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 2-17-05 meeting.

CALENDAR ITEM
C50

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02/17/05
W 17158
A. Reid

CONSIDER APPROVAL OF THE FIRST MODIFICATION OF THE PROGRAM PLAN (JULY 2003 – JUNE 2008) AND THE FIRST MODIFICATION AND SUPPLEMENT OF THE ANNUAL PLAN, (JULY 1, 2004 THROUGH JUNE 30, 2005), 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:

In accordance with the provisions of Section 2.06 of the Optimized Waterflood Program Agreement, and the provisions of Part IV, Section A and B, of the Annual Plan, the City of Long Beach has submitted to the California State Lands Commission (Commission) the First Modification of the Program Plan (July 2003 – June 2008) and the First Modification and Supplement of the Annual Plan (July 1, 2004 through June 30, 2005), Long Beach Unit.

The Modification was submitted to the Commission on January 31 2005, and at its meeting on February 8, 2005, the Long Beach City Council adopted the proposed Modification and Supplement. The Commission has 30 days following submission to approve the Modification. However, in accordance with section 2.06 of the Optimized Waterflood Program Agreement, the Executive Officer of the California State Lands Commission shall have the power to consent to an amendment or supplement to or modification of any portion of an Annual Plan, provided that his consent shall be subject to ratification by the California State Lands Commission at its next regular meeting.

A Program Modification is required to account for additional wells to be drilled and completed during the second year of the Program Plan (FY 04-05). The Program Plan called for drilling a maximum of 36 wells, and 45 wells are now recommended to be drilled. The additional drilling will be undertaken to take advantage of the high oil prices that have averaged over $36 per barrel to date compared to the $20 per barrel assumed in the current annual plan. The additional wells are forecast to deliver $17 million in additional Unit profit over the balance of the Program Plan period.

An Annual Plan Modification and Supplement is required in accordance with section 2.07 of the Optimized Waterflood Program Agreement because the amount to be expended for the Development Drilling and Operating Expense Categories will exceed 120 percent of its budgeted amount. The Development Drilling Category will require an additional $11.5 Million to cover additional drilling costs for the Fiscal Year 04/05. The Operating Expense Category will require an additional $16.8 Million that includes; $3.6 million for operating expenses and investment well work associated with the additional drilling, an $11 million prepayment against the principal balance of the unit's power plant capital lease, $2.0 million for the anticipated Southern California Edison exit fee charge associated with the Long Beach Unit power plant and finally, $0.2 million for additional well abandonment work.

This Annual Plan Modification will allow nine additional wells to be drilled and completed for a total of 45 wells in the current fiscal year. The early payment on the power plant lease will shorten the term by 27 months and reduce interest expense by $7.3 million over the remaining lease term.

Additional oil revenues due to the resulting higher oil production and higher than anticipated oil prices will offset the additional expenditures. The estimated net profit for the unit will increase to $140.3 million versus the $41.8 Million from the original Annual Plan.

The following table compares the original Annual Plan expenses per budget category with the proposed modified amounts.

MILLION DOLLARS		
Total	**Original Annual Plan**	**Modified Annual Plan**
Development Drilling	33.3	44.8
Operating Expenses	81.6	98.4
Facilities, Maintenance, and Plant	34.1	34.1
Unit Field Labor and Administrative	39.2	39.2
Taxes, Permits, and Administrative Overhead	17.3	17.3
TOTAL	**205.5**	**233.8**
Unit Net Profit	41.8	140.3

Commission staff has reviewed the First Modification and Supplement of the Annual Plan 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.

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.

EXHIBIT:

A. Letter Requesting Approval of the First Modification of the Program Plan (July 2003 – June 2008) and the First Modification and Supplement of the Annual Plan (July 1, 2004 through June 30, 2005), Long Beach Unit.

PERMIT STREAMLINING ACT DEADLINE:
N/A

RECOMMEND 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 FIRST MODIFICATION OF THE PROGRAM PLAN (JULY 2003 – JUNE 2008) AND THE FIRST MODIFICATION AND SUPPLEMENT OF THE ANNUAL PLAN, (JULY 1, 2004 THROUGH JUNE 30, 2005), LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

Exhibit A

CITY OF LONG BEACH

DEPARTMENT OF OIL PROPERTIES

211 EAST OCEAN BOULEVARD, SUITE 500 • LONG BEACH, CALIFORNIA 90802 • (562) 570-3900 • FAX 570-3

February 9, 2005

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 FIRST MODIFICATION OF THE PROGRAM PLAN (JULY 2003 - JUNE 2008) AND THE FIRST MODIFICATION AND SUPPLEMENT OF THE ANNUAL PLAN (JULY 1, 2004 THROUGH JUNE 30, 2005)**

Dear Mr. Mount:

In accordance with the provision of Section 2.04 of the Optimized Waterflood Program Agreement, we are submitting for your approval the First Modification of the Program Plan covering the period July 2003 through June 2008. In accordance with the provisions of Part IV, Sections A and B, of the Annual Plan, we are also submitting for your approval the First Modification and Supplement of the Annual Plan covering the period July 1, 2004 through June 30, 2005.

Program Plan Modification

A Program Modification is required to account for additional wells to be drilled and completed during the second year of the Program Plan (FY 04-05). The Program Plan called for drilling a maximum of 36 wells and 45 wells are now recommended to be drilled. The Modification will also adjust Schedule 2B to reflect a higher number of wells expected to be drilled at Islands White (18) and Chaffee (18). The additional drilling will be undertaken to take advantage of the high oil prices that have averaged over $36 per barrel to date. The additional wells are forecast to deliver $17 million additional Unit Net Profit over the balance of the Program Plan period.

Annual Plan Modification and Supplement

An Annual Plan Modification and Supplement is required since the amount to be expended for the Development Drilling and Operating Expense Categories will each exceed 120 percent of their budgeted amount. The Modification will also adjust Schedule 2B to reflect a higher number of wells expected to be drilled at Islands White and Chaffee. The Development Drilling Category will require an $11.5 million supplement (35% increase) for additional drilling costs in FY 04-05. The Operating Expense Category will require a $16.8 million supplement (21%) to cover operating expenses associated with additional drilling as well as an $11 million prepayment of the Unit's power plant capital lease. The early payment will shorten the term of the lease by 27 months and reduce interest payments by $7.3 million over the remaining term of the lease. Additional oil revenues due to higher oil prices and increased oil production will offset the supplemental expenses and result in an estimated net profit of $140.3 million (versus $41.8 million).

After approval of this request, the revised Annual Plan Category budgets will be as follows:

Annual Plan Category	**Origina l ($MM)**	**Modified ($MM)**
Development Drilling	33.3	44.8
Operating Expense	81.6	98.4
Facilities, Maintenance, and Plant	34.1	34.1
Unit Field Labor and Administrative	39.2	39.2
Taxes, Permits, and Administrative Overhead	17.3	17.3
TOTAL	**205.5**	**233.8**
Unit Net Profit	**41.8**	**140.3**

The subject Modifications and Supplement were approved by the City of Long Beach, as Unit Operator, on February 8, 2005 at the City of Long Beach City Council meeting. Please contact Sue Schoij at 570-3973 for any questions on this matter.

Sincerely,

for Christopher J. Garner
Director

CJG:scs

cc: Frank Komin, Thums

GOV 404.002
OPR 708.200
FIN 312.002