

MINUTE ITEM

4/29/71
CVB

20. PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1971, THROUGH JUNE 30, 1972, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

(Note that Chairman Flournoy retired from the meeting at this point, and the Chairmanship was assumed by Commissioner Orr.)

Calendar Item 18 was presented to the Commission for consideration for approval of the proposed budget for the next fiscal year, covering the expenses of operations under the THUMS contract for the development and production of the Long Beach Unit, Wilmington Oil Field. In presenting this, the Executive Officer pointed out that the expense portion of the budget is considered to be an absolute maximum level of expenditures, and it is anticipated that the actual expenses for the 1971-1972 Fiscal Year will be less than proposed in the budget totals.

Commissioner Orr pointed out that the proposed budget procedures do not provide effective control of transfers between items, with some item aggregations totaling as much as \$8 or \$9 million, and asked what steps could be taken to provide effective controls.

The Executive Officer reported that the Commission has one of two options: To approve the budget as submitted, or to take the steps provided for budget modification as specified in Chapter 138.

Deputy Attorney General Warren J. Abbott informed the Commission of its options under Chapter 138 of 1964, 1st E.S., either to approve or disapprove within 45 days of submittal with the approval being automatic if no action is taken within that time limit; or, alternatively, to modify the budget, which would require the calling of a formal hearing at which the City of Long Beach would be given an opportunity to present evidence in support of the plan as submitted.

Commissioner Orr indicated that he would prefer to approve a basic minimum budget with the understanding that it could be augmented if additional expenditures could be justified.

UPON MOTION DULY MADE AND CARRIED, THE FOLLOWING RESOLUTION WAS ADOPTED:

A SPECIAL HEARING OF THE STATE LANDS COMMISSION IS TO BE HELD AT THE TIME OF THE NEXT REGULAR MEETING OF THE COMMISSION TO CONSIDER THE PROPOSED PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1971, THROUGH JUNE 30, 1972, WILMINGTON OIL FIELD, LOS ANGELES COUNTY, WITH THE DIVISION TO WORK WITH THE CITY OF LONG BEACH ON TWO PROVISOS:

- (1) THAT THE BUDGET PROCEDURES BE MODIFIED TO PROVIDE THE COMMISSION WITH CONCURRENT APPROVAL ON FUND TRANSFERS FOR BUDGET ITEMS;
- (2) THAT A BASIC MINIMUM BUDGET BE CONSIDERED SUBJECT TO AUGMENTATION IF ADDITIONAL EXPENDITURES CAN BE JUSTIFIED.

Attachment:

Calendar Item 18 (1 page)

A 39, 44 & 68
S 37 & 37
M

18.

PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1971, THROUGH JUNE 30, 1972, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

In compliance with Section 5, Chapter 138/1964, 1st E.S., and Article 4 of the Long Beach Unit Agreement, the City of Long Beach has submitted the "Plan of Development and Operations and Budget, Long Beach Unit, July 1, 1971, through June 30, 1972" to the State Lands Commission for approval.

Funds are provided for the drilling of ten new producing wells, after which the total number of wells drilled will be approximately 660, with the Unit almost completely developed.

In order to accomplish the proposed additional development and to manage, operate, and maintain the various facilities, a total expenditure of \$40,933,000 is proposed. Of this total, \$3,767,000 is provided for investment, \$36,066,000 for expense, and \$1,100,000 for administrative overhead.

Investment includes \$2,998,000 for drilling and development, and \$769,000 for field and well facilities. Expense categories are: taxes, \$11,237,000; operating expense, \$21,060,000; general administrative expense, \$3,749,000; and other expense, \$20,000.

The City Council of the City of Long Beach, at its meeting of March 16, 1971, adopted this proposed Plan of Development and Operations and Budget, and authorized its submittal to the State Lands Commission for consideration and approval.

The Office of the Attorney General has reviewed the proposed Plan and Budget and found it to be legally sufficient.

The Division has made a thorough review of the proposed Plan and Budget, and is of the opinion that execution of the Plan will insure the continuing operation and development of the Long Beach Unit. The present rates of production, water-cut performance, and expenditures with their projected trends, however, indicate that every effort must be made to reduce expenditures. If positive reductions in expense are not made, the anticipated net profits from the Long Beach Unit will be sharply reduced over its economic life.

Cost reduction measures have been initiated by the State Lands Division, the City of Long Beach, and the Field Contractor. The City of Long Beach, pursuant to the Commission's request of April 1, 1970, is preparing quarterly progress reports on its effectiveness in reducing expenditures by the Field Contractor for the Long Beach Unit. The most recent quarterly report on reduction of expenditures was received by the Division on November 2, 1970.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE "PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1971, THROUGH JUNE 30, 1972", AS ADOPTED BY THE CITY COUNCIL OF THE CITY OF LONG BEACH ON MARCH 16, 1971, WITH THE UNDERSTANDING THAT THE EXPENSE PORTION OF THE BUDGET IS CONSIDERED TO BE AN ABSOLUTE MAXIMUM LEVEL OF EXPENDITURE, AND WITH THE ANTICIPATION THAT ACTUAL EXPENSE EXPENDITURES FOR THE 1971-1972 FISCAL YEAR WILL BE LESS THAN THE BUDGETED AMOUNTS.