

## STAFF REPORT

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### CONSIDER ACCEPTANCE OF THE FINAL REPORT AND CLOSING STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2018, THROUGH JUNE 30, 2019), 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 2018-2019 (Report), covering the period July 1, 2018, through June 30, 2019, to the Commission, as required by section 10 of Chapter 138, Statutes of 1964, 1<sup>st</sup> 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 October 1, 2019 (Exhibit C, attached). This Report provides the actual performance for the full Fiscal Year 2018-2019.

Total expenditures for the Long Beach Unit were \$248.8 million, which was \$98.6 million less than the approved budget for Fiscal Year 2018-2019. The lower than planned expenditures were primarily the result of less than anticipated drilling development, facilities, tax, permits and administrative overhead operation costs for the fiscal year.

The Unit's net profits for Fiscal Year 2018-2019 was \$222.6 million, which was \$151.2 million more than forecasted. The higher than planned net profit was the result of lower spending on development drilling and higher realized oil price than built into the Plan.

The average oil and gas rates for the Fiscal Year 2018-2019 were reported to be 19,283 barrels per day (bbls/day) of oil (1,140 bbls/day lower than the Plan estimate) and 7,225 thousand cubic feet per day (MCF/day) of gas (875 MCF/day lower than the Plan estimate). The cumulative recoveries and injection since 1965 through June 2019 are as follows:

**STAFF REPORT NO. 62 (CONT'D)**

Oil Production:	1,066,010,000 barrels
Gas Production:	290,232 million cubic feet
Water Production:	11,214,054,000 barrels
Water Injection:	13,506,218,000 barrels

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

The approved budget forecast assumed an oil price of \$55.00/bbl and a gas price of \$3.00/MCF, whereas the actual prices averaged \$65.82/bbl for oil and \$3.10/MCF for gas for the fiscal year. See the tables below for additional details.

Table 1. Actual Oil and Gas Prices, Expenditures, and Net Profit  
for Fiscal Year 2018-2019 (in Millions of Dollars)

	<b>First Quarter FY 18/19</b>	<b>Second Quarter FY 18/19</b>	<b>Third Quarter FY 18/19</b>	<b>Fourth Quarter FY 18/19</b>	<b>ACTUAL FY 18/19</b>
Oil Revenue	131.96	115.54	104.35	111.39	463.24
Gas Revenue	1.86	1.58	3.22	1.52	8.18
Expenditures	63.30	54.35	74.63	56.51	248.79
Net Profit	70.51	62.77	32.94	56.40	222.63
Oil Price \$/bbl	71.86	64.15	60.90	66.02	65.82
Gas Price \$/MCF	2.86	2.49	4.76	2.26	3.10

Table 2. Original Budget Net Profit and Change for Fiscal Year 2018-2019  
(In Millions of Dollars)

	<b>First Quarter FY 18/19</b>	<b>Second Quarter FY 18/19</b>	<b>Third Quarter FY 18/19</b>	<b>Fourth Quarter FY 18/19</b>	<b>Total FY 18-19</b>
Forecasted Net Profit	19.0	19.8	14.8	17.9	71.4
Actual Net Profit	70.51	62.77	74.63	56.51	222.63

Staff has reviewed the Report, 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.

STAFF REPORT NO. **62** (CONT'D)

**OTHER PERTINENT INFORMATION:**

1. 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.
2. Acceptance for filing of the Final Report and Closing Statement for the Long Beach Unit Annual Plan 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).

**EXHIBITS:**

- A. LBU Financial Performance, FY 2018-2019, Annual Plan vs. Actual
- B. LBU Oil Rate Performance, FY 2018-2019, Annual Plan vs. Actual
- C. Letter from the City of Long Beach dated October 1, 2019

**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, 2018, through June 30, 2019, Long Beach Unit, Wilmington Oil Field, Los Angeles County.

**Exhibit A**  
**LBU Financial Performance**  
**FISCAL YEAR 2018-2019 ANNUAL PLAN VS ACTUAL**

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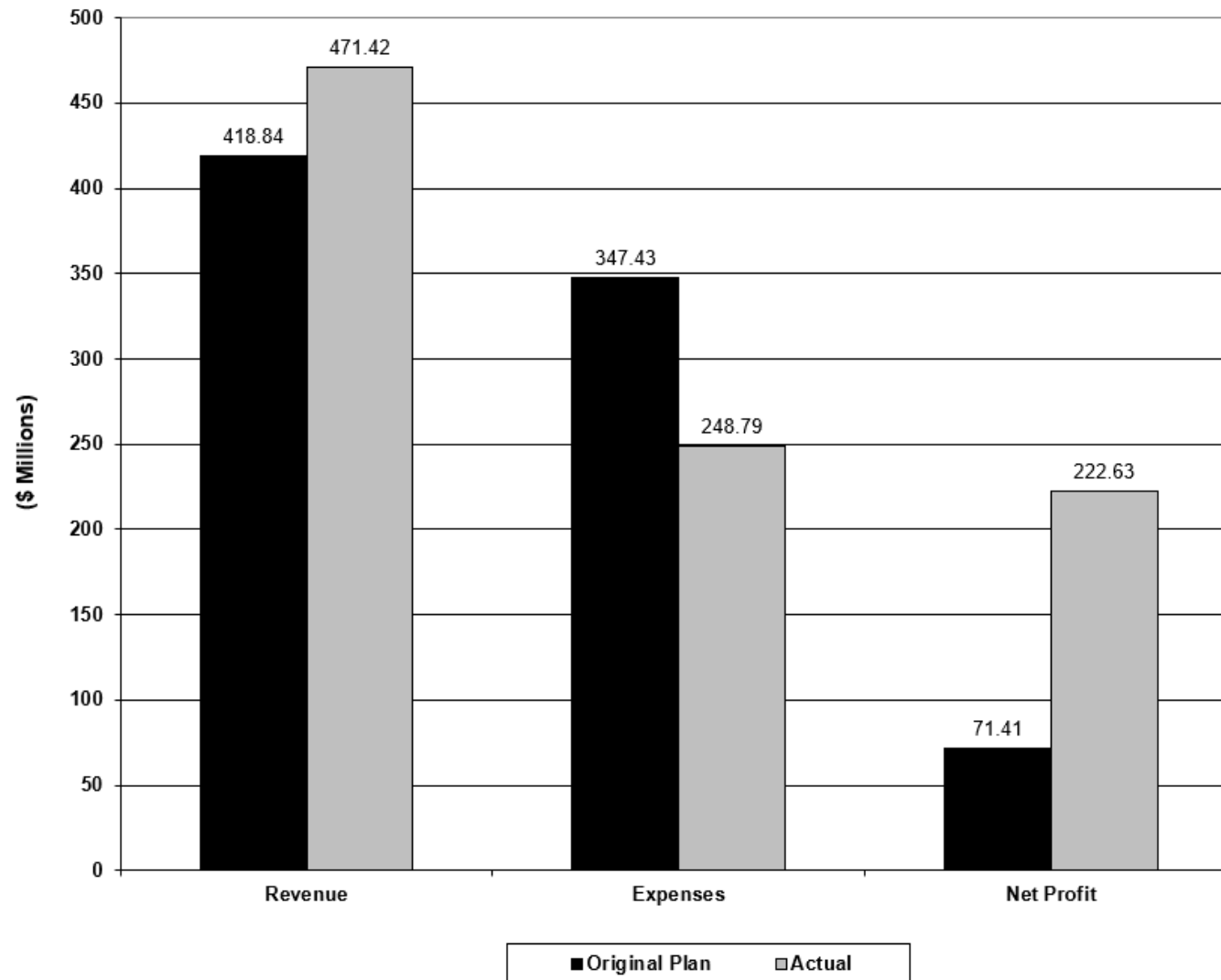
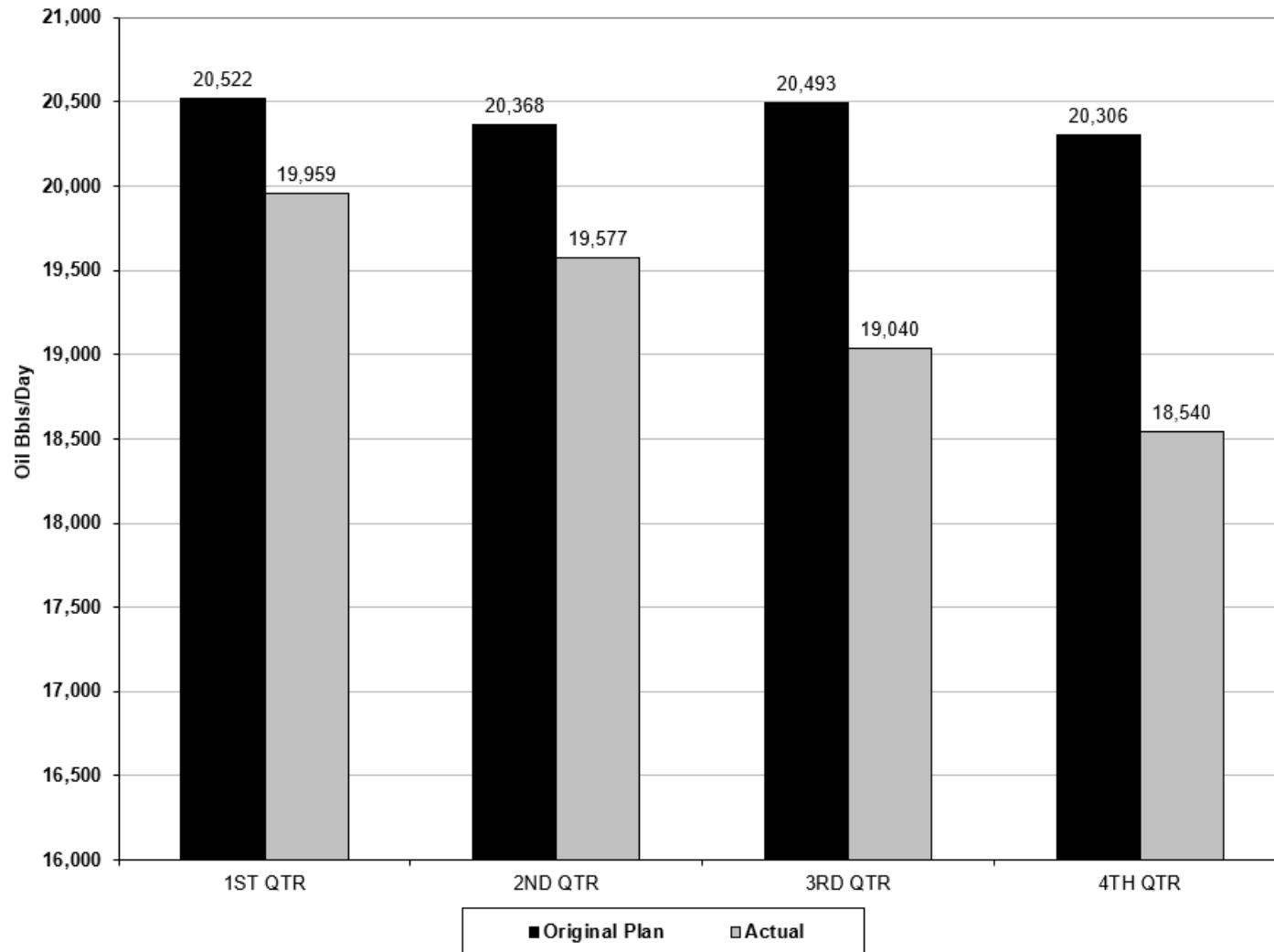


Exhibit B

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**LBU OIL RATE PERFORMANCE**  
**FISCAL YEAR 2018-2019 ANNUAL PLAN VS ACTUAL**



## Exhibit C

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**LONG BEACH ENERGY RESOURCES**  
2400 EAST SPRING STREET • LONG BEACH, CA 90806  
(562) 570-2000 • [www.longbeach.gov](http://www.longbeach.gov)

October 1, 2019

Ms. Marina Voskanian  
Chief, Mineral Resources Management Division  
California State Lands Commission  
301 E. Ocean Blvd., Suite 550  
Long Beach, CA 90802

**SUBJECT: REQUEST FOR APPROVAL OF THE FINAL REPORT AND CLOSING STATEMENT TO THE ANNUAL PLAN (JULY 1, 2018 THROUGH JUNE 30, 2019)**

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, 2018 through June 30, 2019. This report contains a reconciliation of Unit activities by category.

The Long Beach Unit FY2019 budget was \$347.4 million while the actual spent was \$248.8 million or 72 percent of budget. The higher realized oil prices than built into the Plan combined with lower spending have resulted in fiscal year profit of \$222.6 million compared to \$71.4 million originally estimated in the Plan.

Funding Category	Budget	Actual	Variance
Development Drilling	98.8	36.4	Drilled and completed 17 wells with 0.75 drilling rig pace instead of planned 59 wells with 2 drilling rigs.
Operating Expense	113.4	93.5	Lower downhole maintenance activity than anticipated.
Facilities, Maintenance, and Plant	59.0	56.1	Spending generally consistent with budget; slightly lower spending level as a result of project timing.
Unit Field Labor and Administrative	46.1	34.3	Lower spending due to reduced capital and operating spending resulting in lower labor cost.
Taxes, Permits, and Administrative Overhead	30.2	28.5	Spending generally consistent with budget.
<b>Total</b>	<b>347.4</b>	<b>248.8</b>	

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



October 1, 2019

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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, 2018 - June 30, 2019)  
prepared by California Resources Corporation, September 27, 2019.

CONCURRENCE:

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MARINA VOSKANIAN  
Chief, Mineral Resources Management  
California State Lands Commission



September 27, 2019

Robert Dowell, Director  
Long Beach Energy Resources  
2400 East Spring Street  
Long Beach, CA 90806

Dear Mr. Dowell:

Subject: 39-19 Thums Approval Request  
Final Report and Closing Statement  
Annual Plan (July 1, 2018 - June 30, 2019)

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, 2018 through June 30, 2019. This report contains a reconciliation of Unit activities by category. Our dedicated workforce of over 130 full-time equivalent employees are committed to safe and environmentally-sound subsidence management and production of local energy resources. During the fiscal year, they helped deliver over 7 million barrels of oil to our local economy and provided our stakeholders with over \$220 million in proceeds from operations.

#### 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

FY2019 reflects the successful implementation of the Unit's operation strategy that has attempted to manage the fluctuations in the oil price environment. During the FY2019 Plan period, operations activities adapted to manage persistent commodity price fluctuations while maximizing return to the Unit. During the period, the Unit operated at a 0.75 rig pace (1 full-time rig July – December 2018, and 0.5 rig pace January – June 2019). A total of 17 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	0	0	0	0	0
Ranger	1	0	1	12	0	12
Terminal	0	0	0	2	0	2
UP-Ford	0	0	0	2	0	2
237	0	0	0	0	0	0
Total	1	0	1	16	0	16



On June 30, 2019, the total number of wells in the Unit was 1,537, of which 739 were active producers, 399 were active injectors, and 399 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 59 new and redrilled wells that were to be drilled with 2 full-time drilling rigs. The actual number of wells drilled and completed was 17 using a 0.75 drilling rig pace.

The budget for the Development Drilling Category was \$98.8 million, while actual spend was 63.1% lower at \$36.4 million. The lower spending level was primarily due to reduced drilling rig pace.

### **OPERATING EXPENSE**

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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, and for all electric power costs and abandonment costs.

#### **Operations Review**

- Unit oil production during the Plan period averaged 19,283 bbls/day, which was 1,140 bbls/day lower than the Plan estimate, mainly from curtailed drilling.
- Gas production averaged 7,225 mcf/day, which was 875 mcf/day lower than the Plan estimate.
- Water injection averaged 1,124,472 bbls/day, which was 103,781 bbls/day lower than originally estimated in the Plan. Water production averaged 1,078,474 bbls/day, which was 74,815 bbls/day less than the Plan estimate.
- The average price for Unit crude was \$65.82/bbl during the Plan period. The Plan was based on \$55.00/bbl crude. The average price for Unit gas was \$3.10/mcf and the Plan was based on \$3.00/mcf.

#### **Budget to Actual Variance**

Total spending for Operating Expense was \$93.5 million, compared to \$113.4 million approved budget. The spending was 17.6% lower than Plan and primarily driven by a lower than anticipated downhole maintenance activity.

## **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:

- Power Plant Upgrades
  - Amine Tower Repair
  - Chaffee Culvert Piping Repair
  - Crew Boat Engine Repair
  - Smart Pigging
- 

### **Budget to Actual Variance**

The Facilities, Maintenance and Plant Category had a budget of \$59.0 million, of which \$56.1 million, or 95%, was spent. The lower spending level was primarily related to project timing.

## **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, 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 \$46.1 million. Actual spend was 25.5% lower at \$34.3 million. The lower spending was driven by lower manpower cost and lower allocations, due to reduced capital and operating spending.

## **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 \$30.2 million, while actual spend was 94% at \$28.5 million. The overall spending for this category was consistent with the budget assumptions.

### **SUMMARY**

The Long Beach Unit FY2019 budget was \$347.4 million, of which \$248.8 million, or 72%, was spent. Due to higher realized oil price than built into the Plan as well as lower spending, fiscal year profit was \$222.6 million in comparison to \$71.4 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,



Bob Grundstrom  
Leader – LA Basin  
California Resources Corporation

APPROVED:

\_\_\_\_\_  
Robert Dowell

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Date

PB  
Attachments  
cc: Management Team

### Economic Projections

Data in Thousands of \$	ACTUAL FIRST QUARTER FY19	ACTUAL SECOND QUARTER FY19	ACTUAL THIRD QUARTER FY19	ACTUAL FOURTH QUARTER FY19	ACTUAL TOTAL FISCAL YEAR FY19	BUDGET TOTAL FISCAL YEAR FY19	% ACTUAL OVER/UNDER (-) BUDGET FY19
ESTIMATED REVENUE							
Oil Revenue	\$ 131,956	\$ 115,542	\$ 104,355	\$ 111,388	\$ 463,241	\$ 409,974	13.0%
Gas Revenue	\$ 1,857	\$ 1,579	\$ 3,223	\$ 1,527	\$ 8,186	\$ 8,869	-7.7%
TOTAL REVENUE	\$ 133,813	\$ 117,121	\$ 107,578	\$ 112,915	\$ 471,427	\$ 418,843	12.6%
ESTIMATED EXPENDITURES							
Development Drilling	\$ 9,406	\$ 9,299	\$ 10,132	\$ 7,565	\$ 36,402	\$ 98,760	-63.1%
Operating Expense	\$ 27,457	\$ 19,028	\$ 26,615	\$ 20,381	\$ 93,481	\$ 113,418	-17.6%
Facilities & Maintenance	\$ 10,840	\$ 12,513	\$ 18,177	\$ 14,560	\$ 56,089	\$ 58,955	-4.9%
Unit Field Labor & Admin	\$ 6,318	\$ 8,204	\$ 11,596	\$ 8,210	\$ 34,329	\$ 46,100	-25.5%
Taxes, Permits & Admin Overhead	\$ 9,279	\$ 5,307	\$ 8,112	\$ 5,797	\$ 28,494	\$ 30,200	-5.6%
TOTAL EXPENDITURES	\$ 63,300	\$ 54,350	\$ 74,632	\$ 56,512	\$ 248,794	\$ 347,433	-28.4%
NET PROFIT	\$ 70,513	\$ 62,771	\$ 32,946	\$ 56,403	\$ 222,633	\$ 71,410	211.8%

### Major Planning Assumptions

	ACTUAL FIRST QUARTER FY19	ACTUAL SECOND QUARTER FY19	ACTUAL THIRD QUARTER FY19	ACTUAL FOURTH QUARTER FY19	ACTUAL TOTAL FISCAL YEAR FY19	BUDGET TOTAL FISCAL YEAR FY19	% ACTUAL OVER/UNDER (-) BUDGET FY19
OIL PRODUCTION :							
QUARTERLY (1,000 BBL)	1,836	1,801	1,714	1,687	7,038	7,454	
AVERAGE B/D	19,959	19,577	19,040	18,540	19,283	20,422	-5.6%
GAS PRODUCTION :							
QUARTERLY (MMCF)	649	634	678	677	2,637	2,956	
AVERAGE MCF/D	7,054	6,890	7,528	7,437	7,225	8,100	-10.8%
WATER PRODUCTION :							
QUARTERLY (1,000 BBL)	102,208	99,388	96,355	95,692	393,643	420,907	
AVERAGE B/D	1,110,961	1,080,301	1,070,613	1,051,557	1,078,474	1,153,289	-6.5%
WATER INJECTION :							
QUARTERLY (1,000 BBL)	107,631	104,176	99,547	99,078	410,432	448,266	
AVERAGE B/D	1,169,904	1,132,351	1,106,078	1,088,768	1,124,472	1,228,253	-8.4%
AVG. OIL PRICE (\$/BBL)	71.86	64.15	60.90	66.02	65.82	55.00	19.7%
AVG GAS PRICE (\$/MCF)	2.86	2.49	4.76	2.26	3.10	3.00	3.5%

Location	<u>Oil Production</u>		<u>Gas Production</u>	
	Average B/D	Cumulative Mbbls	Average MCF/D	Cumulative MMCF
	7/1/18 - 6/30/19	6/30/2019	7/1/18 - 6/30/19	6/30/2019
Grissom	4,792	203,351	1,041	33,221
White	3,948	186,634	1,983	52,405
Chaffee	4,163	232,616	2,034	78,512
Freeman	3,912	288,722	1,376	97,101
Pier J	2,469	154,688	791	28,992
<b>Total</b>	<b>19,283</b>	<b>1,066,010</b>	<b>7,225</b>	<b>290,232</b>

<b>Reservoir</b>				
SHALLOW GAS	-	-	-	-
TAR	166	2,411	83	1,039
RANGER	14,632	793,067	5,563	189,303
TERMINAL	3,049	156,280	960	32,790
Union-pac-ford	1,436	109,969	618	62,114
237	-	4,284	-	4,986
<b>Total</b>	<b>19,283</b>	<b>1,066,010</b>	<b>7,225</b>	<b>290,232</b>

Location	<u>Water Production</u>		<u>Water Injection</u>	
	Average B/D	Cumulative Mbbls	Average B/D	Cumulative Mbbls
	7/1/18 - 6/30/19	6/30/2019	7/1/18 - 6/30/19	6/30/2019
Grissom	269,102	2,760,760	273,425	3,303,037
White	236,485	2,207,928	193,933	2,550,008
Chaffee	195,680	1,939,918	221,843	2,718,059
Freeman	228,596	2,596,537	268,471	2,869,853
Pier J	148,612	1,708,911	166,800	2,065,260
<b>Total</b>	<b>1,078,474</b>	<b>11,214,054</b>	<b>1,124,472</b>	<b>13,506,218</b>

<b>Reservoir</b>				
SHALLOW GAS	-	-	-	-
TAR	3,330	16,598	9,359	38,043
RANGER	857,095	9,248,738	896,991	11,124,103
TERMINAL	160,169	1,408,761	166,006	1,687,346
Union-pac-ford	57,879	534,796	52,116	656,727
237	-	5,161	-	-
<b>Total</b>	<b>1,078,474</b>	<b>11,214,054</b>	<b>1,124,472</b>	<b>13,506,218</b>

**Number of wells**  
**As of June 30, 2019**

<b>By Location</b>	<b>Producer</b>	<b>Injectors</b>	<b>Total</b>
Grissom	235	107	342
White	213	127	340
Chaffee	209	137	346
Freeman	216	122	338
Pier J	107	64	171
<b>Total</b>	<b>980</b>	<b>557</b>	<b>1,537</b>

**By Reservoir**

SHALLOW GAS	2	0	2
TAR	17	3	20
RANGER	698	403	1,101
TERMINAL	168	91	259
UP-Ford	91	60	151
237	4	0	4
<b>Total</b>	<b>980</b>	<b>557</b>	<b>1,537</b>