CITY OF LONG BEACH
Gas & Oil
DEPARTMENT

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November 3, 2009

Mr. Greg Scott
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, 2008 – JUNE 30, 2009)**

Dear Mr. Scott:

In accordance with provisions of Part IV, Section C, of the Annual Plan, we are submitting for your approval this final report and closing statement to the Annual Plan covering the period July 1, 2008 through June 30, 2009. 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 replacement of drilling equipment within the Unit.

Operations Review

FY 2009 was an extraordinary period for the Unit in terms of oil price fluctuation. During the Plan period, the oil price topped $133/bbl in July 2008 and bottomed at $25/bbl in February 2009. Due to extreme fluctuations in the price of oil, the operating strategy was changed accordingly from growth to cash flow management. During the Plan period 31 drill wells were completed; however, 23 of them were drilled in the first half of FY 2009 when the oil price was high. Following is a listing of both new completions and redrills by zone:

	New Completions			Redrills		
Zone	Prod	Inj	Total	Prod	Inj	Total
Tar	0	0	0	0	0	0
Ranger	6	7	13	5	1	6
Terminal	2	3	5	0	1	1
UP-Ford	3	0	3	1	0	1
237	2	0	2	0	0	0
Totals	**13**	**10**	**23**	**6**	**2**	**8**

On June 30, 2009, the total number of wells in the Unit was 1,348, of which 710 were active producers, 458 were active injectors, and 180 wells were shut in due to mechanical or reservoir related issues. Excluded from these totals are the abandoned wells.

Budget to Actual Variance

The Plan provided funds for 58 new and redrilled wells that were to be drilled with two full-time and one half-time drilling rigs. The execution of the proposed Plan was on track for the first half of the FY 2009 as 23 drill wells were completed during that period. However, due to lower oil prices, the drilling activity was significantly reduced during the second half of FY 2009. The reduction in drilling rig count from three to one resulted in 31 wells being drilled in comparison to the 58 wells in the Plan.

Total spending for Development Drilling was $61.3 million, which is $28.7 million below Plan. This difference was mainly driven by the lower drilling activity versus Plan. The plan included $11.3 million for drilling rig maintenance, drilling support and drill rig upgrades. However, the total spending was $8.1 million. Release of the two drilling rigs has resulted in lower spending in this category.

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 27,716 bbls/day, which was 415 bbls/day higher than the Plan estimate. The base oil rate decline was lower than expected primarily due to the success of waterflood management initiatives instituted in the Unit during the second half of FY 2008. The oil production potential was within the historic variations. The number of wells shut-in for voidage and repair was also in line with historic levels.

- Gas production averaged 12,555 mcf/day, which was 2,114 mcf/day lower than the Plan estimate. Watering out of two shallow gas wells (A271, A301) is the primary cause for the difference.

- Water injection averaged 1,032,336 bbls/day, which was 26,414 bbls/day lower than originally estimated in the Plan. Gross production averaged 974,080 bbls/day, which was 28,533 bbls/day lower than estimated.

- The average price for Unit crude was $60.9/bbl during the Plan period. The Plan was based on $55.0/bbl crude. The average price for Unit gas was $5.2/mcf, and the Plan was based on $7.00/mcf.

- The Plan included $842,000 for the wells and facility abandonment expenses. Actual abandonment expense was $619,000 primarily due to the facility abandonments. Well abandonment expense was minimal.

Budget to Actual Variance

The budget for the Operating Expense category was $114.3 million, of which $93.2 million, or 82 percent, was spent. The lower spending level was primarily related to lower electricity costs due to lower actual SCE tariffs and fuel costs for power plant usage. 24 IWW projects were completed at an average cost of $302,000 per project, which was higher that the 20 IWW projects in the Plan at an average cost of $250,000.

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:

- Amine Plant
- Facility Capacity Injection and Electrical
- Grissom Material and Shop Construction
- Pier J 12KV Harmonic Filter Installation
- Facility Capacity Phase 3
- J2 to Shipping Piping
- Chaffee Sand Filter/Receiving Tank
- JL-2 & JBM Pipeline Encasement
- Cellar 1 Culvert Piping Replacement
- Facility Capacity Phase 1 – Water Plants
- White Produced Water Piping Replacement

Budget to Actual Variance

The Facilities, Maintenance, and Plant Category had a budget of $87.8 million, of which $84 million, or 95 percent, was spent.

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 $58.3 million, of which $50.1 million, or 86 percent, was spent.

The Unit Field Labor and Administrative category spending was below Plan primarily due to lower actual headcount than the Plan estimate.

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 $35.2 million, of which $40.7 million, or 116 percent, was spent.

The Taxes, Permits, and Administrative Overhead category spending was over primarily due to the increase in property taxes.

SUMMARY

The Long Beach Unit Annual Plan budget for the period July 1, 2008 to June 30, 2009 was $385.6 million, of which $329.5 million, or 85 percent, was spent. Higher realized oil prices and lower operating cost than the Plan has resulted in fiscal year profit of $310.5 million in comparison to $200.0 million originally estimated in the Plan.

Significant effort was made during the Plan period to achieve best-in-class waterflood performance paramount to increasing the long-term value for the Unit. The development program was successfully implemented, which was optimized for capital investment and cash flow, while maintaining focus on health, environment and safety. Your concurrence with this Final Report and Closing Statement of the Annual Plan is requested.

BUDGET RECONCILIATION

Attached are the July 1, 2008 though June 30, 2009 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:kmt
FIN 312.003

Attachments

Economic Projections

(Data in Thousands of $)	ACTUAL FIRST QUARTER FY09	ACTUAL SECOND QUARTER FY09	ACTUAL THIRD QUARTER FY09	ACTUAL FOURTH QUARTER FY09	ACTUAL TOTAL FISCAL YEAR FY09	BUDGET TOTAL FISCAL YEAR FY09	% ACTUAL OVER/UNDER(-) BUDGET FY09
ESTIMATED REVENUE							
Oil Revenue	$282,733	$116,581	$87,915	$129,022	$616,250	$548,068	12.4%
Gas Revenue	$11,909	$5,138	$4,257	$2,375	$23,678	$37,559	-37.0%
TOTAL REVENUE	$294,642	$121,718	$92,171	$131,397	$639,928	$585,627	9.3%
ESTIMATED EXPENDITURES							
Development Drilling	$17,763	$22,114	$17,111	$4,331	$61,319	$90,026	-31.9%
Operating Expense	$25,747	$27,602	$19,353	$20,517	$93,219	$114,309	-18.5%
Facilities & Maintenance	$25,942	$25,731	$17,756	$14,635	$84,064	$87,838	-4.3%
Unit Field Labor & Admin	$9,243	$14,591	$16,731	$9,580	$50,145	$58,252	-13.9%
Taxes, Permits & Admin. Overhead	$11,482	$11,134	$10,179	$7,919	$40,715	$35,170	15.8%
TOTAL EXPENDITURES	$90,178	$101,172	$81,130	$56,981	$329,462	$385,595	-14.6%
NET PROFIT	$204,463	$20,546	$11,041	$74,415	$310,466	$200,032	55.2%

Major Planning Assumptions

	ACTUAL FIRST QUARTER FY09	ACTUAL SECOND QUARTER FY09	ACTUAL THIRD QUARTER FY09	ACTUAL FOURTH QUARTER FY09	ACTUAL TOTAL FISCAL YEAR FY09	BUDGET TOTAL FISCAL YEAR FY09	% ACTUAL OVER/UNDER(-) BUDGET FY09
OIL PRODUCTION:							
QUARTERLY (1,000 BBL)	2,642	2,547	2,510	2,417	10,116	9,965	
AVERAGE B/D	28,717	27,689	27,586	26,851	27,716	27,301	1.52%
GAS PRODUCTION:							
QUARTERLY (MMCF)	1,227	1,115	1,135	1,106	4,583	5,354	
AVERAGE MCF/D	13,338	12,121	12,471	12,283	12,555	14,669	-14.41%
WATER PRODUCTION:							
QUARTERLY (1,000 BBL)	85,961	86,178	86,358	86,926	345,423	355,989	
AVERAGE B/D	934,358	936,718	948,984	965,849	946,364	975,312	-2.97%
WATER INJECTION							
QUARTERLY (1,000 BBL)	93,838	95,441	92,997	94,527	376,803	386,447	
AVERAGE B/D	1,019,982	1,037,398	1,021,946	1,050,298	1,032,336	1,058,759	-2.50%
AVG OIL PRICE ($/BBL)	107	46	35	53	61	55	10.76%
AVG GAS PRICE ($/MCF)	10	5	4	2	5	7	-26.18%

		Oil Production		Gas Production	
Location		Average B/D 7/1/08-6/30/09	Cumulative Mbbls. 6/30/09	Average MCF/D 7/1/08-6/30/09	Cumulative MMCF 6/30/09
Grissom		6,054	185,100	4,848	29,278
White		4,947	166,595	2,147	43,936
Chaffee		6,128	212,803	2,413	70,432
Freeman		7,694	270,903	2,375	92,374
Pier J (Inc. THX)		2,893	145,108	772	27,263
	Total	27,716	980,508	12,555	263,282
Reservoir					
Shallow Gas		-	-	3,814	3,635
Tar V		99	1,848	41	770
Ranger		18,993	729,370	5,993	166,459
Terminal		5,157	143,101	1,383	29,011
Union Pacific-Ford		3,138	102,098	1,193	59,009
237		329	4,091	131	4,398
	Total	27,716	980,508	12,555	263,282

		Water Production		Water Injection	
Location		Average B/D 7/1/08-6/30/09	Cumulative Mbbls. 6/30/09	Average B/D 7/1/08-6/30/09	Cumulative Mbbls. 6/30/09
Grissom		248,701	1,828,661	267,186	2,284,597
White		156,001	1,364,773	174,343	1,780,187
Chaffee		173,814	1,228,697	206,885	1,916,904
Freeman		240,084	1,753,115	231,579	1,882,614
Pier J (Inc. THX)		127,764	1,213,530	152,343	1,535,986
	Total	946,364	7,388,774	1,032,336	9,400,287
Reservoir					
Shallow Gas		-	-	-	-
Tar V		941	9,097	1,944	21,806
Ranger		745,956	6,192,827	806,377	7,848,417
Terminal		140,846	866,154	155,250	1,099,744
Union Pacific-Ford		57,032	316,847	68,765	430,321
237		1,589	3,849	-	-
	Total	946,364	7,388,774	1,032,336	9,400,287

Number of Wells
As of June 30, 2009

By Reservoir

Zone	Producer	Injector	Total
SG	7	0	7
Tar	12	2	14
Ranger	584	345	929
Terminal	162	78	240
UPF	91	65	156
237	2	0	2
Total	858	490	1348

By Islands

Zone	Producer	Injector	Total
Grissom	203	95	298
White	147	108	255
Chaffee	202	128	330
Freeman	213	111	324
Pier J	93	48	141
Total	858	490	1348