

MINUTE ITEM

This Calendar Item No. C50 was approved as Minute Item No. 50 by the California State Lands Commission by a vote of 3 to 0 at its 12/9/04 meeting.

**CALENDAR ITEM
C50**

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12/09/04

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A. Reid

**CONSIDER APPROVAL OF THE FINAL REPORT AND CLOSING
STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN
(JULY 1, 2003 THROUGH JUNE 30, 2004),
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

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

BACKGROUND:

The City of Long Beach has submitted to the Commission the Final Report and Closing Statement of the FY 2003-2004 Annual Plan, Long Beach Unit, covering the period July 1, 2003 through June 30, 2004. This report provides the actual performance for the full Fiscal Year 2003-2004.

There was one approved modification to the original budget of \$194,700,000. That modification supplemented the original budget by \$5.9 million, to drill and complete an additional eight wells to take advantage of higher than expected oil prices. The final approved budget for Fiscal Year 2003-2004 was \$200,600,000.

No other changes were made to the amount or distribution of funds between the five budget categories.

The average oil and gas rates for the 2003-2004 Fiscal Year were reported to be 32,004 bbls/day of oil (32 bbls/day less than originally estimated) and 8,324 MCF/day of gas (756 MCF/day less than forecast). The cumulative recoveries and injection through June 2004 are as follows:

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Oil Production	926,114,209 Barrels
Gas Production	243,287,879 MCF
Water Production	5,795,644,402 Barrels
Water Injection	7,651,502,804 Barrels

Cumulative Injection - Gross Production Ratio is 1.138 bbls/bbl.

Total expenditures for the Unit were \$211.7 million, which was \$11.1 million higher than the approved modified budget for Fiscal Year 2003-2004. The increase in expenditures was primarily the result of higher than anticipated drilling and maintenance well work costs. Also higher unit spending increased the administrative overhead charges paid by the Unit.

Net profit for the 2003-2004 fiscal year was \$138.0 million, which was \$53.4 million more than the approved modified budget estimate. The approved modified budget forecast used an oil price of \$23.47/bbl and a gas price of \$3.00/Mcf. The actual prices averaged \$28.54/bbl of oil and \$5.06/Mcf of gas for the fiscal year.

The actual oil and gas prices, expenditures, and net profit for Fiscal Year 2003-2004 are shown in the table below.

MILLION DOLLARS					
	ACTUAL FIRST QUARTER FY 03-04	ACTUAL SECOND QUARTER FY 03-04	ACTUAL THIRD QUARTER FY 03-04	ACTUAL FOURTH QUARTER FY 03-04	ACTUAL TOTAL FISCAL YEAR 03-04
Oil Revenue	75.1	76.0	87.9	95.2	334.2
Gas Revenue	3.9	3.4	4.0	4.1	15.4
Expenditures	51.5	59.0	47.7	53.5	211.7
Net Profit	27.6	20.4	44.2	45.9	138.0
Original *	3.8	5.8	7.3	10.0	26.9
Change	23.8	14.6	36.9	35.9	111.1
Oil Price/BBL	25.62	25.86	29.94	32.77	28.54
Gas Price/MCF	5.11	4.65	5.11	5.36	5.06

* Original Budget as approved April 5, 2004

CALENDAR ITEM NO. C50 (CONT'D)

Commission staff has reviewed the Final Report and Closing Statement for the Annual Plan, including production, injection, expenditures, and revenue figures and has prepared Exhibits A and B, attached hereto, to represent graphically the actual fiscal year performance compared to the approved budget.

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. Fiscal Year 2003-2004 Financial Performance, Annual Plan vs. Budget.
- B. Fiscal Year 2003-2004 Oil Rate, Annual Plan vs. Budget.
- C. Letter from the City of Long Beach to the California State Lands Commission.

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:

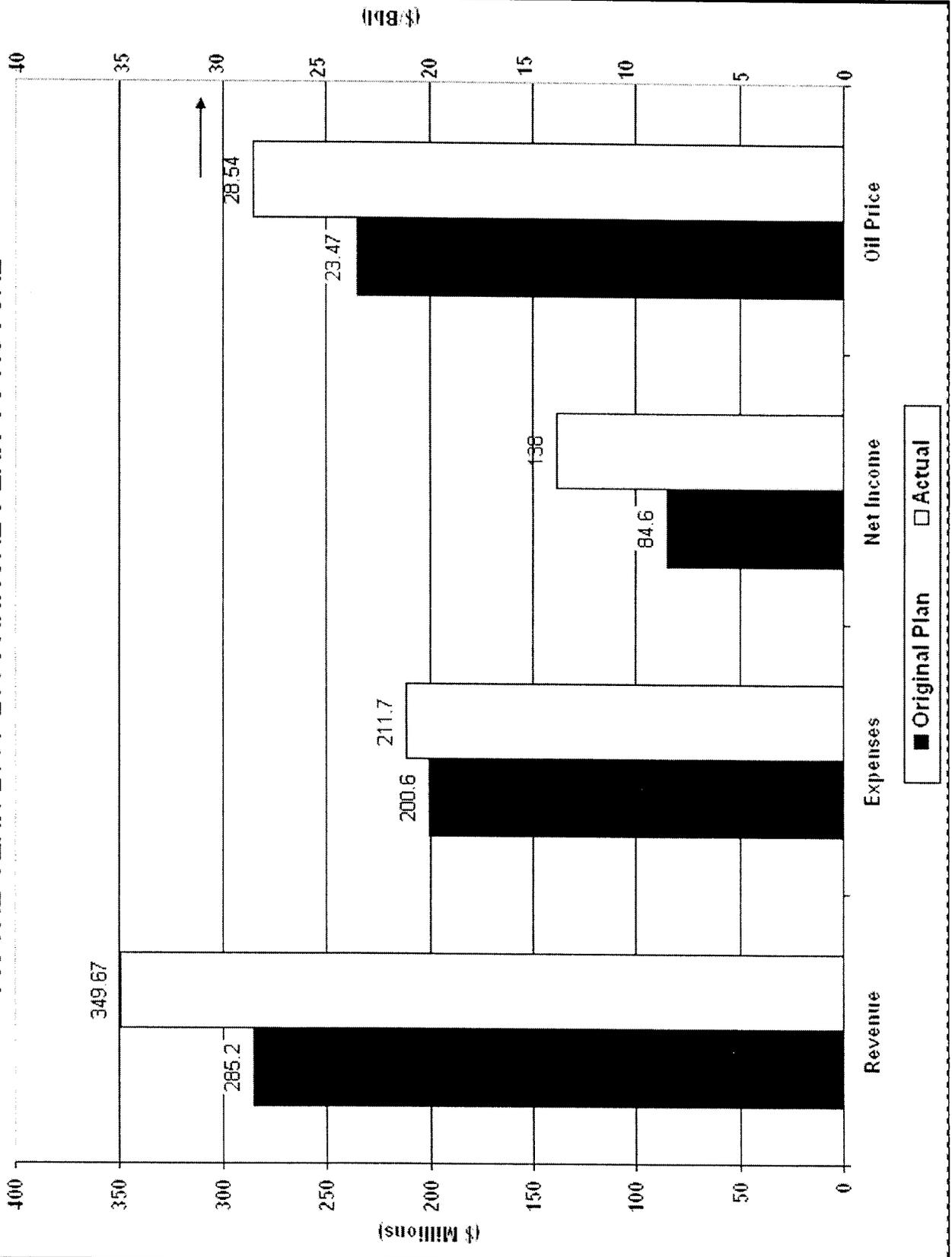
APPROVE THE FINAL REPORT AND CLOSING STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN, FOR THE PERIOD JULY 1, 2003 THROUGH JUNE 30, 2004, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

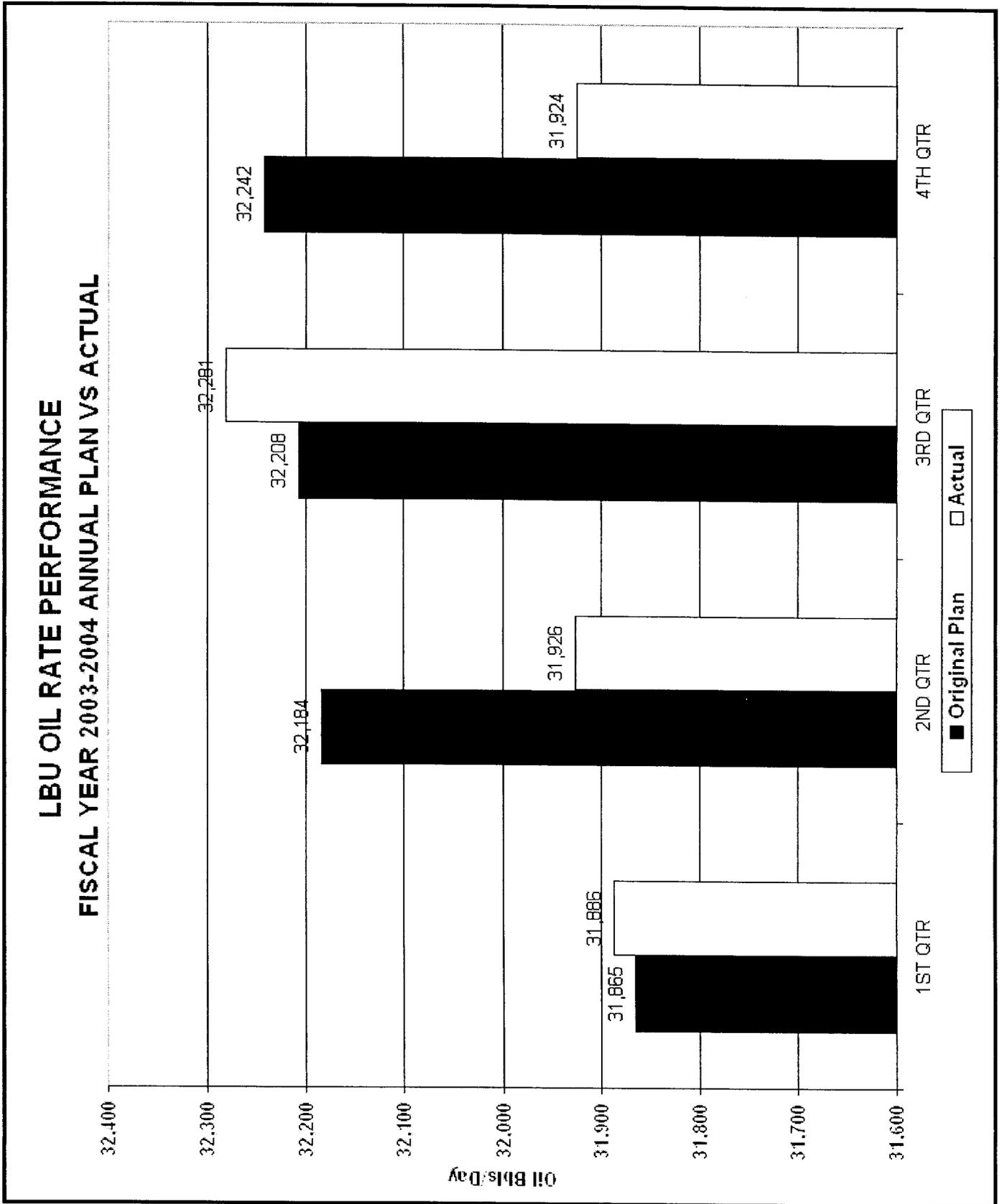
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**LBU Financial Performance
FISCAL YEAR 2003-2004 ANNUAL PLAN VS ACTUAL**







CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

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

October 25, 2004

Mr. Paul B. Mount II, P.E.
 Chief, Mineral Resources Management Division
 California State Lands Commission
 200 Oceangate, 12th Floor
 Long Beach, CA 90802-4331

SUBJECT: REQUEST FOR APPROVAL OF THE FINAL REPORT AND CLOSING STATEMENT FOR THE ANNUAL PLAN (JULY 1, 2003 THROUGH JUNE 30, 2004)

Dear Mr. Mount:

In accordance with provisions of Part IV, Section C, of the Annual Plan, we are submitting this final report and closing statement for the Annual Plan covering the period July 1, 2003 through June 30, 2004. This report contains a reconciliation of Unit activities by Category.

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

During the Plan period 32 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	4	1	5	5	4	9
Terminal	2	0	2	1	1	2
Upper/Lower Terminal	1	2	3	3	2	5
UP-Ford	2	0	2	3	1	4
237	0	0	0	0	0	0
Totals	9	3	12	12	8	20

On June 30, 2004, the total number of wells in the Unit was 1,265, of which 826 were producers and 439 were injectors. Excluded from these totals are the abandoned wells.

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Budget to Actual Variance

The Development Drilling category was modified to increase its budget to \$27,200,000, of which \$28,245,000, or 103.8 percent, was expended. The Plan provided funds for approximately 30 new and redrilled wells that were to be drilled with one full-time drilling rig and a quarter-time drilling rig. For drilling and completion activity, the actual cost was \$24,294,000 compared to \$22,971,000 in the Plan, which reflects the additional drilling of two wells over the Plan.

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, for all electric power costs, and abandonment costs.

Operations Review

- Unit oil shipments during the Plan period averaged 32,004 bbls/day, which was 32 bbls/day lower than estimated in the modified Plan.
- Gas production averaged 8,324 mcf/day, which was 756 mcf/day lower than estimated in the Plan.
- Water injection averaged 848,769 bbls/day, which was 16,120 bbls/day higher than originally estimated in the Plan. Water production averaged 765,655 bbls/day, which was 17,035 bbls/day higher than estimated.
- The average price for Unit crude was \$28.54/bbl during the Plan period. The modified Plan was based on \$23.47/bbl crude.
- Thirty-one well abandonment jobs were performed that totaled \$1,255,500. The Plan included \$1,224,000 for abandonment expenses.

Budget to Actual Variance

The Operating Expense category had a budget of \$78,700,000, of which \$81,271,000, or 103.3 percent, was expended. The high spending level is primarily related to investment and maintenance wellwork. The Plan included \$25,213,000 for maintenance wellwork, and \$28,689,000 was spent. Spending was higher due to an increase in acidizing jobs, and a more complex mix of jobs performed. The Plan included \$5,961,000 for investment wellwork, and \$6,999,000 was spent. Spending was higher due to a higher number of jobs performed as a result of accelerated development initiatives.

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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 fiscal year include the following:

- Facility Monitoring (Automation)
- Heat Duct
- Power Plant
- Electrical distribution system upgrade to 66KV
- Tank & Vessel Backlog
- Trench Piping Replacement - Grissom
- Culvert Piping Replacement - Chaffee
- Sculpture Form Repairs
- Pier G Upgrade
- J6 Tank Farm Containment & Clean up
- J-2 Skim Basin Repairs
- Injection Pump and Motor Repairs
- J-2 Skim Basin Repairs
- Chaffee Trench Piping (Phase 3)
- Grissom Water Leg Tie-in
- Replace Buried Pipe (700 & 800) Freeman
- Injection Piping Efficiency – Freeman
- Slurry Plant Relocation
- Install Energy Efficiency Projects
- Culvert Piping Replacement - Freeman

Budget to Actual Variance

The Facilities, Maintenance, and Plant Category had a budget of \$42,400,000, of which \$47,720,000, or 112.5 percent was expended. Two key components of the variance were facility repair and improvement projects. The Plan had estimated costs of \$17,944,000, and \$22,878,000 was spent. A mix of project scope changes, accelerated project timing and unplanned projects drove these project costs higher.

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, Oxy 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 \$35,700,000, of which \$36,146,000, or 101.2 percent was expended.

The Unit Field Labor and Administrative category spending was higher than Plan primarily due to a carryover from the prior fiscal year of the Information Technology microwave project costs.

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 \$16,600,000 of which \$18,301,000, or 110.2 percent was expended.

The Taxes, Permits, and Administrative Overhead category spending was higher than Plan as higher Unit spending increased the Administrative Overhead charges paid by the Unit. Also, higher-than-anticipated permitting costs and emissions reduction credits related to the power plant boosted taxes and permits paid by the Unit. Progress was made in resolving longstanding property tax appeals that resulted in a refund of \$1,100,000.

SUMMARY

The Long Beach Unit Annual Plan budget for the period July 1, 2003 through June 30, 2004, was modified to \$200,600,000, of which \$211,683,000 or 105.5 percent was expended. Fiscal year profit of \$137,993,000 was \$53,393,000 or 63.1 percent more than the modified Unit Net Profit estimate of \$84,600,000.

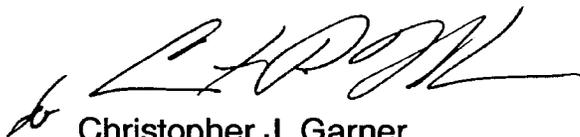
Significant effort was made during the Plan period to maintain Unit strategic investment initiatives that began during the previous fiscal year. A full development program was successfully implemented and significant gains were made in repairing and upgrading the Unit's facility infrastructure.

Mr. Paul Mount
October 25, 2004
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BUDGET RECONCILIATION

Attached are the June 2004 Budget Statement for Fiscal Year Projects; Annual Plan Economic Projections; Major Planning Assumptions; rates and volumes of oil, gas, and water production and water injection by location and zone; and an end-of-the-period report of number of wells.

Sincerely,



Christopher J. Garner
Director

CJG:scs

Enclosures

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**B. Economic
Projections**

(Data in Thousands of \$)	ACTUAL FIRST QUARTER FY03/04	ACTUAL SECOND QUARTER FY03/04	ACTUAL THIRD QUARTER FY03/04	ACTUAL FOURTH QUARTER FY03/04	ACTUAL TOTAL FISCAL YEAR FY03/04	BUDGET TOTAL FISCAL YEAR FY03/04	% ACTUAL OVER/UNDER(-) BUDGET FY03/04
ESTIMATED REVENUE							
Oil Revenue	\$75,151	\$75,953	\$87,941	\$95,206	\$334,251	\$275,200	21.5%
Gas Revenue	\$3,893	\$3,429	\$3,961	\$4,142	\$15,425	\$10,000	54.3%
TOTAL REVENUE	\$79,044	\$79,382	\$91,902	\$99,348	\$349,676	\$285,200	22.6%
ESTIMATED EXPENDITURES							
Development Drilling	\$5,112	\$8,814	\$6,258	\$8,060	\$28,245	\$27,200	3.8%
Operating Expense	\$23,060	\$18,050	\$20,604	\$19,558	\$81,271	\$78,700	3.3%
Facilities & Maintenance	\$10,216	\$18,888	\$7,520	\$11,097	\$47,720	\$42,400	12.5%
Unit Field Labor & Admin	\$8,383	\$8,427	\$8,945	\$10,391	\$36,146	\$35,700	1.2%
Taxes, Permits & Admin. Overhead	\$4,696	\$4,847	\$4,410	\$4,348	\$18,301	\$16,600	10.2%
TOTAL EXPENDITURES	\$51,467	\$59,026	\$47,737	\$53,453	\$211,683	\$200,600	5.5%
NET PROFIT	\$27,577	\$20,356	\$44,165	\$45,895	\$137,993	\$84,600	63.1%

**C. Major Planning
Assumptions**

	ACTUAL FIRST QUARTER FY03/04	ACTUAL SECOND QUARTER FY03/04	ACTUAL THIRD QUARTER FY03/04	ACTUAL FOURTH QUARTER FY03/04	ACTUAL TOTAL FISCAL YEAR FY03/04	BUDGET TOTAL FISCAL YEAR FY03/04	% ACTUAL OVER/UNDER(-) BUDGET FY03/04
OIL PRODUCTION:							
QUARTERLY (1,000 BBL)	2,934	2,937	2,938	2,905	11,713	11,725	
AVERAGE B/D	31,886	31,926	32,281	31,924	32,004	32,036	-0.10%
GAS PRODUCTION:							
QUARTERLY (MMCF)	761	738	775	773	3,047	3,323	
AVERAGE MCF/D	8,274	8,021	8,517	8,490	8,324	9,080	-8.32%
WATER PRODUCTION:							
QUARTERLY (1,000 BBL)	71,400	68,734	69,663	70,432	280,230	273,995	
AVERAGE B/D	776,088	747,110	765,532	773,979	765,655	748,620	2.28%
WATER INJECTION							
QUARTERLY (1,000 BBL)	78,261	76,530	76,801	79,057	310,649	304,750	
AVERAGE B/D	850,663	831,851	843,967	868,759	848,769	832,649	1.94%
AVG OIL PRICE (\$/BBL)	\$25.62	\$25.86	\$29.94	\$32.77	\$28.54	\$23.47	21.6%
AVG GAS PRICE (\$/MCF)	\$5.11	\$4.65	\$5.11	\$5.36	\$5.06	\$3.00	68.8%

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Shipped Oil Production**Gas Production**

<u>Location</u>	<u>Average B/D</u>		<u>Average MCF/D</u>	
	<u>7/1/03-6/30/04</u>	<u>Cumulative Bbls. 6/30/04</u>	<u>7/1/03-6/30/04</u>	<u>Cumulative MCF 6/30/04</u>
Grissom	7,665	172,474,247	1,058	23,623,600
White	4,777	157,605,311	1,768	40,239,138
Chaffee	7,381	200,487,101	2,462	65,604,735
Freeman	9,310	255,711,205	2,389	87,937,582
Pier J (Inc. THX)	2,871	139,836,345	647	25,882,824
Total	32,004	926,114,209	8,324	243,287,879

Reservoir

Tar V	106	1,652,168	38	692,413
Ranger (All Areas)	22,238	692,378,626	5,855	155,364,737
Upper Terminal & Lower Terminal VI, VII	3,548	79,266,474	710	11,244,541
Terminal (Blocks VIII, 90)	2,946	53,321,393	761	15,039,503
Union Pacific-Ford (All Areas)	3,165	95,620,196	960	56,675,202
237 (All Areas)	-	3,875,352	-	4,271,483
Total	32,004	926,114,209	8,324	243,287,879

Water Production**Water Injection**

<u>Location</u>	<u>Average B/D</u>		<u>Average B/D</u>	
	<u>7/1/03-6/30/04</u>	<u>Cumulative Bbls. 6/30/04</u>	<u>7/1/03-6/30/04</u>	<u>Cumulative Bbls. 6/30/04</u>
Grissom	198,978	1,406,634,995	209,116	1,833,079,928
White	138,586	1,093,039,027	156,515	1,480,177,147
Chaffee	135,100	934,367,443	161,390	1,565,524,058
Freeman	190,285	1,360,600,055	193,708	1,490,457,243
Pier J (Inc. THX)	102,706	1,001,002,882	128,040	1,282,264,428
Total	765,655	5,795,644,402	848,769	7,651,502,804

Reservoir

Tar V	664	7,639,263	1,096	17,665,738
Ranger (All Areas)	618,753	4,918,083,953	682,902	6,465,057,074
Upper Terminal & Lower Terminal VI, VII	76,800	475,753,295	83,890	566,509,004
Terminal (Blocks VIII, 90)	34,834	162,529,911	42,069	280,229,656
Union Pacific-Ford (All Areas)	34,604	228,375,053	38,812	322,041,332
237 (All Areas)	-	3,262,927	-	-
Total	765,655	5,795,644,402	848,769	7,651,502,804

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NUMBER OF WELLS

As of June 30, 2004

	Producers	Injectors	Total
By Location			
Grissom	188	89	277
White	137	89	226
Chaffee	203	118	321
Freeman	214	97	311
Pier J (Inc. THX)	84	46	130
Total	826	439	1265
By Reservoir			
Tar V	9	2	11
Ranger (All Areas)	576	334	910
Upper & Lower Terminal VI, VII	87	41	128
Terminal (Blocks VIII, 90)	69	27	96
Union Pacific-Ford (All Areas)	85	35	120
237 (All Areas)	0	0	0
Total	826	439	1265

(Figures exclude abandoned producers and abandoned injectors)

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