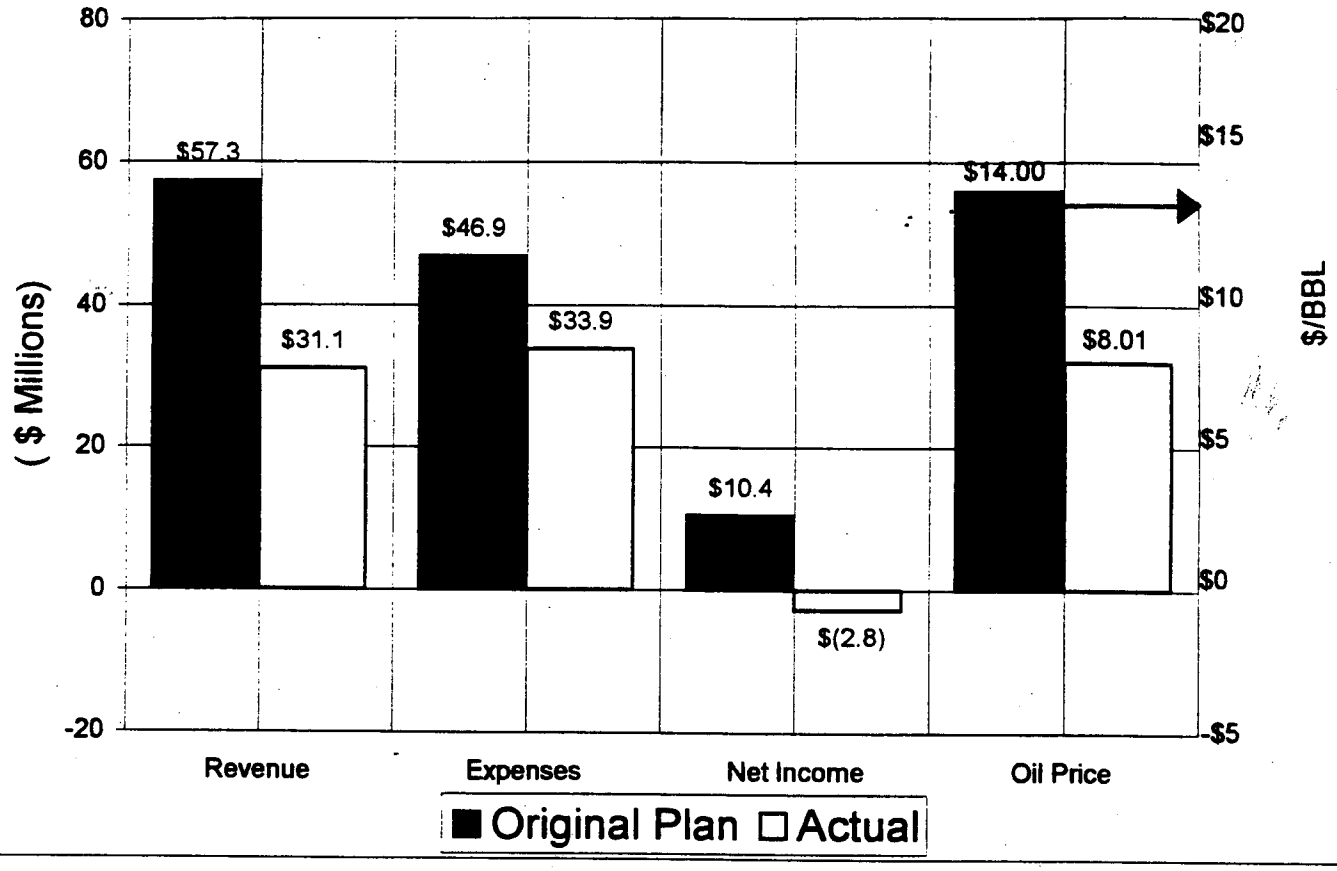

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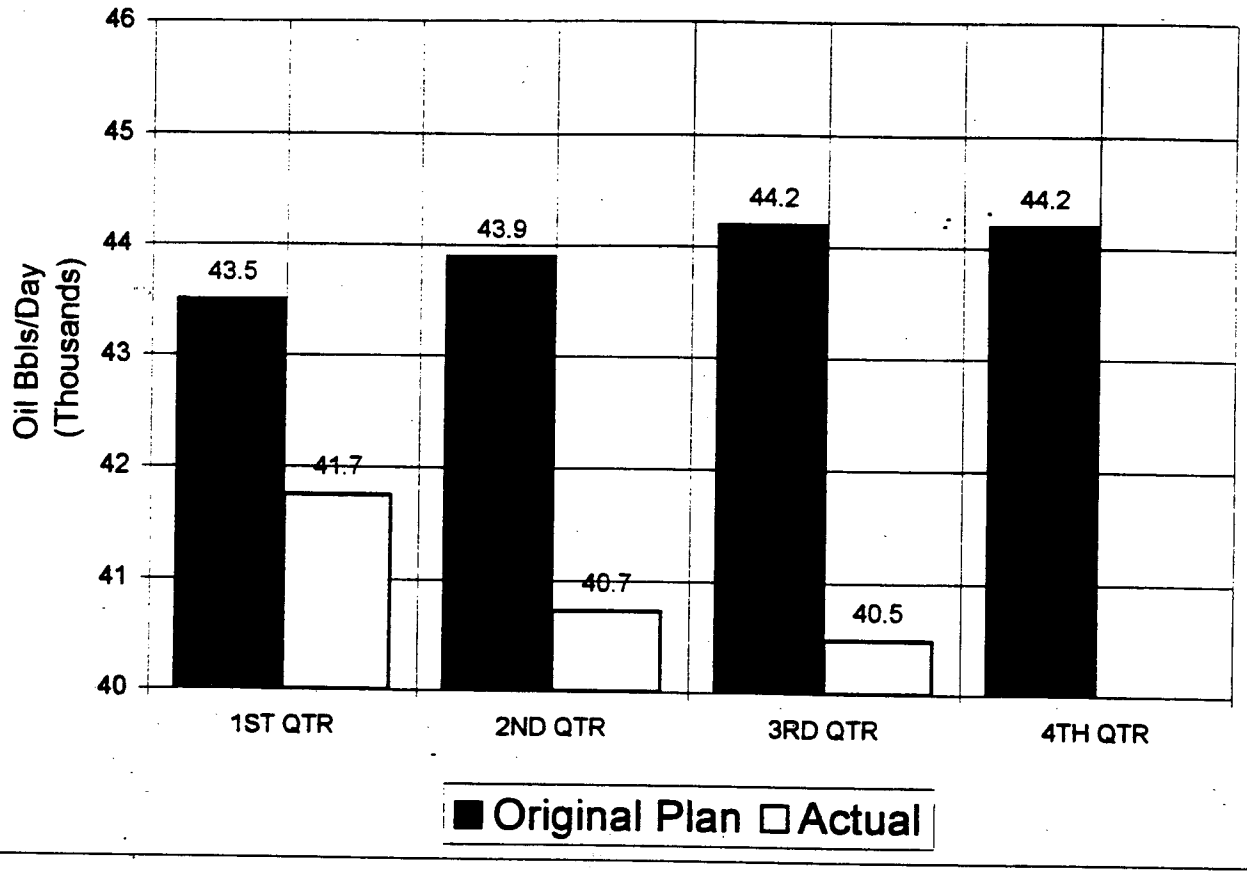
Exhibit "C"

LBU OIL RATE PERFORMANCE
FISCAL YEAR 1998-99 ANNUAL PLAN



CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

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

June 14, 1999

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, 1998 Through June 30, 1999)**

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, 1998 through June 30, 1999.

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

Operations Review

There was no drilling activity during the third quarter. Drilling resumed on May 1, during the fourth quarter as a result of higher oil prices.

On March 31, 1999, the total number of wells was 1,327, of which 867 were producers and 460 were injectors. Excluded from these totals are 39 abandoned wells, 16 of which are producers and 23 are injectors.

Budget to Actual Variance

The Development Drilling category has a budget of $39,000,000, of which $1,345,000, or 3.4 percent, is expended. The Plan originally provided funds for approximately 48 new and redrilled wells, but very low oil prices forced a severe cut back in drilling activity during the year.

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 40,492 bbls/day, which was 3,724 bbls/day less than estimated; and gas production averaged 9,356 mcf/day, which was 513 mcf/day more than estimated in the budget.

Water injection averaged 723,988 bbls/day, which was 27,580 bbls/day more than originally estimated in the budget. Water production averaged 653,889 bbls/day, which is 85,193 bbls/day more than estimated.

Budget to Actual Variance

The Operating Expense Category has a budget of $61,000,000, of which $38,480,000, or 63.1 percent, is expended. The low spending level is primarily related to cost cutting due to low oil price.

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

FACILITIES, MAINTENANCE, AND PLANT

The Facilities, Maintenance and 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:

- Grissom Receiving Tank
- Repair Chaffee Clay Waste Tank
- Repair Freeman Flotation Separator #1
- Repair Crew Boat Landing
- Fire Line Repair on Freeman
- Repair Flow Splitter #3

Budget to Actual Variance

The Facilities, Maintenance and Plant Category has a budget of $34,00,000, of which $16,100,000, or 47.3 percent, is expended. The low spending level is primarily related to cost cutting due to low oil prices.

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 $37,000,000, of which $26,181,000, or 71.8 percent, is expended.

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

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 $20,000,000, of which $18,234,000, or 91.2 percent, is expended.

The Taxes, Permits and Administrative Overhead Category had a significant expenditure of $5,053,500 for settlement of the Office of Spill Prevention Response (OSPR) fee for production during the years 1990 to 1996. As a result, it is expected that this category will be approximately 16 percent over-expended at the end of the Fiscal Year.

SUMMARY

The Unit has a budget of $191,000,000, of which $100,340,000, or 52.5 percent, was expended through March 31, 1999.

Significant steps have been taken to reduce expenditures. These steps included reducing contract personnel and delaying projects prior to the start of the fiscal year, a company reorganization that reduced personnel from 285 to 220, postponing drilling activity, and reducing the workover rig count to 3 rigs. The effect of these reductions is reflected in under-spending the third quarter budget by $13.0 million.

In spite of these cost reductions, the Unit incurred a loss for the quarter of $2.8 million, compared to the profit of $10.4 million estimated for the quarter in the budget. This disparity was primarily due to much lower oil revenues resulting from low oil prices, but also was greatly impacted by the one-time $5.1 million OSPR settlement.

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

B. Economic Projections

(Data in Thousands of $)	ACTUAL FIRST QUARTER FY98/99	ACTUAL SECOND QUARTER FY98/99	ACTUAL THIRD QUARTER FY98/99	BUDGET THIRD QUARTER FY98/99	BUDGET FOURTH QUARTER FY98/99	PROJ ACTUAL TOTAL FISCAL YEAR FY98/99	BUDGET TOTAL FISCAL YEAR FY98/99	% PROJECTED OVER/UNDER(-) BUDGET FY98/99
ESTIMATED REVENUE								
Oil Revenue	$36,954	$32,896	$29,185	$55,712	$56,296	$155,331	$224,628	-30.85%
Gas Revenue	$2,010	$1,920	$1,886	$1,592	$1,608	$7,424	$6,418	15.67%
TOTAL REVENUE	$38,964	$34,816	$31,071	$57,304	$57,904	$162,755	$231,046	-29.56%
EXPENDITURES								
Development Drilling	$158	$489	$698	$9,750	$9,750	$11,095	$39,000	-71.55%
Operating Expense	$14,606	$13,791	$10,083	$14,400	$14,800	$53,280	$61,000	-12.66%
Facilities & Maintenance	$5,605	$5,378	$5,117	$8,500	$8,500	$24,600	$34,000	-27.65%
Unit Field Labor & Admin	$8,932	$8,629	$8,620	$9,250	$9,250	$35,431	$37,000	-4.24%
Overhead	$4,962	$3,907	$9,365	$5,000	$5,000	$23,234	$20,000	16.17%
TOTAL EXPENDITURES	$34,263	$32,194	$33,883	$46,900	$47,300	$147,640	$191,000	-22.70%
NET PROFIT	$4,701	$2,622	($2,812)	$10,404	$10,604	$15,115	$40,046	-62.26%

C. Major Planning Assumptions

	ACTUAL FIRST QUARTER FY98/99	ACTUAL SECOND QUARTER FY98/99	ACTUAL THIRD QUARTER FY98/99	BUDGET THIRD QUARTER FY98/99	BUDGET FOURTH QUARTER FY98/99	PROJ ACTUAL TOTAL FISCAL YEAR FY98/99	BUDGET TOTAL FISCAL YEAR FY98/99	% PROJECTED OVER/UNDER(-) BUDGET FY98/99
OIL PRODUCTION:								
SHIPMENTS (1,000 BBL)	3,841	3,748	3,644	3,979	4,021	15,254	16,045	
AVERAGE B/D	41,749	40735	40,492	44,216	44,188	41,792	43,958	-4.93%
GAS PRODUCTION:								
ACTUAL SHIPPED (MMCF)	896	869	842	796	804	3,411	3,209	
AVERAGE MCF/D	9,739	9,447	9,356	8,843	8,838	9,346	8,792	6.31%
WATER PRODUCTION:								
ACTUAL (1,000 BBL)	56,740	59,212	58,850	51,183	51,983	226,785	206,797	
AVERAGE B/D	616,744	643,612	653,889	568,696	571,237	621,330	566,568	9.67%
WATER INJECTION								
ACTUAL (1,000 BBL)	65,682	66,696	65,159	62,677	63,662	261,199	251,973	
AVERAGE B/D	713,936	724,956	723,988	696,408	699,582	715,614	690,338	3.66%
AVG OIL PRICE ($/BBL)	$9.62	$8.78	$8.01	$14.00	$14.00	$10.18	$14.00	-27.26%
AVG GAS PRICE ($/MCF)	$2.24	$2.21	$2.24	$2.00	$2.00	$2.18	$2.00	8.81%

	Oil Production		Gas Production	
Location	Average B/D 1/1/99-3/31/99	Cumulative Bbls. 3/31/99	Average MCF/D 1/1/99-3/31/998	Cumulative MCF 3/31/99
Grissom	9,682	156,233,430	541	21,651,757
White	7,339	146,839,352	3,048	36,195,809
Chaffee	10,107	184,421,748	2,552	60,319,365
Freeman	10,005	238,126,791	2,268	83,389,536
Pier J (Inc. THX)	3,360	133,915,943	948	24,521,654
Total	40,492	859,537,264	9,356	226,078,121
Reservoir				
Tar V	130	1,429,830	52	611,503
Ranger (All Areas)	27,043	646,507,411	6,200	143,444,580
Upper Terminal & Lower Te	4,828	71,728,277	1,084	9,738,569
Terminal (Blocks VIII, 90)	3,456	47,699,527	716	13,585,579
Union Pacific-Ford (All Are:	5,021	88,308,413	1,296	54,430,517
237 (All Areas)	15	3,863,806	9	4,267,373
Total	40,492	859,537,264	9,356	226,078,121

	Water Production		Water Injection	
Location	Average B/D 1/1/99-3/31/99	Cumulative Bbls. 3/31/99	Average B/D 1/1/99-3/31/99	Cumulative Bbls. 3/31/99
Grissom	165,242	1,051,832,004	187,456	1,455,912,519
White	125,447	837,411,473	130,670	1,199,710,960
Chaffee	118,723	680,085,405	135,630	1,266,993,538
Freeman	155,697	1,036,162,688	175,361	1,148,708,775
Pier J (Inc. THX)	88,781	822,160,014	94,869	1,054,458,504
Total	653,889	4,427,651,584	723,988	6,125,784,296
Reservoir				
Tar V	669	6,339,478	1,262	15,215,915
Ranger (All Areas)	523,704	3,810,020,124	570,181	5,227,067,553
Upper Terminal & Lower Te	65,756	344,433,226	73,699	427,065,200
Terminal (Blocks VIII, 90)	27,390	103,381,251	35,194	206,558,077
Union Pacific-Ford (All Are:	36,332	160,273,271	43,652	249,877,551
237 (All Areas)	39	3,204,234	-	-
Total	653,889	4,427,651,584	723,988	6,125,784,296

NUMBER OF WELLS

As of March 31, 1999

	Producers	Injectors	Total
By Location			
Grissom	190	93	283
White	149	92	241
Chaffee	208	120	328
Freeman	218	93	311
Pier J (Inc. THX)	102	62	164
Total	**867**	**460**	**1327**
By Reservoir			
Tar V	11	2	13
Ranger (All Areas)	657	362	1019
Upper & Lower Terminal VI, VII	67	32	99
Terminal (Blocks VIII, 90)	56	34	90
Union Pacific-Ford (All Areas)	74	30	104
237 (All Areas)	2	0	2
Total	**867**	**460**	**1327**

(Figures exclude abandoned producers and abandoned injectors)

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