

Staff Report 64

GRANTEE:

City of Long Beach

PROPOSED ACTION:

Acceptance of the First Modification of the Long Beach Unit Annual Plan (July 1, 2022, through June 30, 2023), 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, 2022, through June 30, 2023), 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 21, 2023, the Long Beach City Council adopted the proposed First Modification and authorized its submittal to the Commission. The Commission reviews and recommends revisions to the First Modification for consistency with the current 2021-2026 Program Plan ([Item 40, April 27, 2021](#)). The Commission has 30 days following submission to review and revise any modification for consistency with the current Program Plan.

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 Operating Expense category will exceed 20 percent of its originally budgeted amount. For Fiscal Year 2022-23, an additional \$43.7 million in increased spending in the operating expenses category is now anticipated. This increase is due to increases in both well work costs and energy costs. Downhole well work costs have been higher and are expected to continue at a higher pace through the rest of the planned year. Energy costs have also increased unexpectedly over the past year as gas prices soared to above \$40 per thousand cubic feet. The observed higher energy cost for the fuel required at the Long Beach Unit gas power

plant may continue to cause additional expenses in the Operating Expense category.

The amount to be expended for the Development Drilling category is also reduced by more than 20 percent (\$46.8 million) of its originally budgeted amount. This is due to a reduced drilling pace compared to the originally planned level for this category. The total number of wells to be drilled in Fiscal Year 2022-23 is anticipated to be 20, compared to the originally planned 36 wells.

This First Modification also includes an adjustment to the Facilities, Maintenance, and Plant category of the Annual Plan due to lower costs incurred. The outlook is estimated at \$51.1 million, which will be lower than the budgeted amount of \$62.5 million by \$11.4 million, more than an 18 percent decrease. The remaining budget categories of the Annual Plan have also been revised to reflect the current outlook for spending in each category.

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 decreasing the total Annual Plan expenditure by \$10.4 million or 3.2 percent.

Table 1. Economic Projections for July 1, 2022 through June 30, 2023
All Figures are in Millions of Dollars

Annual Plan Category	Approved Original Budget	Modified Budget “Current Outlook”
Development Drilling	\$92.5	\$45.7
Operating Expense	\$98.2	\$141.9
Facilities Maintenance and Plant	\$62.5	\$51.1
Unit Field Labor and Administrative	\$37.9	\$43.4
Taxes, Permits and Administrative Overhead	\$29.5	\$28.2
Total	\$320.7	\$310.3

Commission staff believes that the First Modification is consistent with the Program Plan. 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 March 2023 averaged \$78/bbl.) than that assumed for development of the Program Plan budget (\$47-\$53/bbl). As a result of the higher oil prices, the

current outlook for Unit Profit is projected at approximately \$155.5 million, an increase of \$130.7 million in profit compared to the Annual Plan.

The First Modification is based on all fiscal, economic, engineering, and geologic information available at this time. Staff remain involved in ongoing LBU activities and the planning of future activities. Staff involvement includes, monthly meetings of an engineering committee, voting parties expenditure reviews, 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.

CONCLUSION:

Commission staff has reviewed the First Modification and believes the revised Annual Plan is consistent with the 5-year Program Plan for Fiscal Year 2021-26, in that it meets the goals contained in the current Program Plan.

OTHER PERTINENT INFORMATION:

1. The current Annual Plan was approved by the Commission at its April 26, 2022, public meeting ([Item 51, April 26, 2022](#)).
2. This action is consistent with the "Meeting Evolving Public Trust Needs" Strategic Focus Area of the Commission's 2021-2025 Strategic Plan.
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 2022-23.

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, 2022, through June 30, 2023), Long Beach Unit, Wilmington Oil Field, Los Angeles County.

CITY OF
LONG BEACH
ENERGY RESOURCES

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March 7, 2023

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

SUBJECT: REQUEST FOR APPROVAL OF THE FIRST MODIFICATION AND SUPPLEMENT OF THE LONG BEACH UNIT ANNUAL PLAN (JULY 1, 2022 – JUNE 30, 2023)

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, 2022 through June 30, 2023.

Annual Plan Modification and Supplement

This modification requires a supplement to the Operating Expense category of the Annual Plan due to costs anticipated to exceed the budgeted amount. The outlook is estimated at \$141.9 million which will exceed the budgeted amount of \$98.2 million by \$43.7 million, an increase of more than 20 percent. The higher spending in this category is mainly due to increased maintenance wellwork and higher energy cost.

Due to an increase in activity, downhole wellwork costs have been higher and are expected to continue at a higher pace through the rest of the plan year. Energy costs have also increased unexpectedly over the past year as gas prices soared to above \$40/mcf. The observed higher energy cost for the fuel required at the Long Beach Unit gas plant may continue to cause additional expense in the Operating Expense category.

The Development Drilling category of the Annual Plan has been revised downward due to a reduced drilling pace than was originally planned for this category. The remaining budget categories of the Annual Plan have also been revised to reflect the current outlook for spending in each category.

The current outlook for total estimated expenses is approximately \$310.3 million compared to \$320.7 million in the Annual Plan, a decrease of \$10.4 million in spending. Moreover, due to higher oil prices, the current outlook for Unit Profit is approximately \$155.5 million, an increase of \$130.7 million in profit compared to the Annual Plan.

Ms. Shahed Meshkati
March 7, 2023
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Pending approval of this request, the revised Annual Plan category budgets will be as follows:

Annual Plan Category	Original (\$MM)	Revised (\$MM)
Development Drilling	\$92.5	\$45.7
Operating Expense	\$98.2	\$141.9
Facilities, Maintenance and Plant	\$62.5	\$51.1
Unit Field Labor and Administration	\$37.9	\$43.4
Taxes, Permits and Administrative Overhead	\$29.5	\$28.2
Total	\$320.7	\$310.3

The subject Modification and Supplement is anticipated to be approved by the City of Long Beach, as Unit Operator, on March 21, 2023 at the City Council meeting.

Your approval of the First Modification of the Annual Plan, covering the period of July 2022 through June 2023 is requested at your earliest convenience.

Please contact Kevin Tougas at 562-570-3963 for any questions on this matter.

Sincerely,



ROBERT DOWELL, DIRECTOR
LONG BEACH ENERGY RESOURCES DEPARTMENT

BD:seb

cc: Jonathan Hilton, THUMS