

MINUTE ITEM

This Calendar Item No. C62 was approved as Minute Item No. 62 by the California State Lands Commission by a vote of 3 to 0 at its 12-3-99 meeting.

**CALENDAR ITEM
C62**

A 57, 58

12/03/99

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W 17150

A. Reid

**CONSIDER APPROVAL OF THE FOURTH AMENDMENT OF THE FY 1998-1999
ANNUAL PLAN, FINAL REPORT AND CLOSING STATEMENT,
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 Fourth Amendment of the FY 1998-99 Annual Plan, Final Report and Closing Statement, Long Beach Unit, covering the period July 1, 1998 through June 30, 1999. This report provides the actual performance for the full Fiscal Year 1998-99. There were no changes to the latest approved budget of \$191,000,000 or to the distribution to the five budget categories.

The average oil and gas rates for the 1998-99 Fiscal Year were reported to be 40,143 bbls/day of oil (3,815 bbls/day less than originally estimated) and 9,354 MCF/day of gas (562 MCF/day more than forecasted). The lower than planned oil rate is primarily due to greatly depressed oil prices resulting in less well work persisting through the year. The cumulative recoveries and injection through June 1999 are as follows:

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Oil Production	863,006,717 Barrels
Gas Production	226,900,489 MCF
Water Production	4,486,287,846 Barrels
Water Injection	6,191,081,519 Barrels

Cumulative Injection - Gross Production Ratio is 1.157 bbls/bbl.

Total expenditures for the Unit were \$134.7 million which is \$56.3 million less than the latest approved budget of \$191.0 Million. The reduction in expenditures was triggered due to continued low oil prices throughout the fiscal year. Oil prices were as low as \$8.01 per barrel in the third quarter, but rebounded to \$12.49 per barrel for the fourth quarter. The lower expenditures level was achieved by reducing contract personnel, delaying projects, a company reorganization that reduced personnel from 285 to 220, postponing drilling activity, and reducing the workover rig count to three rigs.

Net profits for the 1998-99 Fiscal Year were \$14.2 million, which is \$25.8 million less than estimated in the approved budget, due entirely to lower than budgeted oil prices. The approved budget assumed an oil price of \$14.00/BBL and an average gas price of \$2.00 per/MCF, but prices actually averaged \$9.65/BBL, and \$2.21/MCF for the fiscal year. The actual oil and gas prices, expenditures, and net profits for Fiscal year 1998-99 are show in the table below:

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 98-99	ACTUAL SECOND QUARTER FY 98-99	ACTUAL THIRD QUARTER FY 98-99	ACTUAL FOURTH QUARTER FY 98-99	FISCAL YEAR 98-99
Oil Revenue	37.0	32.9	29.2	42.3	141.4
Gas Revenue	2.0	1.9	1.9	1.7	7.6
Expenditures	(34.3)	(32.2)	(33.9)	(34.3)	(134.7)
Net Profit	4.7	2.6	(2.8)	9.7	14.2
Original	8.2	10.9	10.4	10.6	40.0
Change	(3.5)	(8.3)	(13.2)	(0.9)	(25.8)

CALENDAR ITEM NO. C62 (CONT'D)

MILLION DOLLARS					
TOTAL	ACTUAL FIRST QUARTER FY 98-99	ACTUAL SECOND QUARTER FY 98-99	ACTUAL THIRD QUARTER FY 98-99	ACTUAL FOURTH QUARTER FY 98-99	FISCAL YEAR 98-99
Oil Price/BBL	9.59	8.74	8.01	12.49	9.65
Gas Price/MCF	2.28	2.17	2.24	2.16	2.21

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

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMEND ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

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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:

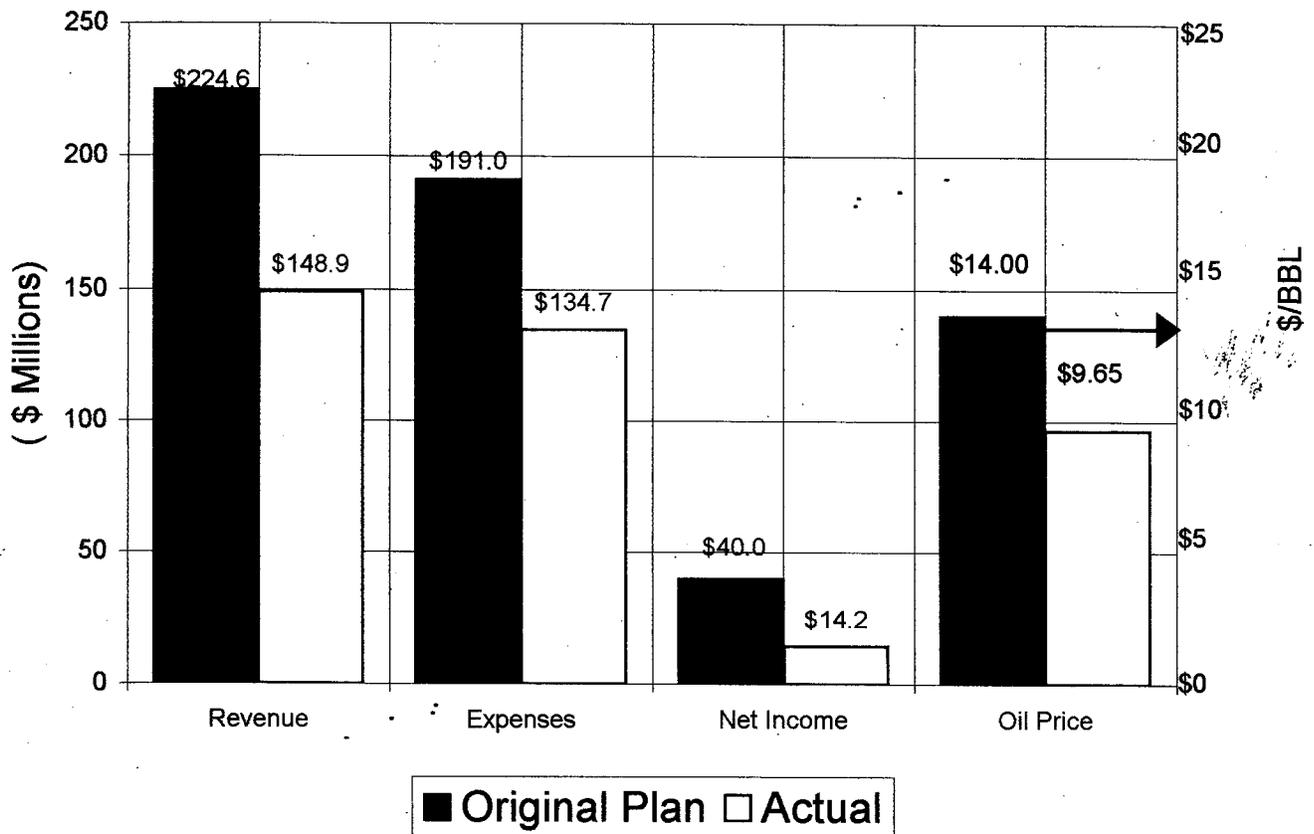
APPROVE THE FOURTH AMENDMENT OF THE LONG BEACH UNIT ANNUAL PLAN, REVISING ECONOMIC PROJECTIONS AND MAJOR PLANNING ASSUMPTIONS, FOR THE PERIOD JULY 1, 1998, THROUGH JUNE 30, 1999.

CALENDAR PAGE	000364
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LBU FINANCIAL PERFORMANCE FISCAL YEAR 1998-99 ANNUAL PLAN

Exhibit "A"

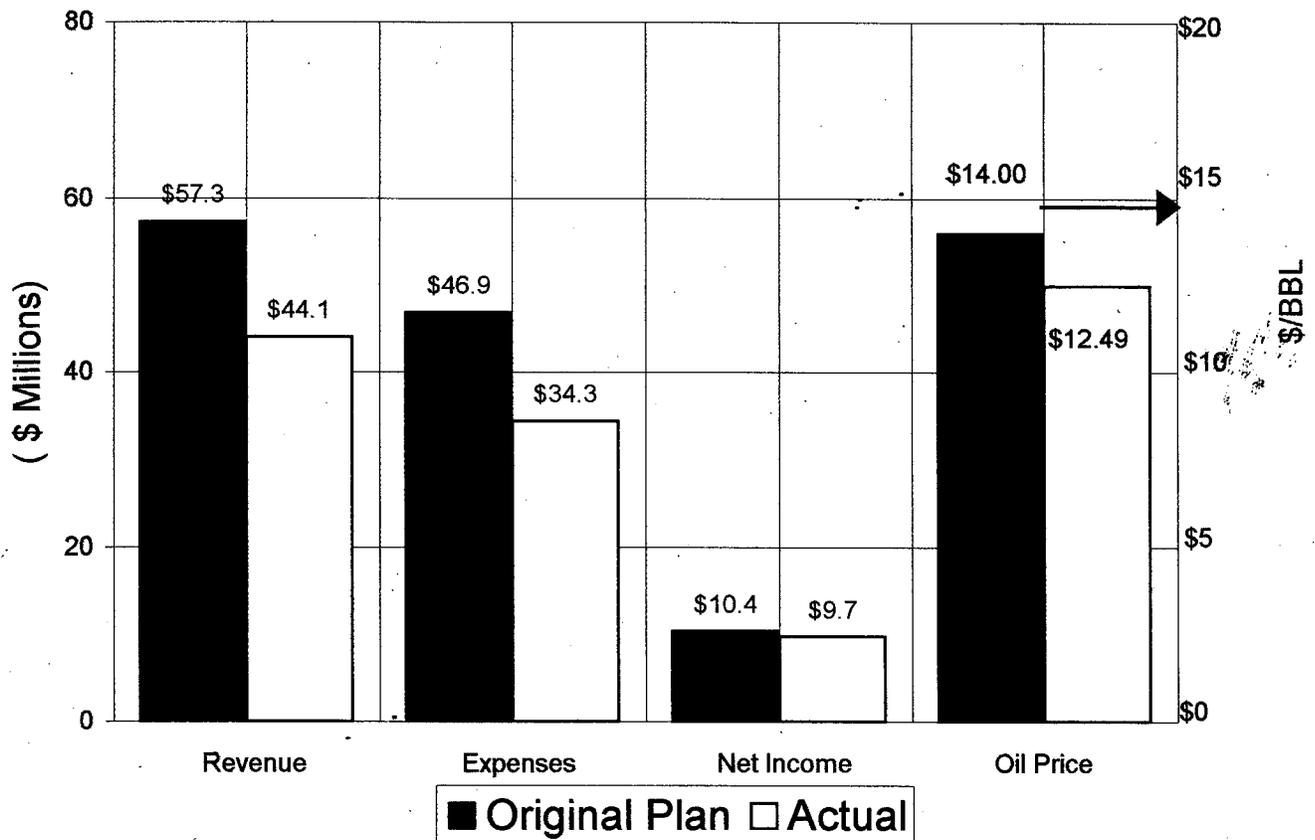
W 17150



LBU FINANCIAL PERFORMANCE FOURTH QUARTER FY 1998-99

Exhibit "B"

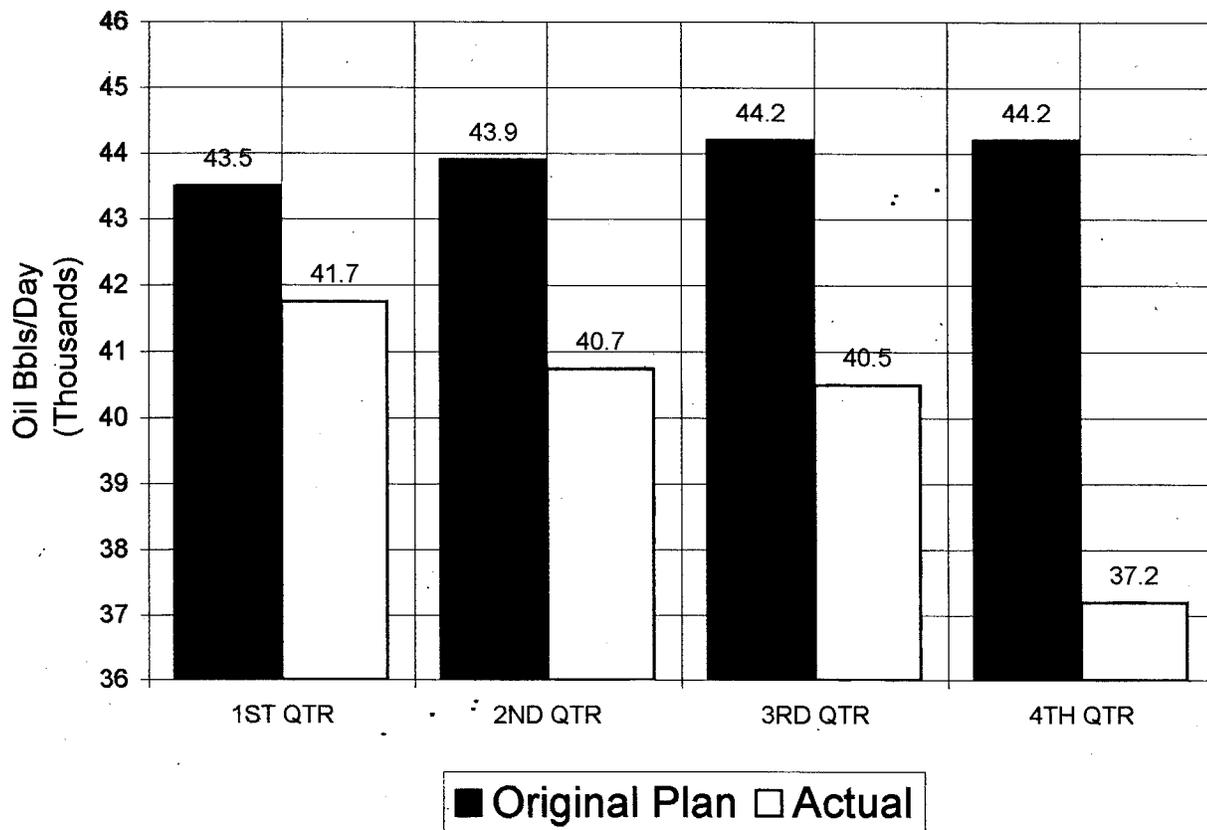
W 17150



LBU OIL RATE PERFORMANCE FISCAL YEAR 1998-99 ANNUAL PLAN

Exhibit "C"

W 17150



CALENDAR PAGE 000367

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**CITY OF LONG BEACH**

DEPARTMENT OF OIL PROPERTIES

W 17150

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

September 2, 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 FOURTH AMENDMENT OF
THE ANNUAL PLAN (JULY 1, 1998 THROUGH JUNE 30, 1999)
FINAL REPORT AND CLOSING STATEMENT**

Dear Mr. Mount:

In accordance with provisions of Part IV, Section A, of the Annual Plan, we are submitting for your approval this final report and closing statement as the Fourth Amendment to the Annual Plan covering the period July 1, 1998 through June 30, 1999. This report contains a reconciliation of Unit activities by category.

DEVELOPMENT DRILLING

The Development Drilling Category provides funding for all drilling and redrilling activity, and maintenance and replacement of drilling equipment within the Unit.

Operations Review

- There were two periods of drilling during the Plan period. Drilling activity commenced in October 1998 after being idle for eight months due to low oil prices. In December 1998, after only two months of drilling, drilling operations were again interrupted because of low oil prices. Oil prices had rebounded enough by May 1, 1999 to allow the drilling program to resume.

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- During the Plan period four new wells were completed. Following is a listing of both new completions and redrills by zone:

Zone	New Completions			Redrills		
	Prod	Inj	Total	Prod	Inj	Total
Tar	0	0	0	0	0	0
Ranger	2	0	2	0	0	0
Terminal	1	0	1	0	0	0
Upper/Lower Terminal	0	0	0	0	0	0
UP-Ford	0	0	0	0	0	0
237	1	0	1	0	0	0
Totals	4	0	4	0	0	0

On June 30, 1999, the total number of wells was 1,309, of which 853 were producers and 456 were injectors. Excluded from these totals are abandoned wells.

Budget to Actual Variance

The Development Drilling Category had a budget of \$39,000,000, of which only \$2,406,000, or 6.2 percent, was expended. The Plan originally provided funds for approximately 48 new and redrilled wells. The reason for under-expenditure in this category is that the drilling program did not approach being fully implemented due to persistently low oil prices.

OPERATING EXPENSE

The Operating Expense Category provides funding for the on-going 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

- Unit oil production during the Plan period averaged 40,143 bbls/day, which was 3,815 bbls/day lower than estimated in the budget.
- Gas production averaged 9,354 mcf/day, which was 562 mcf/day higher than estimated in the budget.

- Water injection averaged 715,881 bbls/day, which was 25,543 bbls/day higher than originally estimated in the budget. Water production averaged 635,919 bbls/day, which is 69,351 bbls/day higher than estimated.
- Full oil production potential was not reached during the Plan period due to the cessation of the development drilling that resulted from persistently low oil prices. The average price for Unit crude was \$9.65/bbl during the Plan period, while the budget was based on \$14.00/bbl.

Budget to Actual Variance

The Operating Expense Category had a modified budget of \$61,000,000, of which \$52,793,000, or 86.5 percent, was expended. The low spending level is primarily related to cost cutting activities due to depressed oil prices.

FACILITIES, MAINTENANCE, AND PLANT

The Facilities, Maintenance, and Plan 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 Plan period include the following:

- Repair crew boat landing
- Repair flow splitter #3
- Grissom divert – repaired produced water piping
- Grissom receiving tank
- Repair Chaffee clay waste tank
- Freeman shut-in
- Line repairs at Freeman
- Mud plant tank farm PM at Freeman.
- Flotation separator #2 PM at Pier J
- Repair Freeman flotation separator #1
- Heater treater #14 PM at Pier J
- Harbor pipeline relocation
- Shipping tank PM (28M1) at Pier J
- J2 & J4 Sulfa Treat change out
- Gas plant shut-in at B&M
- Shipping pump upgrade at B&M

Budget to Actual Variance

The Facilities, Maintenance, and Plant Category had a budget of \$34,000,000, of which \$21,855,000, or 64.3 percent, was expended. The low spending level was primarily related to cost cutting activities due to depressed 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 had a budget of \$37,000,000, of which \$35,373,000, or 95.6 percent, was expended.

The Unit Field Labor and Administrative Category had no significant variance from budget during the period.

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 a budget of \$20,000,000, of which \$22,261,000, or 111.3 percent, was expended.

The Taxes, Permits, and Administrative Overhead Category had a significant unbudgeted expenditure of \$5,053,500 in January 1999 for settlement of past Office of Spill Prevention Response (OSPR) fees for the years 1990 to 1996. This equates to 25.3 percent of the budget, but was not included in it. Excluding this extraordinary expenditure, Unit expenditures in this category would have been 86.0 percent of Plan.

SUMMARY

The Unit had a budget of \$191,000,000, of which \$134,688,000, or 70.5 percent, was expended through June 30, 1999.

The greatly depressed oil prices that persisted through much of this Plan's year caused many changes to be made to Unit operations during this difficult period. Significant steps were 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 three rigs. The effect of these reductions is reflected in under-spending the Plan by \$56.3 million.

Fiscal year profit of \$14.2 million was \$25.8 million less than originally estimated.

BUDGET RECONCILIATION

Attached is the June 1999 Budget Statement, Fiscal Year Projects Report, revised Annual Plan Economic Projections and Major Planning Assumptions, and an end of period report of number of wells, oil production, gas production, water production, and water injection by location and zone.

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.

Sincerely,



Dennis M. Sullivan
Director

DMS:slg

FIN 312.003

Attachments

CALENDAR PAGE	000372
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THUMS LONG BEACH COMPANY
 Budget Statement
 Current Period: JUN-99

Date: 26-AUG-99 12:02:56
 Page 1

Currency: USD
 No specific Company requested

Budget Category	Original Budget	Current Month	FYTD Expenditure	Percent Expended	Unexpended Balance	FYTD Budget	Over/Under FYTD Budget
DEVELOPMENT DRILLING	39,000,000	942,369	2,406,120	6%	36,593,880	39,000,000	(36,593,880)
OPERATING EXPENSE	61,000,000	5,011,461	52,793,325	87%	8,206,675	61,000,000	(8,206,675)
OTHER PLANT	34,000,000	2,315,015	21,855,465	64%	12,144,535	34,000,000	(12,144,535)
UNIT FIELD LABOR & ADMINISTRATION	37,000,000	2,886,893	35,372,707	96%	1,627,293	37,000,000	(1,627,293)
TAXES, PERMITS, & ADMIN. OVERHEAD	20,000,000	1,429,377	22,260,722	111%	(2,260,722)	20,000,000	2,260,722
Unit Totals	191,000,000	12,585,115	134,688,339	71%	56,311,661	191,000,000	(56,311,661)

B. Economic Projections

(Data in Thousands of \$)	ACTUAL FIRST QUARTER FY98/99	ACTUAL SECOND QUARTER FY98/99	ACTUAL THIRD QUARTER FY98/99	ACTUAL FOURTH QUARTER FY98/99	ACTUAL TOTAL FISCAL YEAR FY98/99	BUDGET TOTAL FISCAL YEAR FY98/99	% ACTUAL OVER/UNDER(-) BUDGET FY98/99
ESTIMATED REVENUE							
Oil Revenue	\$36,954	\$32,896	\$29,185	\$42,345	\$141,380	\$224,628	-37.1%
Gas Revenue	\$2,010	\$1,920	\$1,886	\$1,735	\$7,551	\$6,418	17.7%
TOTAL REVENUE	\$38,964	\$34,816	\$31,071	\$44,080	\$148,931	\$231,046	-35.5%
ESTIMATED EXPENDITURES							
Development Drilling	\$158	\$489	\$698	\$1,061	\$2,406	\$39,000	-93.8%
Operating Expense	\$14,606	\$13,791	\$10,083	\$14,313	\$52,793	\$61,000	-13.5%
Facilities & Maintenance	\$5,605	\$5,378	\$5,117	\$5,755	\$21,855	\$34,000	-35.7%
Unit Field Labor & Admin	\$8,932	\$8,629	\$8,620	\$9,192	\$35,373	\$37,000	-4.4%
Taxes, Permits & Admin. Overhead	\$4,962	\$3,907	\$9,365	\$4,027	\$22,261	\$20,000	11.3%
TOTAL EXPENDITURES	\$34,263	\$32,194	\$33,883	\$34,348	\$134,688	\$191,000	-29.5%
NET PROFIT	\$4,701	\$2,622	(\$2,812)	\$9,731	\$14,242	\$40,046	-64.4%

C. Major Planning Assumptions

	ACTUAL FIRST QUARTER FY98/99	ACTUAL SECOND QUARTER FY98/99	ACTUAL THIRD QUARTER FY98/99	ACTUAL FOURTH QUARTER FY98/99	ACTUAL TOTAL FISCAL YEAR FY98/99	BUDGET TOTAL FISCAL YEAR FY98/99	% ACTUAL OVER/UNDER(-) BUDGET FY98/99
OIL PRODUCTION:							
QUARTERLY (1,000 BBL)	3,854	3,765	3,644	3,389	14,652	16,045	
AVERAGE B/D	41,889	40,924	40,492	37,243	40,143	43,958	-8.68%
GAS PRODUCTION:							
QUARTERLY (MMCF)	883	885	842	804	3,414	3,209	
AVERAGE MCF/D	9,595	9,623	9,356	8,836	9,354	8,792	6.40%
WATER PRODUCTION:							
QUARTERLY (1,000 BBL)	56,728	59,195	58,850	57,338	232,110	206,797	
AVERAGE B/D	616,605	643,422	653,889	630,087	635,919	566,568	12.24%
WATER INJECTION							
QUARTERLY (1,000 BBL)	65,682	66,696	65,159	63,759	261,297	251,973	
AVERAGE B/D	713,937	724,956	723,988	700,654	715,881	690,338	3.70%
AVG OIL PRICE (\$/BBL)	\$9.59	\$8.74	\$8.01	\$12.49	\$9.65	\$14.00	-31.08%
AVG GAS PRICE (\$/MCF)	\$2.28	\$2.17	\$2.24	\$2.16	\$2.21	\$2.00	10.58%

NUMBER OF WELLS

As of June 30, 1999

	Producers	Injectors	Total
By Location			
Grissom	187	92	279
White	147	94	241
Chaffee	207	119	326
Freeman	211	92	303
Pier J (Inc. THX)	101	59	160
Total	853	456	1309
By Reservoir			
Tar V	11	2	13
Ranger (All Areas)	643	359	1002
Upper & Lower Terminal VI, VII	67	31	98
Terminal (Blocks VIII, 90)	56	34	90
Union Pacific-Ford (All Areas)	74	30	104
237 (All Areas)	2	0	2
Total	853	456	1309

(Figures exclude abandoned producers and abandoned injectors)

Oil Production

<u>Location</u>	<u>Average B/D</u>	<u>Cumulative Bbls.</u>
	<u>7/1/98-6/30/99</u>	<u>6/30/99</u>
Grissom	9,634	157,062,088
White	7,295	147,466,181
Chaffee	10,009	185,276,235
Freeman	9,799	238,976,950
Pier J (Inc. THX)	3,406	134,225,263
Total	40,143	863,006,717

Gas Production

	<u>Average MCF/D</u>	<u>Cumulative MCF</u>
	<u>7/1/98-6/30/99</u>	<u>6/30/99</u>
	681	21,702,640
	2,362	36,454,767
	2,749	60,554,903
	2,501	83,575,143
	1,061	24,613,036
Total	9,354	226,900,489

Reservoir

<u>Reservoir</u>	<u>Average B/D</u>	<u>Cumulative Bbls.</u>		<u>Average MCF/D</u>	<u>Cumulative MCF</u>
	<u>7/1/98-6/30/99</u>	<u>6/30/99</u>		<u>7/1/98-6/30/99</u>	<u>6/30/99</u>
Tar V	122	1,441,087	59	616,571	
Ranger (All Areas)	26,889	648,859,865	6,137	143,995,151	
Upper Terminal & Lower Te	4,749	72,147,902	978	9,831,560	
Terminal (Blocks VIII, 90)	3,316	47,984,503	792	13,646,013	
Union Pacific-Ford (All Area	5,047	88,707,492	1,380	54,543,019	
237 (All Areas)	20	3,865,868	8	4,268,175	
Total	40,143	863,006,717	9,354	226,900,489	

Water Production

<u>Location</u>	<u>Average B/D</u>	<u>Cumulative Bbls.</u>
	<u>7/1/98-6/30/99</u>	<u>6/30/99</u>
Grissom	157,071	1,066,602,467
White	122,649	848,328,974
Chaffee	114,665	690,828,176
Freeman	152,200	1,049,925,059
Pier J (Inc. THX)	89,335	830,603,170
Total	635,919	4,486,287,846

Water Injection

	<u>Average B/D</u>	<u>Cumulative Bbls.</u>
	<u>7/1/98-6/30/99</u>	<u>6/30/99</u>
	182,392	1,472,700,903
	127,749	1,211,411,199
	133,573	1,279,021,340
	174,142	1,164,754,492
	98,026	1,063,193,585
Total	715,881	6,191,081,519

Reservoir

<u>Reservoir</u>	<u>Average B/D</u>	<u>Cumulative Bbls.</u>		<u>Average B/D</u>	<u>Cumulative Bbls.</u>
	<u>7/1/98-6/30/99</u>	<u>6/30/99</u>		<u>7/1/98-6/30/99</u>	<u>6/30/99</u>
Tar V	681	6,397,341	1,317	15,414,996	
Ranger (All Areas)	512,991	3,857,227,106	566,690	5,278,734,632	
Upper Terminal & Lower Te	61,617	350,288,286	69,748	433,525,929	
Terminal (Blocks VIII, 90)	26,204	105,713,186	36,377	209,815,322	
Union Pacific-Ford (All Area	34,357	163,448,717	41,749	253,590,640	
237 (All Areas)	69	3,213,210	-	-	
Total	635,919	4,486,287,846	715,881	6,191,081,519	

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