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No. 47
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INFORMATIVE CALENDAR ITEM

47.

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Thompson

REVIEW OF THE 1977-1978 FISCAL YEAR PRODUCTION AND
REVENUE; ESTIMATE OF THE 1978-1979 FISCAL YEAR
PRODUCTION AND REVENUE, PARCEL "A", CITY OF
LONG BEACH, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

The Commission has directed the staff to prepare and submit annual fiscal year estimates of oil and gas production, oil and gas liquids value, investment and expense expenditures, net revenue and net profits from Parcel "A". In compliance with this directive, estimates for the 1977-1978 fiscal year were prepared by the staff and presented to the Commission at its meeting of October 27, 1977, and updated quarterly.

The staff has reviewed these 1977-1978 fiscal year estimates in the light of actual production and expense through the end of the fiscal year. Chapter 138 oil revenue for sharing from Parcel "A" during the 1977-1978 fiscal year was \$2,395,000, which was \$88,000 more than the last staff estimate prepared in May 1978. The revenue was \$877,000 higher than the October 1977 estimate, in large part due to reduced redrill expenditures resulting from the freeze on crude oil price increases. Some temporary relief was granted by the Department of Energy effective June 1, 1978. However, the estimated net revenue for 1978-79 may be reduced by 20% if anticipated OPEC crude oil prices at the first of 1979 reimpose inequitable entitlement penalties on California crude oil, resulting in price freezes or rollbacks. With inflation indexes currently at 10%, the resulting increase in costs of more than 15% to produce the oil will severely reduce future net revenue unless accompanied by equivalent crude oil price increases.

For the 1978-1979 fiscal year, the staff has estimated revenue using expenditures based on the Parcel "A" budget, as approved by the City of Long Beach. Oil production has been estimated at the current rate of decline because it is anticipated that redrills budgeted for the 1978-1979 fiscal year will not be completed early enough in the year to significantly halt the present rate of production decline. Estimated revenue is based on receiving ceiling prices for crude oil produced during the remainder of the year. Budgeted expenditures provide for 6 redrills during the 1978-1979 fiscal year, resulting in a budget expenditure increase of \$378,000. Also increased insurance costs and warehouse inventory are provided for in the 1978-1979 budget.

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These increases are partially offset by a drop of \$92,000 in ad valorem taxes, as a result of the Jarvis-Gann initiative.

The following is a summary of actual 1977-1978 fiscal year performance and revenue in comparison with the staff's 1978-1979 fiscal year estimate:

	1977-1978	1978-1979	
	<u>Actual</u>	<u>Estimate</u>	<u>Change</u>
Production, Bbls.	1,538,000	1,296,000	-242,000
Gross Revenue	\$7,533,000	\$7,683,000	+\$150,000
Total Expenditures	\$5,090,000	\$5,711,000	+\$621,000
Net Revenue	\$2,443,000	\$1,972,000	\$-471,000
Net revenue to be shared after deduction of Contractor's 9% share and misc. credits	\$2,395,000	\$1,893,000	\$-502,000

When production and cost information through the second quarter of the fiscal year becomes available, it will be reviewed by the staff. The Commission will be informed of any revisions which would affect revenue to the State pursuant to Chapter 138, Statutes of 1964, 1st E. S.