

MINUTE ITEM

This Calendar Item No. 36  
was added to the Calendar Item  
No. 36 of the Long Beach  
Community Development  
to 0 of 3  
meeting. 12/20/78

CALENDAR ITEM

36.

12/78  
Thompson

SECOND MODIFICATION OF THE 1978-1979  
PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET

The Commission's staff, together with representatives of the City of Long Beach have prepared the Second Modification of the 1978-1979 Plan of Development and Operations and Budget, Long Beach Unit, providing updated production, injections, income and expenditure information, together with revised economic projections.

The Second Modification revises Exhibits C-3 and C-4 in PART V of the subject Plan and Budget based on data available through September 30, 1978. PART IV, PROCEDURES, of the Plan and Budget provides that exhibits showing estimated oil, gas and water production rates, water injection rates, expenditures and resulting Long Beach Unit net revenue shall be reviewed quarterly by the Commission's staff and the city, and modified as necessary. This modification satisfies that provision. It does not augment the Budget, nor transfer funds within the existing Budget.

The average oil production rate during the July through September 1978 quarter was 72,826 B/D which was in reasonable proximation to the previously estimated rate of 73,000 B/D. Actual gas production averaged 15,043 Mcf/D, 1,457 Mcf/D above the originally estimated rate, due to a higher than anticipated gas-oil ratio. The water injection rate of 484,141 B/D was 50,642 B/D below the previously estimated 534,783 B/D rate, as the result of loss of reservoir injectivity.

Estimated investment, expense and overhead is revised to \$82,269,000, compared with \$74,383,000 estimated when the 1978-1979 Plan and Budget was prepared in February 1978. The revised figure includes carry-in funds for investment projects that were not completed in the previous fiscal year. No estimated funds for county mining rights and secured personal property taxes are included in this first quarter review because 1978-1979 tax bills had not been received by the end of the quarter, September 30th. Tax bills have now been received, and payment of the first installment has been provided for by the First Modification. The second installment is subject to downward adjustment for depletion of petroleum reserves.

Total Unit income for the 1978-1979 year is now estimated to be approximately \$172.6 million, close to the maximum

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in the range of \$149.3 to \$175 million estimated in the original 1978-1979 Plan and Budget. This is principally the result of crude oil price adjustments following changes in the crude oil entitlements program since the previous estimate in February 1978.

The estimate of composite crude oil price has been constant for the final 3 quarters, based on current prices, due to lack of definitive information as to future prices. The pattern of crude oil price is irregular. The Department of Energy has recently reduced the rate of monthly increases in controlled prices, thereby introducing more uncertainty into the unsettled pattern of federal crude oil controls, pricing and taxation.

Some temporary relief was granted by the Department of Energy effective June 1, 1978. However, the estimated net revenue for 1978-1979 may be reduced if anticipated increases in OPEC crude oil prices at the first of 1979 require re-imposing inequitable entitlement penalties on California crude oil, resulting in price freezes or roll backs.

As of the end of the first quarter of the 1978-1979 fiscal year, Long Beach Unit net revenue for the entire fiscal year is estimated to be approximately \$90.3 million. This compares favorably with the original range of net revenue, \$74.9 to \$100.6 million, included in the 1978-1979 Plan and Budget as approved by the Commission at its April 1978 meeting.

The current high inflation and interest rates will result in increased costs to produce the oil and will severely reduce future net revenue unless accompanied by equivalent crude oil price increases.

The Commission's staff has reviewed the Second Modification and finds that the estimated production, injection, expenditures and revenue shown in the revised exhibits are reasonable. When actual information through the second quarter of the 1978-1979 fiscal year becomes available, it will be reviewed by the staff and reported to the Commission.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE SECOND MODIFICATION OF THE PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1978 THROUGH JUNE 30, 1979.