

Staff Report 50

GRANTEE:

City of Long Beach

PROPOSED ACTION:

Acceptance of the First Modification of the Long Beach Unit Annual Plan (July 1, 2021, through June 30, 2022), Long Beach Unit, Wilmington Oil Field, Los Angeles County

BACKGROUND:

The City of Long Beach (City) submitted the First Modification and Supplement of the Annual Plan (July 1, 2021, through June 30, 2022), Long Beach Unit, to the Commission as required by 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 (hereinafter referred to as "the First Modification").

On March 22, 2022, the Long Beach City Council adopted the proposed Modification and authorized its submittal to the Commission. The Commission reviews and recommends revisions to the Modification for consistency with the current 2021-2026 Program Plan ([Item 40, April 27, 2021](#)). The First Modification was submitted at the same time as the new annual plan for the year 2022-2023, also to be considered by the Commission at its April 26, 2022, meeting.

In accordance with Section 2.07 of the Optimized Waterflood Program Agreement, a modification of the Annual Plan is required because the amount to be expended for the Development Drilling, Operating Expense, Facilities, Maintenance, and Plant categories would exceed 27 percent of its originally budgeted amount. For Fiscal Year 2021-22, this requires an additional \$40.2 million in increased spending around maintenance and facilities capital expenses and greater development drilling activity than originally planned.

The following table is a summary of the five budgeted categories indicating each category's currently approved budget, the modified budget after the proposed

revisions, and the total modified expenditure budget (current outlook) to the end of the fiscal year. These revisions result in increasing the Annual Plan expenditures by \$40.2 million.

Table 1, Approved Original Budget vs. Modified Budget (Fiscal Year 2021-22)
All Figures are In Millions of Dollars

| Annual Plan Category | Approved Original Budget | First Modified Budget “Current Outlook” |
|--|---------------------------------|--|
| Development Drilling | \$ 33.6 | \$ 39.2 |
| Operating Expense | \$ 84.2 | \$ 98.4 |
| Facilities Maintenance and Plant | \$ 33.2 | \$ 53.6 |
| Unit Field Labor and Administrative | \$ 40.4 | \$ 40.4 |
| Taxes, Permits and Administrative Overhead | \$ 27.7 | \$ 27.7 |
| Total | \$ 219.1 | \$ 259.3 |

Commission staff believes that the First Modification is consistent with the budget objectives outlined in the Program Plan and with good oil field practice. The budget adjustment is under 120 percent of that anticipated within the Program Plan, which is within the spending threshold authorized for - the Long Beach Unit . In addition, the price of oil is significantly higher (the price for Long Beach Unit crude oil in February 2022 averaged \$88/bbl.) than that assumed for development of the Program Plan budget (\$47-\$53/bbl.). The First Modification is based on all engineering and geologic information available at the time of preparation. To ensure that the proposed First Modification provides for good oil field practice, staff remains involved in ongoing LBU development activities and the planning of future activities. Staff involvement includes, monthly meetings of an engineering committee, voting parties, reservoir management consultation with the City and the Field Contractor, on-site inspector presence in the field, analysis of drilling safeguards involving blowout prevention equipment certification, oil spill prevention exercises, and subsidence monitoring and prevention.

The Development Drilling category of the Annual Plan is currently estimated to exceed the budgeted amount by \$5.6 million due to greater drilling activity than originally planned. The total number of wells to be drilled in Fiscal Year 2021-22 is anticipated to be 22, compared to 18 wells originally planned. Staff's review indicates that this is consistent with industry practice of increased drilling during periods of higher oil prices.

The Operating Expenses category of the Annual Plan is currently estimated to exceed the budgeted amount by \$14.2 million due to higher gas prices for the fuel required at the Long Beach Unit gas plant.

This modification also includes a supplement to the Facilities, Maintenance, and Plant category of the Annual Plan due to additional costs incurred. The outlook is estimated at \$53.6 million which will exceed the budgeted amount of \$33.2 million by \$20.4 million, more than a 20 percent increase. The cost exceeds the budgeted amount due to more maintenance and facilities capital spending than planned in this category. The main facilities projects include THUMS L400-L500 Injection Line, 2021 JL-1 Rehab, Chaffee Transformer Replacement, 2022 Pier J Barge and Boat Ramp Repairs, and the 2022 Crew Boat Ranger California Air Resources Board Compliance Upgrade.

The current Annual Plan outlook for the fiscal year includes total estimated expenses of \$259.3 million compared to \$219.1 million with a variance of \$40.2 million or 18 percent. The outlook anticipates the categories of Unit Field Labor and Administration and Taxes, Permits and Administrative Overhead will either remain flat or remain slightly under the Annual Plan. Total revenue outlook is \$418 million compared to \$247 million in the Plan, indicating an increase of 69 percent due to higher oil prices. The outlook for Unit Profit is currently \$166 million which is \$28 million higher than the Plan of \$138 million.

CONCLUSION

Commission staff has reviewed the First Modification and believes the revised Annual Plan is prudent and consistent with the 5-year Program Plan for Fiscal Year 2021-26, in that it meets or exceeds the goals contained in the current Program Plan and follows the industry practice of increased activity during periods of higher oil prices.

OTHER PERTINENT INFORMATION:

1. The current Annual Plan was approved by the Commission at its April 27, 2021, public meeting ([Item C40, April 27, 2021](#)).
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.

3. Acceptance of the First Modification of the Long Beach Unit Annual Plan is not a project in accordance with 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).

EXHIBIT:

- A. Letter from the City of Long Beach submitting the First Modification and Supplement of the Long Beach Unit Annual Plan Fiscal Year 2021-22.

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

Accept, as consistent with the current Program Plan, the First Modification and Supplement of the Long Beach Unit Annual Plan (July 1, 2021, through June 30, 2022), Long Beach Unit, Wilmington Oil Field, Los Angeles County.

CITY OF
LONG BEACH
ENERGY RESOURCES

2400 EAST SPRING STREET • LONG BEACH, CA 90806
(562) 570-2000 • www.longbeach.gov

March 15, 2022

Ms. Shahed Meshkati
Division of Mineral Resources Management
California State Lands Commission
301 E. Ocean Blvd., Suite 550
Long Beach, CA 90802-4331

SUBJECT: CORRECTED - REQUEST FOR APPROVAL OF THE FIRST MODIFICATION AND SUPPLEMENT OF THE LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2021 – JUNE 30, 2022)

Dear Ms. Meshkati:

In accordance with the provisions of Part IV, Sections A and B, of the Long Beach Unit Annual Plan, we are submitting for your approval the First Modification and Supplement of the Annual Plan covering the period July 1, 2021 through June 30, 2022.

Annual Plan Modification and Supplement

This modification requires a supplement to the Facilities, Maintenance, and Plant category of the Annual Plan due to additional costs incurred. The outlook is estimated at \$53.6 million which will exceed the budgeted amount of \$33.2 million by \$20.4 million which is more than a 20 percent increase. The cost exceeds the budgeted amount due to more maintenance and facilities capital spending than was included in this category. The main facilities projects include Thums L400-L500 Injection Line, LBU 2021 JL-1 Rehab, LB Chaffee Transformer Replacement, LBU 2022 Pier J Barge and Boat Ramp Repairs, and the LBU 2022 Crew Boat Ranger CARB Compliance Upgrade.

The Development Drilling category of the Annual Plan is currently estimated to exceed the budgeted amount by \$5.6 million due to increased development drilling activity than was originally included in this category. It is anticipated that the total number of wells to be drilled in FY22 will be 22 compared to 18 wells originally planned. Also, the Operating Expenses category of the Annual Plan is currently estimated to exceed the budgeted amount by \$14.2 million due to higher gas prices for the fuel required at the LBU gas plant.

The current outlook for the same period has total estimated expenses of approximately \$259 million compared to \$219 million in the Annual Plan with a variance of \$40 million or 18 percent. The outlook anticipates the categories of Unit Field Labor and Administration and Taxes, Permits and Administrative Overhead will remain flat or slightly under the Annual Plan. Total revenue outlook is \$418 million compared to \$247 million in the Plan, with the increase

Ms. Shahed Meshkati
March 15, 2022
Page 2

of 69% due to higher oil prices. The outlook for Unit Profit is currently \$166 million and is estimated to be \$28 million higher than the Plan of \$138 million.

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

| Annual Plan Category | Original (\$MM) | Revised (\$MM) |
|--|-----------------|----------------|
| Development Drilling | \$33.6 | \$39.2 |
| Operating Expense | \$84.2 | \$98.4 |
| Facilities, Maintenance and Plant | \$33.2 | \$53.6 |
| Unit Field Labor and Administration | \$40.4 | \$40.4 |
| Taxes, Permits and Administrative Overhead | \$27.7 | \$27.7 |
| Total | \$219.1 | \$259.3 |

The subject Modification and Supplement is anticipated to be approved by the City of Long Beach, as Unit Operator, on March 22, 2022 at the City Council meeting.

Your approval of the First Modification of the Annual Plan, covering the period of July 2021 through June 2022 is requested at your earliest convenience.

Please contact Scott Biagiotti at 562-570-3947 for any questions on this matter.

Sincerely,

Handwritten signature of Robert Dowell, followed by the word "for" in cursive.

ROBERT DOWELL, DIRECTOR
LONG BEACH ENERGY RESOURCES DEPARTMENT

BD:seb

cc: Jonathan Hilton, THUMS