

**CALENDAR ITEM
C80**

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A. Reid

**CONSIDERATION OF THE
FIRST MODIFICATION AND SUPPLEMENT OF THE
LONG BEACH UNIT ANNUAL PLAN
(JULY 1, 2012 THROUGH JUNE 30, 2013),
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

APPLICANT:

City of Long Beach
Long Beach Gas and Oil Department
Attn: Mr. Christopher J. Garner, Director
2400 East Spring Street
Long Beach, CA 90806

BACKGROUND:

In accordance with the 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, the City of Long Beach has submitted to the California State Lands Commission (Commission) the First Modification and Supplement of the Annual Plan (July 1, 2012 through June 30, 2013), Long Beach Unit.

On June 4, 2013, the Long Beach City Council adopted the proposed Modification and Supplement and authorized its submittal to the Commission. The City submitted the Modification to the Commission on June 6, 2013. The Commission has 30 days following submission to review and revise the 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 Development Drilling Category will exceed 120 percent of its originally budgeted amount. This category will require an increase of \$29.4 million for additional costs associated with drilling 14 more wells than originally were planned for Fiscal Year 2012-13. The number of wells was increased from 67 to 81 to take advantage of the higher than expected oil prices. Decreases in

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expenditures in other Plan categories will offset the increase in drilling costs and allow the total expenditures not to exceed the original approved Annual Plan for Fiscal Year 2012-13. The major decreased expenditures in other Plan categories are due to the following factors:

- 1) Operating Expense; Lower well maintenance due to lower well failure rate, rig efficiencies, and other cost reduction initiatives. Lower overall electricity costs due to lower fuel costs and lower power plant maintenance. Also, lower Southern California Edison tariff costs.
- 2) Facilities, Maintenance and Plant; Repair project costs are lower due primarily to implementation of several initiatives to optimize maintenance projects.

The following table is a summary of the five budget categories indicating each category's currently approved amount, the amounts after the proposed change, and the estimated "outlook" projected expenditures to the end of the fiscal year. Note that the revised Annual Plan will reduce overall expenditures by \$4.7 million. Further, Commission staff estimates the State will receive about \$285 million for its share of net profits from the Unit in the current fiscal year.

| MILLION DOLLARS | | |
|--|---------------------------------|--|
| Annual Plan Category | Approved Original Budget | Modified Budget "Current Outlook" |
| Development Drilling | 118.5 | 147.9 |
| Operating Expense | 108.6 | 92.8 |
| Facilities, Maintenance and Plant | 93.01 | 76.7 |
| Unit Field Labor and Administrative | 60.76 | 62.86 |
| Taxes, Permits and Administrative Overhead | 44.4 | 40.3 |
| Total | 425.27 | 420.56 |

Commission staff has reviewed the First Modification and believes the Annual Plan is consistent with the Program Plan of July 2011 – June 2016, in that it meets or exceeds the goals contained in the current Program Plan as well as follows the industry practice of increasing activity during periods of higher oil prices.

CALENDAR ITEM NO. **C80** (CONT'D)

OTHER PERTINENT INFORMATION

1. The staff recommends that the Commission find that the First Modification and Supplement of the Long Beach Unit Annual Plan does not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment, and is, therefore, not a project in accordance with the California Environmental Quality Act (CEQA).

Authority: Public Resources Code section 21065 and California Code of Regulations, Title 14, sections 15060, subdivision (c)(3), and 15378.

EXHIBIT:

- A. Letter Submitting the First Modification and Supplement of the Long Beach Unit Annual Plan (Fiscal Year 2012-2013)

RECOMMEND ACTION:

It is recommended that the Commission:

CEQA FINDING:

Find that the First Modification and Supplement of the Long Beach Unit Annual Plan is not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060, subdivision (c)(3), because the activity is not a project as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

AUTHORIZATION:

Accept as consistent with the current Program Plan the First Modification and Supplement of the Long Beach Unit Annual Plan (July 1, 2012 through June 30, 2013), Wilmington Oil Field, Los Angeles County.

EHXIBIT A

W 17166

CITY OF LONG BEACH



DEPARTMENT

CHRISTOPHER J. GARNER
DIRECTOR

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May 9, 2013

Ms. Marina Voskanian, P.E.
Division Chief, Mineral Resources Management
California State Lands Commission
200 OceanGate, 12th Floor
Long Beach, CA 90802-4331

**SUBJECT: REQUEST FOR APPROVAL OF THE FIRST MODIFICATION AND
SUPPLEMENT OF THE LONG BEACH UNIT ANNUAL PLAN
(JULY 1, 2012 THROUGH JUNE 30, 2013)**

Dear Ms. Voskanian:

In accordance with the provisions of Part IV, Sections A and B, of the Long Beach Unit Annual Plan, I am submitting for your approval the First Modification and Supplement of the Annual Plan covering the period July 1, 2012 through June 30, 2013.

Annual Plan Modification and Supplement

An Annual Plan modification and supplement is required since the amount to be expended for the Development Drilling Category will exceed 120 percent of its budgeted amount. This Category will require an additional \$29.4 million (25 percent increase) for additional drilling costs associated with drilling fourteen more wells than planned in FY 12-13. The number of wells drilled was increased from 67 to 81 to take advantage of the higher than expected oil prices. The additional drilling will increase the average oil production for the fiscal year to 24,830 barrels per day (versus 23,671 barrels per day). Decreased expenditures in the other Plan Categories will offset the drilling increase and allow the total expenditures not to exceed the Annual Plan. Additional oil revenues due to higher oil prices and increased oil production will offset the additional expenses and result in an estimated net profit of \$448.84 million (versus \$62.96 million).

Marina Voskanian, P.E.
May 9, 2013
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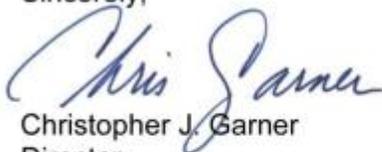
After approval of this request, the revised Annual Plan Category budgets will have the following outlook estimates:

| Annual Plan Category | Original (\$MM) | Outlook (\$MM) |
|---|-----------------|----------------|
| Development Drilling | 118.5 | 147.9 |
| Operating Expense | 108.6 | 92.8 |
| Facilities, Maintenance, and Plant | 93.01 | 76.7 |
| Unit Field Labor and Administrative | 60.76 | 62.86 |
| Taxes, Permits, and Administrative Overhead | 44.4 | 40.3 |
| TOTAL | 425.27 | 420.56 |
| | | |
| Unit Net Profit | 62.96 | 448.84 |

The subject Modification and Supplement are expected to be approved by the City of Long Beach, as Unit Operator, on June 4, 2013 at the City of Long Beach City Council meeting. I am sending this request to you at this time to accommodate your scheduling needs for obtaining approval. We will promptly inform you when the City Council issues its expected approval.

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

Sincerely,


Christopher J. Garner
Director

cc: Frank Komin, Thums