

CALENDAR ITEM

C54

A 70
S 33, 34

10/13/16
W 17168
E. Tajer

**CONSIDER ACCEPTANCE OF THE
FINAL REPORT AND CLOSING STATEMENT
FOR THE LONG BEACH UNIT ANNUAL PLAN
(JULY 1, 2015, THROUGH JUNE 30, 2016),
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

GRANTEE:

City of Long Beach

BACKGROUND:

The City of Long Beach submitted its Final Report and Closing Statement of the Annual Plan, Long Beach Unit for Fiscal Year 2015-2016 (Report), covering the period July 1, 2015, through June 30, 2016, to the Commission, as required by section 10 of Chapter 138, Statutes of 1964, 1st Extraordinary Session. Although Commission action on the Report is not a requirement under the statute or various Long Beach Unit agreements, the City of Long Beach has requested the Commission's concurrence with and acceptance of the Report by letter dated September 2, 2016 (Exhibit C, attached). This report provides the actual performance for the full Fiscal Year 2015-2016.

Total expenditures for the Long Beach Unit were \$236.0 million, which was \$101.3 million less than the approved budget for Fiscal Year 2015-2016. The less than planned expenditures were primarily the result of lower than anticipated drilling development, facilities, tax, permits and administrative overhead costs for the fiscal year.

Net profit for Fiscal Year 2015-2016 was \$85.0 million, which was \$51.3 million higher than the approved budget estimate. The higher than planned net profit was the result of the spending cuts implemented in response to lower oil prices.

CALENDAR ITEM NO. **C54** (CONT'D)

There was one modification of the original budget of \$337.3 million during the fiscal year, which was accepted by Commission ([Calendar Item C86, June 28, 2016](#)). The Unit Field, Labor and Administrative spending category required an increase of \$12.1 million for higher severance and required pension contribution payments than originally planned for Fiscal Year 2015-2016.

The average oil and gas rates for the Fiscal Year 2015-2016 were reported to be 22,670 barrels (bbls)/day of oil (810 bbls/day more than the Plan estimate) and 9,074 thousand cubic feet (MCF)/day of gas (306 MCF/day more than the Plan estimate). The cumulative recoveries and injection through June 2016 are as follows:

Oil Production	1,043,925 thousand barrels (MBarrels)
Gas Production	287,694 million cubic feet (MMCF)
Water Production	10,007,730 MBarrels
Water Injection	12,234,539 MBarrels

Cumulative Injection - Gross Production Ratio is 1.10 bbls/bbl.

The approved budget forecast used an oil price of \$45.00/bbl and a gas price of \$3.75/MCf, whereas the actual prices averaged \$38.09/bbl of oil and \$1.38/MCf of gas for the fiscal year.

See the tables below for additional details.

ACTUAL OIL AND GAS PRICES, EXPENDITURES, AND NET PROFIT FOR FY 2015-2016 (IN MILLIONS OF DOLLARS)					
	ACTUAL FIRST QUARTER FY15/16	ACTUAL SECOND QUARTER FY 15/16	ACTUAL THIRD QUARTER FY 15/16	ACTUAL FOURTH QUARTER FY 15/16	ACTUAL FY 15/16
Oil Revenue	96.3	81.9	57.0	79.3	316.0
Gas Revenue	1.6	1.2	1.2	0.6	4.6
Expenditures	73.0	70.3	51.3	41.4	236.0
Net Profit	25.0	12.8	8.8	38.5	85.0
Oil Price \$/BBL	45.2	38.2	28.9	40.0	38.1
Gas Price \$/MCF	1.9	1.5	1.4	0.7	1.38

CALENDAR ITEM NO. **C54** (CONT'D)

ORIGINAL BUDGET NET PROFIT AND CHANGE FOR FY 2015-2016 (IN MILLIONS OF DOLLARS)					
	FIRST QUARTER FY15/16	SECOND QUARTER FY 15/16	THIRD QUARTER FY 15/16	FOURTH QUARTER FY 15/16	TOTAL FY 15/16
Original Budget Net Profit	16.5	16.4	0.5	0.4	33.8
Actual Net Profit	25.0	12.8	8.8	38.5	85.0

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

OTHER PERTINENT INFORMATION:

1. Acceptance of the Final Report and Closing Statement is not a project as defined by the California Environmental Quality Act because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, sections 15378, subdivision (b)(5).

2. This action is consistent with Strategy 1.5 of the Commission's Strategic Plan to ensure the highest level of environmental protection and public safety in the production and transportation of oil and gas resources, by applying Key Action 1.5.2 to ensure lease and contract compliance with sound oil and gas development practices in compliance with regulatory and statutory requirements.

EXHIBITS:

- A. LBU Financial Performance, FY 2015-2016, Annual Plan vs. Actual
- B. LBU Oil Rate Performance, FY 2015-2016, Annual Plan vs. Actual
- C. Letter from the City of Long Beach requesting acceptance of the Final Closing Statement to the Annual Plan

CALENDAR ITEM NO. **C54** (CONT'D)

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

Accept for filing the Final Report and Closing Statement for the Long Beach Unit Annual Plan for the period July 1, 2015, through June 30, 2016, Long Beach Unit, Wilmington Oil Field, Los Angeles County.

Exhibit A
LBU Financial Performance
FISCAL YEAR 2015-2016 ANNUAL PLAN VS ACTUAL

W 17168

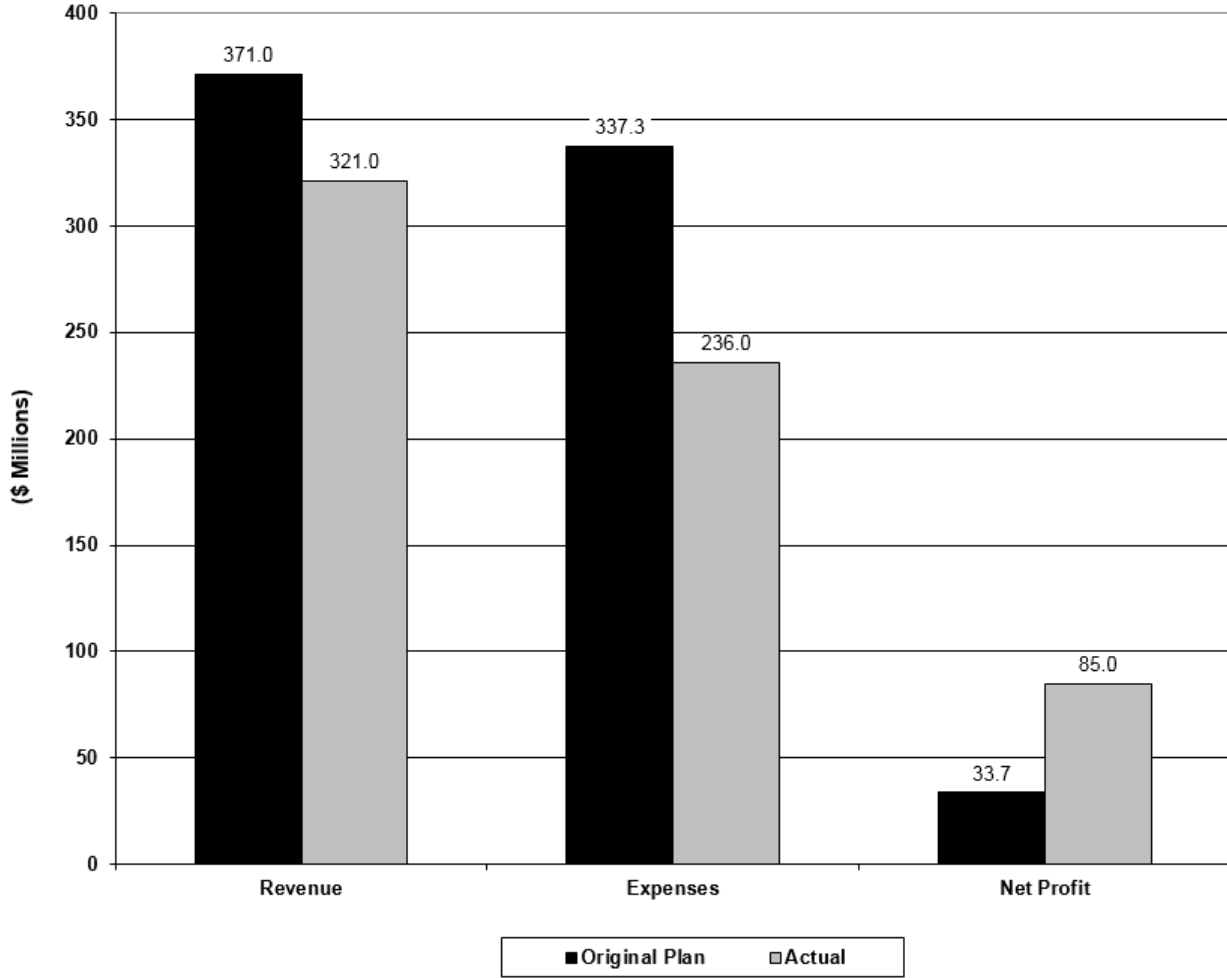


Exhibit B

W 17168

LBU OIL RATE PERFORMANCE
FISCAL YEAR 2015-2016 ANNUAL PLAN VS ACTUAL

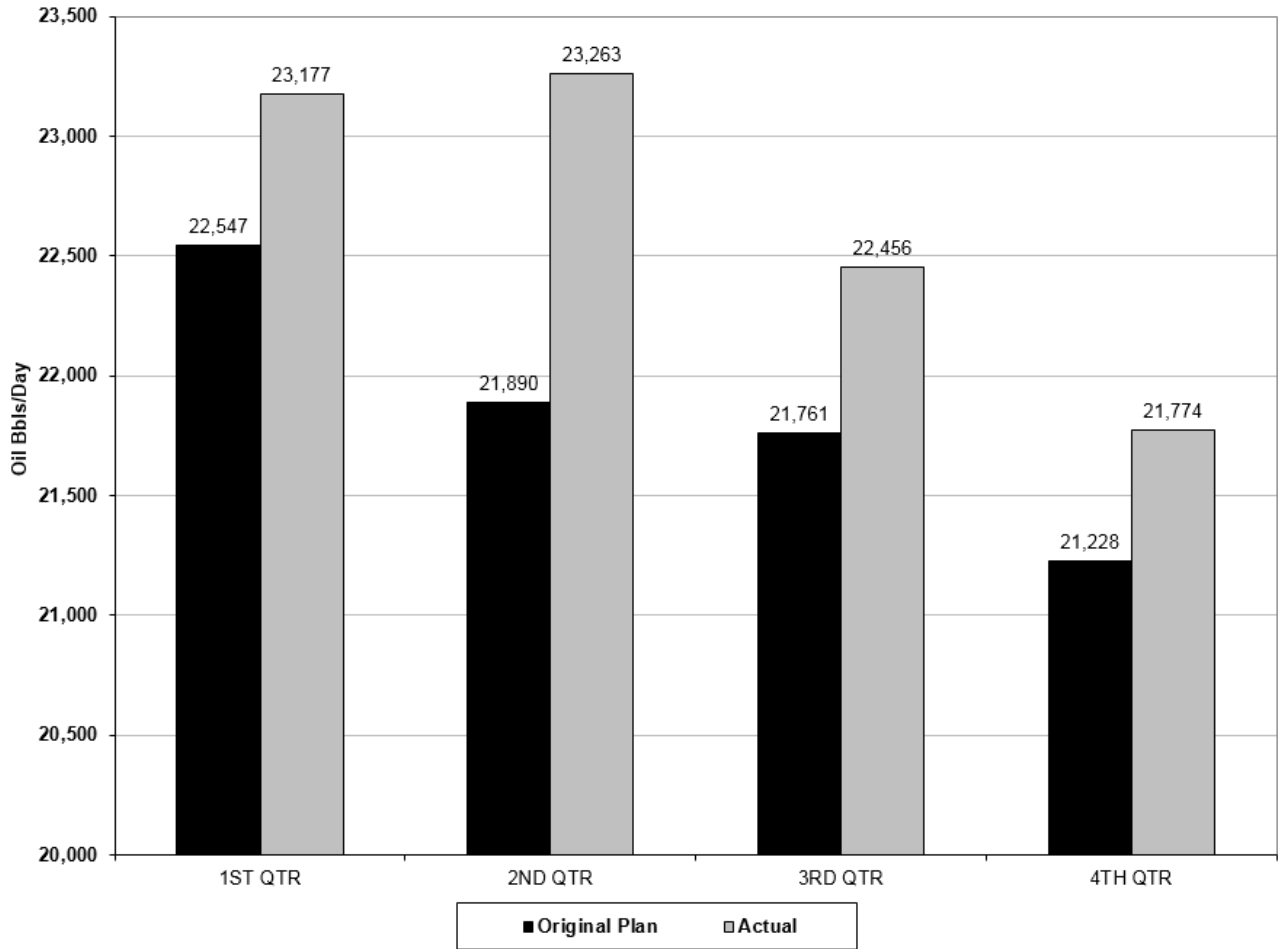


Exhibit C

CITY OF LONG BEACH

W 17168



ROBERT DOWELL
DIRECTOR

2400 EAST SPRING STREET · LONG BEACH, CA 90806
(562) 570-2000 · www.lbgo.org

DEPARTMENT

September 2, 2016

Ms. Marina Voskanian
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 TO THE ANNUAL PLAN (JULY 1, 2015 THROUGH JUNE 30, 2016)

Dear Ms. Voskanian:

In accordance with provisions of Part IV, Section C, of the Annual Plan, attached for your approval is the final report and closing statement to the Annual Plan covering the period July 1, 2015 through June 30, 2016. This report contains a reconciliation of Unit activities by category.

The Long Beach Unit FY2016 budget was \$337.3 million while the actual spent was \$236.0 million or 70 percent of budget. The slightly lower realized oil prices than built into the Plan combined with the spending cuts implemented in response to lower oil prices have resulted in fiscal year profit of \$85.0 million in comparison to \$33.7 million originally estimated in the Plan.

Funding Category	Budget	Actual	Variance
Development Drilling	83.0	29.2	Drilled and completed 18 wells with 0.5 drilling rigs instead of planned 39 wells with 1.5 drilling rigs.
Operating Expense	82.8	84.2	Slightly higher than budget due to slightly higher injection rates.
Facilities, Maintenance, and Plant	79.9	50.6	Lower spending level as a result of reduction in activity.
Unit Field Labor and Administrative	43.5	41.4	Includes supplement of \$12.1 million for higher severance and pension contribution.
Taxes, Permits, and Administrative Overhead	48.1	30.5	Lower spending due to lower property taxes.
Total	337.3	236.0	

Notes: Numbers in table are in millions of Dollars (rounded).

Ms. Marina Voskanian
September 2, 2016
Page 2

Significant effort was made during the Plan period to achieve best-in-class waterflood performance, which is paramount to increasing long-term value for the Unit. The development program was successfully implemented, which was optimized for capital investment, cash flow, and market volatility while maintaining focus on health, environment, and safety.

Your concurrence with this Final Report and Closing Statement to the Annual Plan is requested.

Sincerely,



Robert Dowell
Director

Attachment: Final Report and Closing Statement – Annual Plan (July 1, 2015 - June 30, 2016)
prepared by California Resources Corporation, August 16, 2016.

CONCURRENCE:

MARINA VOSKANIAN
Chief, Mineral Resources Management
California State Lands Commission



August 16, 2016

Robert Dowell, Director
 Long Beach Gas and Oil Department
 2400 East Spring Street
 Long Beach, CA 90806

Dear Mr. Dowell:

Subject: 25-16 Thums Request
 Final Report and Closing Statement
 Annual Plan (July 1, 2015 - June 30, 2016)

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, 2015 through June 30, 2016. 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

FY2016 reflects the successful implementation of the Unit's operation strategy that has attempted to manage the fluctuations in the oil price environment. During the FY2016 Plan period, operations activities adapted to manage persistent commodity market risk while maximizing return to the Unit. During the period, the Unit operated 0.5 rig (1 rig from July 2015 – December 2015 and 0 rig since January 2016). A total of 18 wells were drilled and completed during the period. The following is a listing of both new completions and redrills by zone:

Zone	New Completions			Redrills		
	Prod	Inj	Total	Prod	Inj	Total
Tar	0	1	1	4	0	4
Ranger	3	1	4	5	2	7
Terminal	0	0	0	2	0	2
UP-Ford	0	0	0	0	0	0
237	0	0	0	0	0	0
Total	3	2	5	11	2	13

On June 30, 2016, the total number of wells in the Unit was 1,513, of which 732 were active producers, 481 were active injectors, and 300 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 39 new and redrilled wells that were to be drilled with 1.5 full-time drilling rigs. The actual number of wells drilled and completed was at 18 using 0.5 drilling rig.

The budget for the Development Drilling category was \$83.0 million, while actual spend was 65% lower at \$29.2 million. Due to reduced activity in response to the lower commodity price environment, number of rigs and well completions were lower than planned and drilling expense was 35% of the planned amount.

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 production during the Plan period averaged 22,670 bbls/day, which was 810 bbls/day higher than the Plan estimate.
- Gas production averaged 9,074 mcf/day, which was 306 mcf/day higher than the Plan estimate.
- Water injection averaged 1,200,660 bbls/day, which was 26,886 bbls/day higher than originally estimated in the Plan. Water production averaged 1,104,837 bbls/day, which was 31,002 bbls/day more than the Plan estimate.
- The average price for Unit crude was \$38.09/bbl during the Plan period. The Plan was based on \$45.00/bbl crude. The average price for Unit gas was \$1.38/mcf and the Plan was based on \$3.75/mcf.

Budget to Actual Variance

Total spending for Operating Expense was \$84.2 million, compared to \$82.8 million approved budget.

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:

- THUMS Tank and Vessel
- THUMS Regulated Pipeline Inspection Survey and Evaluation
- THUMS Pump and Motor PM
- Chaffee NE Quadrant Piping Project
- THUMS Oil Transfer Pump Project
- Pier J SS Skim Basin
- Freeman Gas Booster
- TK-87M2 Repair Project

Budget to Actual Variance

The Facilities, Maintenance and Plant Category had a budget of \$79.9 million, of which \$50.6 million, or 63%, was spent. The lower spending level was primarily related to reduction in activity in concert with price environment.

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, California Resources 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 \$43.5 million, including a supplement of \$12.1 million for higher severance and required pension contribution, as per approval received in June, 2016. Actual spend was 5% lower at \$41.4 million.

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 \$48.1 million, while actual spend was 37% lower at \$30.5 million. The lower spending was related to lower actual Ad Valorem and planned taxes.

SUMMARY

The Long Beach Unit FY2016 budget was \$337.3 million, of which \$236.0 million, or 70%, was spent. Despite lower realized oil price than built into the Plan, fiscal year profit was \$85.0 million in comparison to \$33.7 million originally estimated in the Plan.

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

Yours very truly,



Robert A. Barnes
EVP Operations
California Resources Corporation

APPROVED:

Robert Dowell Date

PR
Attachments
cc: Management Team

Economic Projections

Data in Thousands of \$	ACTUAL FIRST QUARTER FY16	ACTUAL SECOND QUARTER FY16	ACTUAL THIRD QUARTER FY16	ACTUAL FOURTH QUARTER FY16	ACTUAL TOTAL FISCAL YEAR FY16	BUDGET TOTAL FISCAL YEAR FY16	% ACTUAL OVER/UNDER (-) BUDGET FY16
ESTIMATED REVENUE							
Oil Revenue	\$ 96,294	\$ 81,863	\$ 58,960	\$ 79,301	\$ 316,419	\$ 359,046	-11.9%
Gas Revenue	\$ 1,581	\$ 1,225	\$ 1,179	\$ 598	\$ 4,584	\$ 12,001	-61.8%
TOTAL REVENUE	\$ 97,876	\$ 83,088	\$ 60,139	\$ 79,899	\$ 321,002	\$ 371,048	-13.5%
ESTIMATED EXPENDITURES							
Development Drilling	\$ 12,598	\$ 11,958	\$ 4,567	\$ 72	\$ 29,195	\$ 82,966	-64.8%
Operating Expense	\$ 24,841	\$ 21,771	\$ 21,308	\$ 16,316	\$ 84,236	\$ 82,823	1.7%
Facilities & Maintenance	\$ 15,381	\$ 15,193	\$ 8,388	\$ 11,676	\$ 50,639	\$ 79,893	-36.6%
Unit Field Labor & Admin	\$ 9,593	\$ 15,428	\$ 8,945	\$ 7,464	\$ 41,430	\$ 43,500	-4.8%
Taxes, Permits & Admin Overhead	\$ 10,554	\$ 5,965	\$ 8,133	\$ 5,859	\$ 30,511	\$ 48,125	-36.6%
TOTAL EXPENDITURES	\$ 72,967	\$ 70,314	\$ 51,342	\$ 41,388	\$ 236,011	\$ 337,307	-30.0%
NET PROFIT	\$ 24,909	\$ 12,774	\$ 8,798	\$ 38,511	\$ 84,991	\$ 33,740	151.9%

Major Planning Assumptions

	ACTUAL FIRST QUARTER FY16	ACTUAL SECOND QUARTER FY16	ACTUAL THIRD QUARTER FY16	ACTUAL FOURTH QUARTER FY16	ACTUAL TOTAL FISCAL YEAR FY16	BUDGET TOTAL FISCAL YEAR FY16	% ACTUAL OVER/UNDER (-) BUDGET FY16
OIL PRODUCTION :							
QUARTERLY (1,000 BBL)	2,132	2,140	2,043	1,981	8,297	7,979	
AVERAGE B/D	23,177	23,263	22,456	21,774	22,670	21,860	3.7%
GAS PRODUCTION :							
QUARTERLY (MMCF)	832	811	863	814	3,321	3,200	
AVERAGE MCF/D	9,046	8,817	9,485	8,950	9,074	8,768	3.5%
WATER PRODUCTION :							
QUARTERLY (1,000 BBL)	100,793	103,675	99,475	100,427	404,370	391,950	
AVERAGE B/D	1,095,579	1,126,897	1,093,137	1,103,594	1,104,837	1,073,835	2.9%
WATER INJECTION :							
QUARTERLY (1,000 BBL)	109,314	111,496	109,040	109,591	439,442	428,428	
AVERAGE B/D	1,188,197	1,211,917	1,198,241	1,204,297	1,200,660	1,173,774	2.3%
AVG. OIL PRICE (\$/BBL)	45.18	38.20	38.89	40.02	38.09	45.00	-15.4%
AVG GAS PRICE (\$/MCF)	1.90	1.51	1.36	0.74	1.38	3.73	-63.3%

Number of wells
As of June 30, 2016

By Location	Producer	Injectors	Total
Crissom	212	110	322
White	213	128	341
Chaffee	209	137	346
Freeman	209	123	332
Pier I	105	67	172
Total	948	565	1,513

By Reservoir			
SHALLOW GAS	3	0	3
TAR	15	3	18
RANGER	673	408	1,081
TERMINAL	156	92	248
UP-Ford	97	62	159
237	4	0	4
Total	948	565	1,513