

Staff Report 41

GRANTEE:

City of Long Beach

PROPOSED ACTION:

Consider acceptance of the Final Report and Closing Statement for the Long Beach Unit Annual Plan (July 1, 2019, through June 30, 2020), Long Beach Unit, Wilmington Oil Field, Los Angeles

BACKGROUND:

The City of Long Beach submitted its Final Report and Closing Statement of the Annual Plan, Long Beach Unit for Fiscal Year 2019–2020 (Report), covering the period July 1, 2019, through June 30, 2020 [Fiscal Year], to the Commission, as required by section 10 of Chapter 138, Statutes of 1964, 1st Extraordinary Session. The Annual Plan, now being reported on, was previously accepted by the Commission ([Item C62, April 15, 2019](#)). 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 16, 2020 (Exhibit C, attached). This Report provides the actual performance for the full Fiscal Year.

Total expenditures for the Long Beach Unit were \$216.9 million, which was \$77.1 million less than the approved budget for Fiscal Year 2019-2020. The lower than planned expenditures were primarily the result of less than anticipated drilling development, facilities, taxes, permits and operation costs for the Fiscal Year. Lower levels of development were a result of lower than expected oil prices during the Fiscal Year.

The Unit's net profits for Fiscal Year were \$115.9 million, which was \$15.4 million more than the approved budget estimate. The higher than planned net profit was the result of the spending cuts implemented for operating and administrative expenses in response to lower oil prices, especially in the fourth quarter.

The average oil and gas production rates for the Fiscal Year were reported to be 17,863 barrels (bbls)/day of oil (1,455 bbls/day less than the Plan estimate) and

7,443 thousand cubic feet (MCF)/day of gas (373 MCF/day less than the Plan estimate). The cumulative recoveries and injection through June 2020 are as follows:

- Oil Production 1,072,548,000 barrels
- Gas Production 292,956 million cubic feet (MMCF)
- Water Production 11,599,200,000 barrels
- Water Injection 13,506,218,000 barrels

Cumulative Injection/Gross Production Ratio of 1.10 bbls/bbl.

The approved budget forecast used an oil price of \$55/bbl and a gas price of \$2/MCF, whereas the actual prices averaged \$49.96/bbl for oil and \$2.23/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 2019-2020 (in Millions of Dollars)

	First Quarter FY 19/20	Second Quarter FY 19/20	Third Quarter FY 19/20	Fourth Quarter FY 19/20	FY 19/20
Oil Revenue	101.07	102.85	79.50	43.22	326.645
Gas Revenue	1.55	1.66	2.00	0.87	6.08
Expenditures	48.48	61.15	68.85	38.38	216.859
Net Profit	54.14	43.36	12.66	5.71	115.87
Oil Price \$/BBL	60.33	61.54	48.62	27.78	49.96
Gas Price \$/MCF	2.33	2.37	2.87	1.32	2.23

Table 2. Original Budget Net Profit and Actual Net Profit for Fiscal Year 2019-2020 (In Millions of Dollars)

	First Quarter FY 19/20	Second Quarter FY 19/20	Third Quarter FY 19/20	Fourth Quarter FY 19/20	Total FY 19/20
Original Budget Net Profit	31.70	35.60	14.20	19.10	100.50
Actual Net Profit	54.14	43.36	12.66	5.71	115.87

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.

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 Report 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 2019-2020, Annual Plan vs. Actual
- B. LBU Oil Rate Performance, FY 2019-2020, Annual Plan vs. Actual
- C. Letter from the City of Long Beach dated September 16, 2020

RECOMMENDED ACTION:

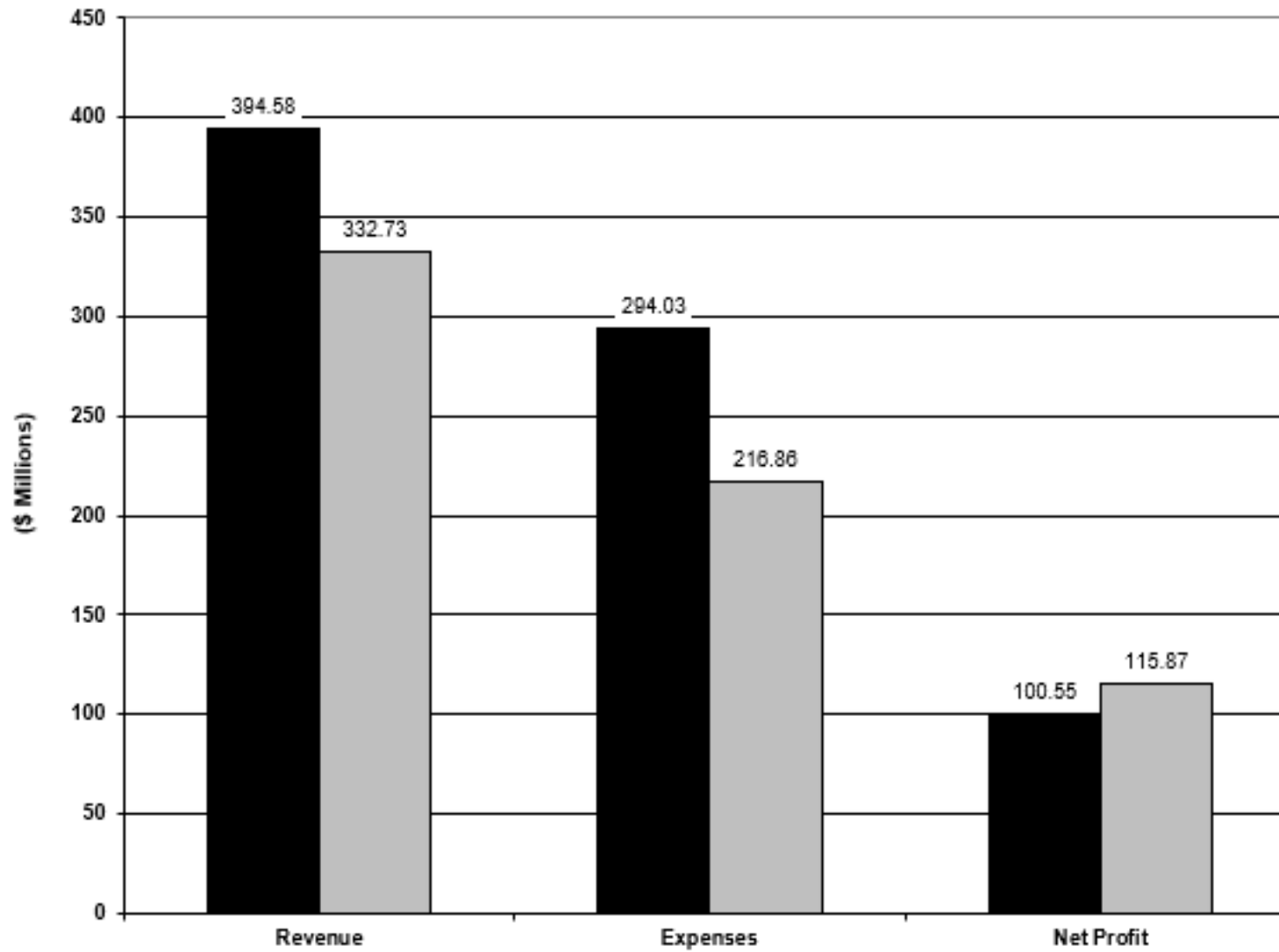
It is recommended that the Commission:

AUTHORIZATION:

Accept for filing, the Final Report and Closing Statement for the Long Beach Unit Annual Plan for the period July 1, 2019, through June 30, 2020, Long Beach Unit, Wilmington Oil Field, Los Angeles County.

Exhibit A
LBU Financial Performance
FISCAL YEAR 2019-2020 ANNUAL PLAN VS ACTUAL

W 17166



A

Exhibit B

W 17166

LBU OIL RATE PERFORMANCE
FISCAL YEAR 2019-2020 ANNUAL PLAN VS ACTUAL

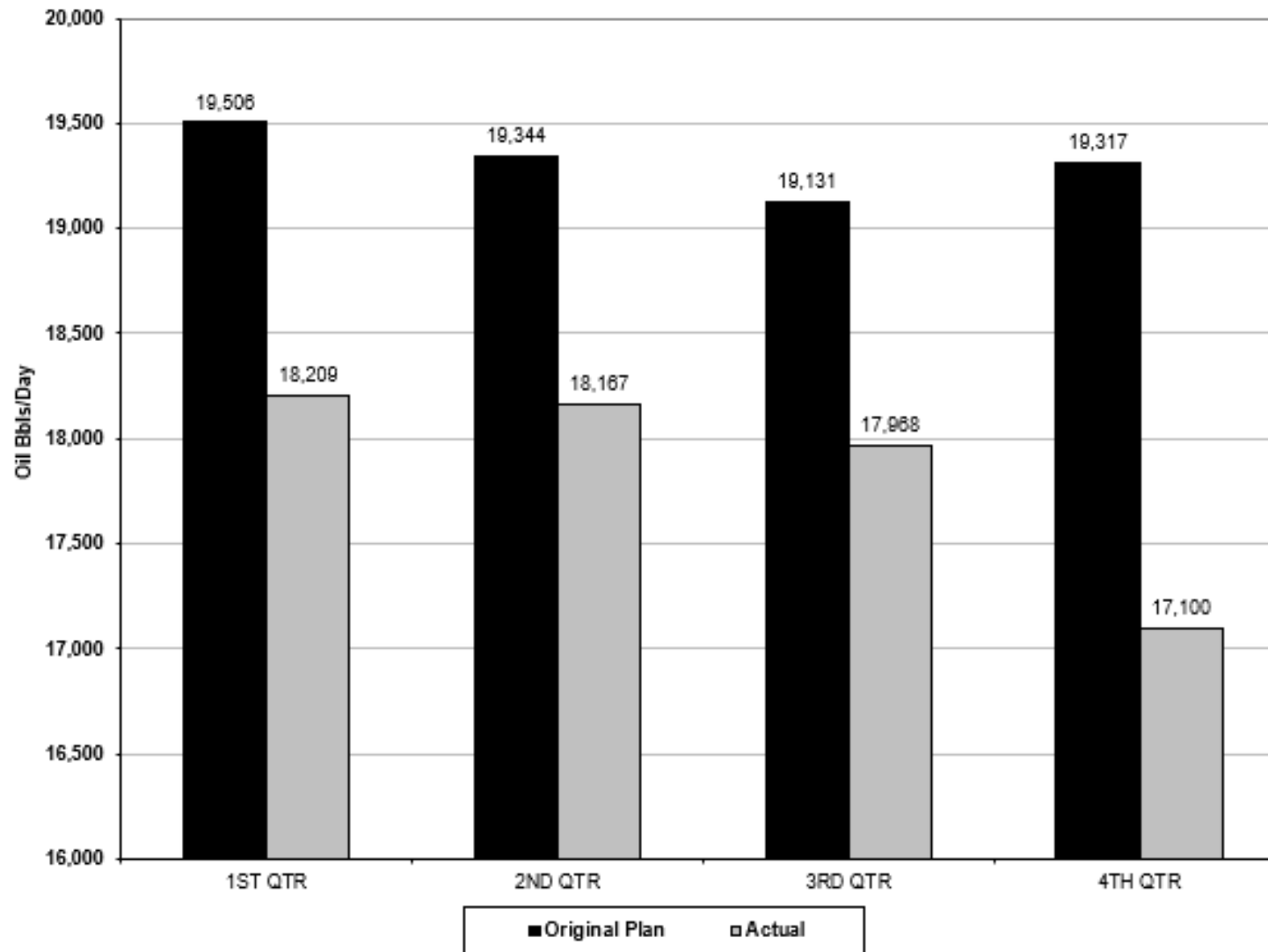


Exhibit C

September 16, 2020

W 17166

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, 2019 THROUGH JUNE 30, 2020)

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, 2019 through June 30, 2020. This report contains a reconciliation of Unit activities by category.

The Long Beach Unit FY2020 budget was \$294.0 million while the actual spent was \$216.9 million or 74 percent of budget. Proactively managing costs and high-grading discretionary activities during low oil price environment, especially in the fourth quarter, have resulted in fiscal year profit of \$115.9 million compared to \$100.5 million originally estimated in the Plan.

Funding Category	Budget	Actual	Variance
Development Drilling	73.5	35.4	Drilled and completed 17 wells with 0.6 drilling rig pace instead of planned 39 wells with 1.5 drilling rigs.
Operating Expense	92.2	78.1	Lower downhole maintenance activity than anticipated and lower vendor prices.
Facilities, Maintenance, and Plant	59.5	44.4	Lower spending level as a result of reduced activity level.
Unit Field Labor and Administrative	37.3	43.2	Higher spending mainly due to prior period IT charges previously not posted.
Taxes, Permits, and Administrative Overhead	31.6	15.7	Lower spending primarily due to refund of excess property tax charges.
Total	294.0	216.9	

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



September 16, 2020

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,

A handwritten signature in black ink, appearing to read "R. Dowell", written in a cursive style.

Robert Dowell
Director

Attachment: Final Report and Closing Statement – Annual Plan (July 1, 2019 - June 30, 2020)
prepared by California Resources Corporation, September 9, 2020.

CONCURRENCE:

MARINA VOSKANIAN
Chief, Mineral Resources Management
California State Lands Commission



September 9, 2020

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

26-20 Thums Approval Request
Final Report and Closing Statement
Annual Plan (July 1, 2019 - June 30, 2020)

Dear Mr. Dowell:

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, 2019 through June 30, 2020. 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 6.5 million barrels of oil to our local economy and provided our stakeholders with over \$115 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

FY2020 reflects the successful implementation of the Unit's operation strategy that has attempted to manage the wide fluctuations in the oil price environment. During the FY2020 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 0.6 rig pace (1 full-time rig July – Mid February 2020). 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	8	1	9
Terminal	1	0	1	3	0	3
UP-Ford	0	0	0	3	0	3
237	0	0	0	0	0	0
Total	2	0	2	14	1	15

On June 30, 2020, the total number of wells in the Unit was 1,538, of which 730 were active producers, 391 were active injectors, and 417 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 17 using a 0.6 drilling rig pace.

The budget for the Development Drilling Category was \$73.5 million, while actual spend was 51.8% lower at \$35.4 million. The lower spending level was primarily due to reduced drilling rig pace.

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, and for all electric power costs and abandonment costs.

Operations Review

- Unit oil production during the Plan period averaged 17,863 bbls/day, which was 1,455 bbls/day lower than the Plan estimate, mainly from curtailed drilling and voidage issues. Production in the fourth quarter was also curtailed to maximize cash flow while focusing on safety and environment, by shutting in uneconomic wells in response to drop in oil price.
- Gas production averaged 7,443 mcf/day, which was 373 mcf/day lower than the Plan estimate.
- Water injection averaged 1,088,002 bbls/day, which was 70,154 bbls/day lower than originally estimated in the Plan. Water production averaged 1,052,311 bbls/day, which was 58,510 bbls/day less than the Plan estimate.

- The average price for Unit crude was \$49.96/bbl during the Plan period. The Plan was based on \$55.00/bbl crude. The average price for Unit gas was \$2.23/mcf and the Plan was based on \$2.00/mcf.

Budget to Actual Variance

Total spending for Operating Expense was \$78.1 million, compared to \$92.2 million approved budget. The spending was 15% lower than Plan and primarily driven by lower than anticipated activity and vendor prices to manage to the oil price fluctuations.

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
- Oil pipeline repair and upgrades
- Smart Pigging

Budget to Actual Variance

The Facilities, Maintenance and Plant Category had a budget of \$59.5 million, of which \$44.4 million, or 75%, was spent. The lower spending level was primarily related to change in activity.

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 \$37.3 million. Actual spend was 15.7% higher at \$43.2 million. The higher spending was mainly from prior period IT charges (software licenses, network services and manpower support). The prior period charge was presented to LBER and, also subsequently audited by the State.

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 \$31.6 million, while actual spend was just 50% at \$15.7 million. The reduction was from successful follow-up of refund of excess property tax charged during prior periods.

SUMMARY

The Long Beach Unit FY2020 budget was \$294.0 million, of which \$216.9 million, or 74%, was spent. Even though prices fluctuated, and dropped significantly in the last quarter, costs were proactively managed along with high grading discretionary activities to match the low-price environment. Fiscal year profit was \$115.9 million compared to \$100.5 million originally estimated in the Plan, a 15% increase.

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,



Ryan Kellogg
PSC Assets Manager
California Resources Corporation

APPROVED:

Robert Dowell

Date

PB

Attachments

cc: Management Team

Economic Actual and Projections

Data in Thousands of \$	ACTUAL FIRST QUARTER FY20	ACTUAL SECOND QUARTER FY20	ACTUAL THIRD QUARTER FY20	ACTUAL FOURTH QUARTER FY20	ACTUAL TOTAL FISCAL YEAR FY20	BUDGET TOTAL FISCAL YEAR FY20	% ACTUAL OVER/UNDER (-) BUDGET FY20
REVENUE							
Oil Revenue	\$ 101,068	\$ 102,850	\$ 79,502	\$ 43,226	\$ 326,645	\$ 388,860	-16.0%
Gas Revenue	\$ 1,552	\$ 1,659	\$ 2,003	\$ 870	\$ 6,084	\$ 5,722	6.3%
TOTAL REVENUE	\$ 102,620	\$ 104,509	\$ 81,505	\$ 44,095	\$ 332,729	\$ 394,581	-15.7%
EXPENDITURES							
Development Drilling	\$ 7,453	\$ 13,934	\$ 13,487	\$ 528	\$ 35,402	\$ 73,454	-51.8%
Operating Expense	\$ 20,843	\$ 20,409	\$ 23,751	\$ 13,121	\$ 78,124	\$ 92,195	-15.3%
Facilities & Maintenance	\$ 10,575	\$ 12,058	\$ 11,380	\$ 10,415	\$ 44,428	\$ 59,510	-25.3%
Unit Field Labor & Admin	\$ 13,060	\$ 8,690	\$ 12,057	\$ 9,360	\$ 43,167	\$ 37,313	15.7%
Taxes, Permits & Admin Overhead	\$ (3,449)	\$ 6,056	\$ 8,174	\$ 4,957	\$ 15,738	\$ 31,562	-50.1%
TOTAL EXPENDITURES	\$ 48,482	\$ 61,147	\$ 68,849	\$ 38,381	\$ 216,859	\$ 294,034	-26.2%
NET PROFIT	\$ 54,138	\$ 43,362	\$ 12,657	\$ 5,714	\$ 115,871	\$ 100,547	15.2%

Major Planning Actual and Assumptions

	ACTUAL FIRST QUARTER FY20	ACTUAL SECOND QUARTER FY20	ACTUAL THIRD QUARTER FY20	ACTUAL FOURTH QUARTER FY20	ACTUAL TOTAL FISCAL YEAR FY20	BUDGET TOTAL FISCAL YEAR FY20	% ACTUAL OVER/UNDER (-) BUDGET FY20
OIL PRODUCTION :							
QUARTERLY (1,000 BBL)	1,675	1,671	1,635	1,556	6,538	7,070	
AVERAGE B/D	18,209	18,167	17,968	17,100	17,863	19,317	-7.5%
GAS PRODUCTION :							
QUARTERLY (MMCF)	667	700	699	658	2,724	2,861	
AVERAGE MCF/D	7,252	7,609	7,681	7,231	7,443	7,817	-4.8%
WATER PRODUCTION :							
QUARTERLY (1,000 BBL)	97,141	97,692	96,574	93,739	385,146	406,560	
AVERAGE B/D	1,055,879	1,061,874	1,061,253	1,030,095	1,052,311	1,110,821	-5.3%
WATER INJECTION :							
QUARTERLY (1,000 BBL)	100,651	100,467	99,692	97,399	398,209	423,885	
AVERAGE B/D	1,094,029	1,092,029	1,095,519	1,070,321	1,088,002	1,158,156	-6.1%
AVG. OIL PRICE (\$/BBL)	60.33	61.54	48.62	27.78	49.96	55.00	-9.2%
AVG GAS PRICE (\$/MCF)	2.33	2.37	2.87	1.32	2.23	2.00	11.7%

Oil Production

Location	Average B/D	Cumulative Mbbls	Average MCF/D	Cumulative MMCF
	7/1/19 - 6/30/20	6/30/2020	7/1/19 - 6/30/20	6/30/2020
Grissom	4,562	205,018	1,123	33,632
White	3,420	187,886	1,931	53,112
Chaffee	3,854	234,026	2,063	79,268
Freeman	3,932	290,161	1,572	97,677
Pier J	2,095	155,455	755	29,269
Total	17,863	1,072,545	7,443	292,958

Gas Production

Reservoir				
SHALLOW GAS	-	-	-	-
TAR	149	2,465	82	1,069
RANGER	13,616	798,049	5,750	191,409
TERMINAL	2,825	157,313	1,002	33,156
Union-pac-ford	1,273	110,434	610	62,337
237	0	4,284	0	4,986
Total	17,863	1,072,545	7,443	292,958

Water Production

Location	Average B/D	Cumulative Mbbls	Average B/D	Cumulative Mbbls
	7/1/19 - 6/30/20	6/30/2020	7/1/19 - 6/30/20	6/30/2020
Grissom	270,001	2,859,580	269,909	3,401,824
White	226,298	2,290,753	189,472	2,619,355
Chaffee	192,091	2,010,224	189,026	2,787,243
Freeman	227,602	2,679,839	272,247	2,969,496
Pier J	136,319	1,758,804	167,348	2,126,510
Total	1,052,311	11,599,200	1,088,002	13,904,427

Water Injection

Reservoir				
SHALLOW GAS	-	-	-	-
TAR	3,463	17,866	7,417	40,758
RANGER	836,721	9,554,978	873,570	11,443,829
TERMINAL	157,014	1,466,228	164,644	1,747,606
Union-pac-ford	55,114	554,968	42,372	672,235
237	1	5,161	-	-
Total	1,052,311	11,599,200	1,088,002	13,904,427