

MINUTE ITEM
This Calendar Item No. C80 was approved as
Minute Item No. 80 by the California State Lands
Commission by a vote of 3 to 0 at its
05/10/07 meeting.

**CALENDAR ITEM
C80**

A 54

05/10/07

S 27

W 17160

A. Reid

**CONSIDER APPROVAL OF THE FIRST MODIFICATION
AND SUPPLEMENT OF THE ANNUAL PLAN,
(JULY 1, 2006 THROUGH JUNE 30, 2007)
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
211 E. Ocean Blvd., Suite 500
Long Beach, CA 90802

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, 2006 through June 30, 2007), Long Beach Unit.

On March 13, 2007 the Long Beach City Council adopted the proposed Modification and Supplement and authorized its submittal to the Commission. The modification was submitted to the Commission on April 19, 2007. The Commission has 30 days following submission to approve the Modification. However, in accordance with section 2.06 of the Optimized Waterflood Program Agreement, the Executive Officer of the California State Lands Commission shall have the power to consent to an amendment or supplement to or modification of any portion of an Annual Plan, provided that his consent shall be subject to ratification by the California State Lands Commission at its next regular meeting.

In accordance with Section 2.07 of the Optimized Waterflood Program Agreement, the Annual Plan modification is required because the amount to be

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expended for the Taxes, Permits and Administrative Overhead Category will exceed 120 percent of its originally budgeted amount. This category will require a total increase of \$7.7 million. Of this increase, \$6.4 million is due to a higher than anticipated county tax assessment, and \$1.3 million of the increase is from higher administrative overhead costs due to increased activity. All other budget categories are anticipated to stay within 120 percent of their approved amounts. The following table is a summary of the five budget categories indicating each category's currently approved amount, the modified budget amounts after the proposed change, and the estimated "outlook" projected expenditures to the end of the fiscal year. Also provided is an update to the estimate of the unit net profit for the fiscal year. The increase in estimated net profit from the original budget is mainly due to increases in oil prices realized to date. The new net profit estimate assumes oil prices return to the budget amount of \$40 per barrel during the second half of the current fiscal year. However, if oil prices remain at current levels, approximately \$50 per barrel, the unit will realize higher net profit than the "current outlook" estimate.

| MILLION DOLLARS | | | |
|---|---------------------------------|------------------------|------------------------|
| Annual Plan Category | Approved Original Budget | Modified Budget | Current Outlook |
| Development Drilling | 73.1 | 73.1 | 83.6 |
| Operating Expense | 114.8 | 114.8 | 120.5 |
| Facilities, Maintenance, and Plant | 71.5 | 71.5 | 84.7 |
| Unit Field Labor and Administrative | 43.5 | 43.5 | 51.8 |
| Taxes, Permits, and Administrative Overhead | <u>23.1</u> | <u>30.8</u> | <u>30.8</u> |
| Total | 326.0 | 333.7 | 371.4 |
| Estimated Unit Net Profit | 158.1 | | 176.6 |

Commission staff has reviewed the First Modification and believes the Annual Plan is consistent with the Program Plan of July 2005 – June 2010, in that it meets or exceeds the goals contained in the current Program Plan as well as following the

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industry practice of increasing activity during periods of higher oil prices.

OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

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

EXHIBIT:

- A. Letter from the City of Long Beach requesting approval of the First Modification and Supplement of the Annual Plan.

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act)

RECOMMEND ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

APPROVE THE FIRST MODIFICATION AND SUPPLEMENT OF THE ANNUAL PLAN (JULY 1, 2006 THROUGH JUNE 30, 2007), LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

EXHIBIT A

W17160
A. Reid

CITY OF LONG BEACH



DEPARTMENT

CHRISTOPHER J. GARNER
DIRECTOR

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(562) 570-2000 · FAX (562) 570-2008

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April 16, 2007

Mr. Paul B. Mount II, P.E.
Chief, Mineral Resources Management Division
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 ANNUAL PLAN (JULY 1, 2006 THROUGH JUNE 30, 2007)**

Dear Mr. Mount:

In accordance with the provisions of Part IV, Sections A and B, of the Annual Plan, we are submitting for your approval the First Modification and Supplement of the Annual Plan covering the period July 1, 2006 through June 30, 2007.

Annual Plan Modification and Supplement

An Annual Plan modification and supplement is required since the amount to be expended for the Taxes, Permits, and Administrative Overhead Category will exceed 120 percent of its budgeted amount. This Category will require an additional \$7.7 million (33% increase) primarily because the county tax assessment was higher than anticipated (\$9.8 million compared to \$4.2 million budgeted). Additionally, administrative overhead is expected to be \$1.3 million higher. After approval of this request, the revised Annual Plan Category budget will be as follows:

| Annual Plan Category | Original (\$MM) | Modified (\$MM) |
|---|-----------------|-----------------|
| Development Drilling | 73.1 | 73.1 |
| Operating Expense | 114.8 | 114.8 |
| Facilities, Maintenance, and Plant | 71.5 | 71.5 |
| Unit Field Labor and Administrative | 43.5 | 43.5 |
| Taxes, Permits, and Administrative Overhead | <u>23.1</u> | <u>30.8</u> |
| TOTAL | 326.0 | 333.7 |

BUSINESS OPERATIONS
(562) 570-2094

ENGINEERING/CONSTRUCTION
(562) 570-2031

GAS SERVICES
(562) 570-2110

OIL OPERATIONS
(562) 570-3900

OIL PRODUCTIONS/SUBSIDENCE
(562) 570-3900

S E R R F
(562) 570-1196

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