MINUTE ITEM

This Calendar Item No C53 was approved as Minute Item No. 53 by the California State Lands Commission by a vote of 3 to 0 at its 04-05-04 meeting.

CALENDAR ITEM
C53

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04/05/04
W 17158
A. Reid
M. Le Clair

CONSIDER APPROVAL OF THE LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2004 THROUGH JUNE 30, 2005), LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

APPLICANT:

City of Long Beach
Attn.: Mr. Christopher J. Garner, Acting Director
Department of Oil Properties
211 East Ocean Boulevard, Suite 500
Long Beach, CA 90802

BACKGROUND:

In accordance with Chapter 941 of the Statutes of 1991 (AB 227) and the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit, the Long Beach Unit Annual Plan (July 1, 2004 - June 30, 2005) has been submitted by the City of Long Beach (City) on February 18, 2004, to the California State Lands Commission (Commission).

At its meeting on February 17, 2004, the Long Beach City Council adopted the proposed Annual Plan and authorized its submittal to the Commission for consideration and approval. The plan was submitted to the Commission on February 18, 2004, for consideration. The Commission has 45 days following formal submission of the Annual Plan to take action. If no action is taken, the plans are deemed to be approved as submitted. The economic projections based on an average oil price of $20.00 per barrel for the period July 1, 2004 through June 30, 2005 (as presented by the City) are shown below:

Revenue	$247,300,000
Expenditures	$205,500,000
Net Income:	$ 41,800,000

As presented, the Long Beach Unit Annual Plan includes anticipated rates of production, revenues, expenditures, and net profits for the Unit as projected by the City of Long Beach Department of Oil Properties. The City has estimated that the Unit net income for the 2004-2005 Fiscal Year will be $41.8 Million, after total Expenditures of $205.5 Million. This income scenario is based on a forecast oil production rate of 32,185 bbls/day, which is about 500 bbl/day more than the Five-Year Program Plan projection. The increase in oil production volume is a result of the proposed increase in well drilling and well workover activity due to the anticipated continuation of higher than expected oil prices during Fiscal Year 2004. This Plan allows for drilling approximately 36 new and redrilled wells with one to two active rigs.

Commission staff has reviewed the Annual Plan as submitted by the City and believes that it provides an engineering framework to meet the objectives of the Optimized Waterflood Agreement and is based on all engineering, geologic, and economic information available at the time of preparation. Engineers representing the State, City, THUMS, and OXY agree that objectives will be met in all areas of interest, including those of good oil field practice, proper reservoir management, safety to employees and the public, and environmental protection, through active participation by all parties at Unit forums, Engineering Committee meetings, Voting Party Committee meetings, and during events as they occur in the field. Commission staff believes the Annual Plan is consistent the with Five-year Program Plan of July 2003 – June 2008, in that it meets or exceeds the goals as well as following the industry practice of increasing activity during periods of higher oil prices.

OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

   Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

EXHIBITS:

A. Letter from the City of Long Beach submitting the Long Beach Unit Annual Plan to the California State Lands Commission.

B. Long Beach Unit Annual Plan (July 1, 2004 – June 30, 2005)

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) 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 LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2004 THROUGH JUNE 30, 2005), LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

EXHIBIT A

W 17158

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

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

February 18, 2004

Mr. P. B. Mount II, Chief
Division of Mineral Resources Management
State Lands Commission
200 Oceangate, 12th Floor
Long Beach, California 90802

Subject: **SUBMISSION OF THE LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2004 – JUNE 30, 2005)**

Dear Mr. Mount:

The City of Long Beach, as Unit Operator of the Long Beach Unit, and in accordance with Chapter 138, Section 5(a), Chapter 941, and the Agreement for Implementation of an Optimized Waterflood Program for the Long Beach Unit, Section 2.03 (a), 2.05 (a) and (b) submits twenty (20) copies of Annual Plan (July 1, 2004 – June 30, 2005).

The Annual Plan was approved by the Long Beach City Council on February 17, 2004.

Sincerely,

Christopher J. Garner
Acting Director

CJG:slg

Enclosures (20)

FIN 312.006

cc: P. D. Thayer
A. V. Hager
R. D. Nobles
F. E. Komin
J. C. Parkin

EXHIBIT B

LBW17158

Long Beach Unit

Thums Long Beach Company
(Agent for Field Contractor)

ANNUAL PLAN

July 1, 2004 through June 30, 2005

ANNUAL PLAN

July 1, 2004 through June 30, 2005

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Part I

Introduction

This Annual Plan ("Plan") was developed to reflect anticipated activity levels during the fiscal period from July 1, 2004 through June 30, 2005 ("FY04/05"). It is being submitted as required by Section 5(a) of Chapter 138, Statutes of 1964, First Extraordinary Session, and as revised by passage of Assembly Bill 227 (Chapter 941) and the Optimized Waterflood Program Agreement approved by the State of California, the City of Long Beach, and Atlantic Richfield Company, whose interest has been assigned to Occidental Petroleum Corporation.

This Plan provides for drilling, producing, water injection, and other associated activities from offshore and onshore locations. The budget for these activities is grouped into the following five major categories:

Plan Category	Fiscal Year 2004 – 2005 ($ Million)
Development Drilling	$ 33.3
Operating Expense	$ 81.6
Facilities, Maintenance, and Plant	$ 34.1
Unit Field Labor and Administrative	$ 39.2
Taxes, Permits, and Administrative Overhead	$ 17.3
Total	$205.5

A. Plan Basis

This Plan was developed based on the parameters outlined in the Program Plan for the period July 2003 through June 2008 and provides current estimates of volumes, drilling activity and expenditures for FY04/05. A change from the Program Plan is the inclusion of an additional part-time drilling rig. The additional drilling associated with this expanded plan is contingent on oil prices remaining near or above current levels and a sufficient number of economic projects being identified and approved in accordance with Unit documents.

Volumes

Oil and gas production volumes in the Program Plan were predicted to average 31.7 Mbopd and 9.6 MMcfd, respectively, in FY04/05. Oil volumes and ranges have been revised upward and gas volumes and ranges have been revised downward from the Program Plan. Oil production is now expected to average 32.2 Mbopd within a revised range of 28.7 to 33.5 Mbopd, and gas production is expected to average 8.5 MMcfd within a revised range of 7.6 to 8.9 MMcfd. Water production and injection volumes have been revised upward from the Program Plan. Water production and injection volumes in the Program Plan were predicted to average 779 Mbwpd and 854 Mbwpd, respectively. Water production for the period is now expected to average 789 Mbwpd within a revised range of 710 to 829 Mbwpd. Water injection is expected to average 881 Mbwpd within a revised range of 793 to 925 Mbwpd.

The upward revision in oil production volumes is a result of:

- Additional drilling completions due to the addition of a part-time drilling rig
- Reduced wellwork downtime
- Lower electricity costs and a higher oil price forecast resulting in fewer uneconomic wells

The downward revision in gas production volumes is a result of:

- Removal of the shallow gas sand development plan

Revenue and Expenses

A projected oil price of $20.00/bbl and gas price of $4.00/mcf will result in revenues of $247.3 million, which is $28.3 million higher than anticipated in the Program Plan. Budgeted expenses of $205.5 million for FY04/05 are $16.8 million higher than anticipated in the Program Plan. Projected net profit in FY04/05 is $41.8 million versus $30.3 million in the Program Plan.

The projected revenue increase in FY04/05 is the result of higher forecasted oil and gas prices ($18.00/bbl and $3.00/mcf in the Program Plan) and a higher production forecast. The higher projected expenses stem primarily from adding a part-time drilling rig (contingent on oil prices remaining near or above current levels and a sufficient number of economic projects being identified and approved in accordance with Unit documents), higher electricity costs (resulting

from higher natural gas fuel cost), and inclusion of funding to repair the drilling rig on Island White. Other expenses consistent with strategies outlined in the Program Plan are also included but will be curtailed if revenues are not available to offset them. A comparison of revenue, expenditures, net income, and volumes is shown in Part II-C of this Plan.

Drilling

This Plan allows for drilling approximately 36 new and redrilled development and/or replacement wells. The one and one-half rig drilling plan is to start at Island White and Island Freeman and then move to Chaffee and Grissom during the year. A workover rig will provide drilling preparation and completion work. Repair of the Island White drilling rig is included in the Plan. Locations of production and injection wells to be drilled or redrilled will vary from the Program Plan (given in Part II, Schedule 2B of this Plan) to reflect drilling from Islands Chaffee and White.

Maintenance

Most of the major facility projects anticipated during the Plan period are required to maintain current equipment capabilities or to enhance operations. Other projects will be necessary to take advantage of improvement opportunities and to address changes in the oil field operating environment.

Many projects will be undertaken to repair or replace equipment that has outlived its useful life. Items needing to be repaired or replaced include facilities piping, tanks, and vessels. These projects are consistent with past activities to keep the Unit facilities in safe operating condition.

Abandonment

Wells and facilities with no further economic use will be abandoned to reduce current and future Unit liability. This Plan provides funds for plugging wells to surface, in-zone, and conditional abandonments.

Safety, Environmental, and Regulatory Compliance

Projects relating to safety, environmental issues, or others situations necessary for meeting compliance with code, permit, or regulatory requirements will continue to be implemented under this Plan in accordance with all Unit agreements.

Economic Review

Project expenditures during the Plan period are subject to economic review through the Determination and Authority for Expenditure processes.

All existing wells are frequently reviewed in light of changing crude prices to determine if they are economic to operate. Well servicing work is justified on economics and other conditions consistent with good engineering, business, and operating practices.

B. Economic Projections

(Data in Millions of Dollars)

	BUDGET FIRST QUARTER FY04/05	BUDGET SECOND QUARTER FY04/05	BUDGET THIRD QUARTER FY04/05	BUDGET FOURTH QUARTER FY04/05	BUDGET TOTAL FY04/05
ESTIMATED REVENUE					
Oil Revenue	$58.9	$59.6	$58.0	$58.4	$234.9
Gas Revenue	$3.1	$3.1	$3.1	$3.1	$12.4
TOTAL REVENUE	$62.0	$62.7	$61.1	$61.5	$247.3
ESTIMATED EXPENDITURES					
Development Drilling	$8.2	$8.4	$8.3	$8.4	$33.3
Operating Expense	$21.3	$19.9	$20.3	$20.1	$81.6
Facilities & Maintenance	$10.1	$7.5	$8.2	$8.3	$34.1
Unit Field Labor & Administration	$9.5	$9.6	$10.7	$9.4	$39.2
Taxes, Permits & Overhead	$4.4	$4.3	$4.3	$4.3	$17.3
TOTAL EXPENDITURES	$53.5	$49.7	$51.8	$50.5	$205.5
NET PROFIT	$8.5	$13.0	$9.3	11.0	$41.8

C. MAJOR PLANNING ASSUMPTIONS

	BUDGET FIRST QUARTER FY04/05	BUDGET SECOND QUARTER FY04/05	BUDGET THIRD QUARTER FY04/05	BUDGET FOURTH QUARTER FY04/05	BUDGET TOTAL FY04/05
OIL PRODUCTION					
PRODUCED (1000 BBL)	2,943	2,978	2,903	2,923	11,747
(AVERAGE B/D)	31988	32374	32261	32117	32,185
GAS PRODUCTION					
PRODUCED (1000 MCF)	774	783	764	769	3,090
(AVERAGE MCF/D)	8413	8514	8485	8447	8,465
WATER PRODUCTION					
PRODUCED (1000 BBL)	71,807	72,913	71,212	72,172	288,105
(AVERAGE B/D)	780513	792533	791244	793103	789,327
WATER INJECTION					
INJECTED (1000 BBL)	80,086	81,364	79,720	80,269	321,440
(AVERAGE B/D)	870504	884393	885776	882082	880,657
OIL PRICE ($/BBL)	$20.00	$20.00	$20.00	$20.00	$20.00
GAS PRICE ($/MCF)	$ 4.00	$ 4.00	$ 4.00	$ 4.00	$ 4.00

Part II

Program Plan Schedules

Schedule 2 A

Range of Production and Injection
FY 2004/05
Long Beach Unit Program Plan, July 2003-June 2008

FISCAL YEAR	RANGE OF PRODUCTION AND INJECTION RATES			
	OIL MBOPD	WATER MBWPD	GAS MMCFPD	INJECTION MBWPD
2004-05	28.6 - 33.3	701 - 818	8.6 - 10.1	768 - 896

FISCAL YEAR	RANGE OF PRODUCTION AND INJECTION RATES			
	TAR PSI	RANGER PSI	TERMINAL PSI	U. P./FORD PSI
2004-05	UP TO 1500	UP TO 2500	UP TO 2500	UP TO 3000

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SCHEDULE 2B
ANTICIPATED NEW AND REDRILLED WELLS
FISCAL YEAR 2004-05

LONG BEACH UNIT PROGRAM PLAN, JULY 2003 – JUNE 2008

RESERVOIR	CRB	PRODUCERS										INJECTORS									
		GRISSOM		WHITE		CHAFFEE		FREEMAN		PIER-J		GRISSOM		WHITE		CHAFFEE		FREEMAN		PIER-J	
		MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX	MIN	MAX
TAR	Sc	0	0							0	0	0	0							0	0
RANGER WEST	1	2	5	0	0							0	0								
	2	1	2									1	2								
	3	1	3	0	0					0	0	1	2							0	0
	4	1	3	0	0			0	0	0	0	0	0					0	0	0	0
	5	0	0					0	0	0	0							0	0	0	0
	36							0	0	0	0							0	0	0	0
	7							0	0									0	0		
	8			0	1			0	0					0	0			0	0		
	9			0	0									0	0						
	10			0	0									0	1						
	11			0	0									0	0						
	12			0	0									0	0						
	13			0	0			0	0					0	0			0	0		
	37							0	0									0	0		
RANGER EAST	14			0	0									0	0						
	15			0	0			0	0					0	0			0	0		
	16			0	0	0	0	0	0					0	0	0	0	0	0		
	17					0	0									0	0				
	18					0	0									0	0				
	32					0	0									0	0				
	33					0	0									0	0				
	20					0	0									0	0				
	21					0	0	0	0							0	0	0	0		
	22					0	0	0	0							0	0	0	0		
TERMINAL	38	1	3							0	0	0	0							0	0
	39	1	3	0	0			0	0	0	0	1	3	0	0			0	0	0	0
	40			0	0			0	0					0	0			0	0		
	24			0	0			1	3					0	0			0	0		
	42					0	0									0	0				
	43					0	0	0	0							0	0	0	0		
UP FORD	26			0	0			0	0					0	0			0	0		
	27			0	0			0	0					0	0			0	0		
	31	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	44			0	0	0	0	0	0					0	0	0	0	0	0		
	45			0	0	0	0	0	0					0	0	0	0	0	0		
	46			0	0	0	0	0	2					0	0	0	0	1	2	—	
							0														
237		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		TOTAL										TOTAL									
		8 - 26										4 - 10									

TABLE 1C
COMPARISON OF PROGRAM PLAN TO FISCAL YEAR 2004/05

	PROGRAM PLAN FY04/05	ANNUAL PLAN FY04/05	VARIANCE Over / (Under)	%
Drilling - Total Wells	24	36	12	50%
Net Oil Production - bbls	11,585,100	11,747,398	162,298	1%
Net Oil Production - bopd	31,740	32,185	445	1%
Water Production - bbls	284,426,250	288,104,501	3,678,251	1%
Water Production - bwpd	779,250	789,327	10,077	1%
Water Injection - bbls	311,629,335	321,439,770	9,810,435	3%
Water Injection - bwpd	853,779	880,617	26,838	3%
Total Revenue	$219,020,000	$247,306,000	$28,286,000	13%
Total Expenditures	$188,697,000	$205,488,000	$16,791,000	9%
Net Income	$30,323,000	$41,818,000	$11,495,000	38%
Oil Price - $/bbl	$18.00	$20.00	$2.00	11%
Gas Price - $/mcf	$3.00	$4.00	$1.00	33%

C. Comparison to Program Plan

Drilling Variance: Drilling activity is forecast to be at a higher pace compared to the Program Plan, with an additional part-time rig and 12 more wells anticipated to be completed in FY04/05. The additional part-time rig is contingent on oil prices remaining near or above current levels and a sufficient number of economic projects being identified and approved in accordance with Unit documents.

Revenue Variance: The revenue variance from the Program Plan is due to higher oil and gas price forecasts and a higher production forecast.

Expenditure Variance: The overall expenditure variance is attributable to utilization of an additional part-time rig and higher electricity costs, resulting from a higher gas price assumption. Also contributing to the variance is funding for Island White's drilling rig repairs. The Unit will be aggressively trying to control costs during periods of lower oil prices. Investments in strategic projects aimed at reducing future costs will continue to be made as outlined in the Program Plan but will be curtailed if revenues are not available to offset them.

Part III

Itemized Budget of Expenditures

A. Development Drilling $33,300,000

The Development Drilling category of expenditures encompasses all new well and replacement well drilling activity, as well as maintenance and replacement of drilling equipment within the Unit. Funds for development drilling are based on the assumption that 36 wells will be developed and/or replaced during the Plan year, using one and one-half drilling rigs and one part-time completion rig.

Drilling and completing new wells, as well as redrilling and recompleting existing wells, account for 96 percent of the funding provided in this Category. Included in these activities is funding for rig move-in, drilling and casing, completion activities, drilling rig in-zone plugs and conditional abandonments, and unscheduled activity (fishing operations, cement squeezing, special logging, contract drilling services). Also included in this category are rig repairs related to Island White activity. The shallow gas development proposal is not included in the Plan.

Exact specifications regarding the distribution of wells, bottom hole locations, and completion intervals will be determined by OXY Long Beach, Inc. (OLBI). These decisions will be influenced by contributions from reservoir engineering personnel, results from ongoing engineering studies, and new well performance. This information will be reviewed and approved in accordance with Unit Agreements during regularly scheduled Unit forums.

B. Operating Expense $81,600,000

The Operating Expense category of expenditures encompasses the ongoing costs of day-to-day well production and injection operations necessary for producing, processing, and delivering crude oil and gas, and for all electric power charges. Expenses for this category are based on estimated oil production of 32.2 Mbopd, estimated gas production of 8.5 MMcfpd, water injection requirement of 881 Mbwpd, and water production of 789 Mbwpd. Anticipated operating expenses were based on operating 3-1/2 workover rigs per month for servicing an average active well count of 646 producers and 386 injectors, and up to 1/4 rig for abandonment activity. Abandonment well count will be determined as a function of drilling activity and the number of idle wells with no future use identified.

The day-to-day costs for production and injection well subsurface operations represent approximately 40 percent of the funding provided in this category. Included are funds for acidizing, fracturing, routine well work, well conversions,

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in-zone plugs, conditional abandonments, and other charges incurred for well maintenance.

Electricity makes up 60 percent of the funds in this Category. Cost for electric power is based on estimated kilowatt usage of 569,718,608 kwh at an average rate of $0.0862/kwh. This cost includes all sources of Unit electrical power, including all costs associated with the newly constructed power plant and electric utility purchases.

C. Facilities, Maintenance, and Plant $34,100,000

The Facilities, Maintenance, and Plant category of expenditures encompasses costs for maintenance, repairs, upgrades, additions of surface facilities and pipelines, and costs for general field services.

Approximately 71 percent of the funding in this category is for general field and operating costs. This includes, but is not limited to, charges for general labor, equipment rentals, and materials for general maintenance (painting, welding, electrical, etc.) of all Unit systems, such as oil gathering, treating, storage, and transfer; gas gathering and treating; scale and corrosion control; produced water handling; waste disposal; leasehold improvements; electrical system; fresh water system; fire protection and safety; marine operations; and automotive equipment. Funds are also provided for chemical purchases and laboratory-related charges for chemical treatment of produced and injected fluids; gas processing charges; make-up water; security; transportation; small tools; and other miscellaneous field activities.

Approximately 29 percent of the funding in this Category is for facilities repair and improvement projects. Improvement projects include spending for the ongoing facility automation project, pipeline replacements, the potential conversion of the power plant to cogeneration, and other infrastructure related investments that position the Unit for longevity.

D. Unit Field Labor and Administrative $39,200,000

The Unit Field Labor and Administrative category of expenditures encompasses costs for Unit personnel and other Unit support activities.

Funding for Unit personnel includes costs of salaries, wages, benefits, training, and expenses of all Thums employees. These costs represent approximately 74% of the category total.

Funding for Unit support activities includes, but is not limited to, costs for professional and temporary services necessary for the completion of support activities; charges for data processing; computer hardware and software;

communications; office rent; general office equipment and materials; Unit Operator billable costs; OLBI billable costs; drafting and reprographic services; Department of Transportation drug and alcohol testing; special management projects; and other miscellaneous support charges.

E. Taxes, Permits, and Administrative Overhead $17,300,000

The Taxes, Permits, and Administrative Overhead category of expenditures includes funds for specific taxes, permits, licenses, land leases, and all administrative overhead costs for the Unit.

Funding is provided for taxes levied on personal property, mining rights, and oil production; for the Petroleum and Gas Fund Assessment; annual well permits and renewals; Conservation Committee of California Oil and Gas Producers Assessment; California Oil Spill Response, Prevention, and Administration fee; land leases; and pipeline right-of-way costs. These costs represent approximately 59 percent of the Category total.

Funding is also provided in this Category for all Administrative Overhead as called for in Exhibit F of the Unit Operating Agreement.

PART IV

Definitions

This Annual Plan may be Modified or Supplemented after review by the State Lands Commission for consistency with the current Program Plan. All Modifications and Supplements to this plan will be presented by the Department of Oil Properties, City of Long Beach, acting with the consent of OLBI, to the State Lands Commission in accordance with Article 2.06 of the Optimized Waterflood Program Agreement.

In addition, on or before October 1, 2005 the City of Long Beach shall present to the State Lands Commission a final report and closing statement of the FY04/05 Annual Plan, in accordance with the provision in Section 10 of Chapter 138.

A. Modifications

The City of Long Beach, acting with the consent of OLBI, has the authority to cause the expenditures of funds for Unit Operations in excess of the amount set forth in the budget included in the Annual Plan, provided, however, that no such expenditure shall be incurred that would result in any category of expenditures set forth in the budget to exceed 120 percent of the budgeted amount for that category. A budget modification would be required for any expenditures which would cause a budget category to exceed its budgeted amount by 120 percent.

Any transfer of funds between budget categories or an augmentation or decrease of the entire budget may be accomplished by a budget modification in accordance with section 5(g) of Chapter 138 and Article 2.06 of the Optimized Waterflood Program Agreement.

Investment, facilities, and management expense projects commenced in prior budget periods, which are to be continued during the current budget period, may be added to this budget by a modification in accordance with Article 2.06 of the Optimized Waterflood Program Agreement.

B. Supplements

This Annual Plan contains all the investment and expense projects reasonably anticipated at the time the Plan was drafted and for which adequate detailed studies existed. Any significant and uncommon expenses not originally contemplated may be added to this budget or transferred by a supplement in accordance with Article 2.06 of the Optimized Waterflood Program Agreement.

The amount of the supplement shall include sufficient funds to complete the projects.

C. Final Report and Closing Statement

The final report and closing statement for FY04/05 shall contain a reconciliation by category as finally modified and the actual accomplishments, including:

1. New wells and redrills by zone.
2. Facilities and capital projects.
3. Production by zone.
4. Injection by zone.