

MINUTE ITEM
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1/26/78
Thompson

51. FIFTH MODIFICATION OF THE 1977-78 PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

During consideration of Calendar Item 51 attached, Mr. W. M. Thompson, Manager, Long Beach Operations, explained that in requesting this proposed augmentation, the staff was relying on relief from the Department of Energy on its entitlements program. He also explained that these monies will not be spent instantaneously and some expenditures could be deferred if ceiling prices for lower tier oil are not paid by the oil contractors.

Chairman Kenneth Cory advised that the Commission would go along with staff with the understanding that they keep the Commission posted on any future developments with the DOE. He pointed out, however, that if California does not obtain this relief, the Commission will not deny that a contract exists, but there is the possibility that the State may have to make a settlement of the contracted obligation.

Upon motion duly made and carried, the resolution as presented in Calendar Item 51 was adopted by a vote of 2-0.

Attachment: Calendar Item 51 (4 pages)

FIFTH MODIFICATION OF THE 1977-1978 PLAN OF
DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT,
WILMINGTON OIL FIELD, LOS ANGELES COUNTY

The Fifth Modification of the 1977-1978 Plan of Development and Operations and Budget for the Long Beach Unit will increase drilling and redrilling activity in order to obtain additional crude oil production. To provide funding for this additional development work a Budget augmentation of \$7,490,000 is provided. With approval of this modification the revised 1977-1978 Unit Budget will total \$90,227,000.

The Commission, at its meeting of April 28, 1976, stated its intention to provide additional funding for increased Unit development activity with a reasonable portion of any additional revenue generated by crude oil price increases permitted by the Federal government. Unfortunately there was instead a freeze in June, 1976 on upper and lower tier ceiling prices followed by later rollbacks of upper tier prices.

For years the Commission has been concerned about the lack of parity in the pricing of California crude oil, as compared with nationwide pricing. The Commission was successful in its efforts to eliminate the inequity due to an unfair gravity differential in the ceiling prices established for low gravity lower tier California crude oil in October 1976.

The oil companies, however, did not increase their posted prices for upper and lower tier crude oil at that time or in September 1977 when monthly crude oil price increases were again allowed by the Federal Department of Energy. They contended such increases could not be made because of the Federal crude oil entitlements program.

The Commission worked diligently to obtain relief from the entitlements program, and as a result the Department of Energy granted a \$1.74 per barrel reduction in the California lower tier entitlements obligation, effective January 1, 1978. As a result of this relief granted in the entitlements program, the oil companies should increase their postings for lower tier Wilmington crude oil.

The Fifth Modification will modify the Plan and Budget to provide for the following:

A 52, 57, 58

S 27, 31

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1. Increased new well drilling. In total, 28 wells are to be drilled, distributed between the Tar, Ranger, Terminal and HP-Fore Zones. The augmentation for all necessary drilling activity through June 30, 1978 is \$1,000,000.
2. A 1-year contract for the use of a drilling rig on Pier J and Island Freeman. The contract period is estimated to run to approximately March, 1979, some eight months into the 1978-1979 Plan and Budget period. The annual rate is estimated to be \$2,100,000. With the additional funding provided above, the 1977-1978 Budget contains sufficient funds for that portion of the 1-year contract ending on June 30, 1978. This approval will require the Long Beach Unit to provide additional funds thereafter to meet the contractual liability for that portion of the 1-year contract following June 30, 1978.
3. The purchase of a portable electric drilling rig, complete with all necessary equipment suitable for drilling and re-drilling wells onshore and on the offshore islands. The augmentation for drilling equipment is \$3,400,000.
4. Increased re-drilling and workovers. The modified Plan provides for a new total of 5 injection well re-drills and 6 oilwell re-drills to same zones. Additional workover activity is planned. The augmentation for re-drills and workovers is \$2,800,000.
5. Administrative Overhead for the above described items amounts to \$290,000.

After approval of this modification, the affected Budget Items will be revised as follows:

	<u>Current Budget</u>	<u>This Augmentation</u>	<u>Adjusted Budget</u>
PART III			
A. <u>ESTIMATED EXPENDITURES FOR INVESTMENT</u>			
1. <u>DRILLING AND DEVELOPMENT</u>			
a. <u>Development Drilling</u>			
(2) Ranger Zone	\$ 6,940,000	\$ 1,000,000	\$ 7,940,000

2. FIELD AND WELL FACILITIES

f. Field Equipment

(2) Drilling Equipment	\$ 788,000	\$ 3,400,000	\$ 4,188,000
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R. ESTIMATED EXPENDITURE FOR EXPENSE

2. OPERATING EXPENSE

a. Wells

(3) <u>Oil Wells</u>	\$ 500,000	\$ 1,200,000	\$ 1,700,000
(3) <u>Redrills</u> (Same Zone)			
(4) <u>Workover</u>	1,806,000	1,100,000	2,906,000
(7) <u>Injection Wells</u>			
(7) <u>Redrills</u> (Same Zone)	1,440,000	300,000	1,740,000
(8) <u>Workover</u>	838,000	200,000	1,038,000
		\$ 290,000	

Administrative Overhead

\$ 7,490,000

Total Augmentation

\$90,227,000

TOTAL BUDGET

The Commission Staff believes this Fifth Modification is consistent with the Commission's established policy of augmenting the Long Beach Unit Budget with a reasonable portion of new revenues that result from crude oil price increases.

As of January 25, 1978, there have been no increases in lower tier posted prices for Long Beach Unit crude oil reflecting the January 1, 1978 entitlement adjustment. However, the Commission's Staff recommends Commission approval of this modification. The Department of Energy has declared its intent to correct the inequities in California crude oil price caused by the entitlements program. Their current rule change allowing an entitlements adjustment for California lower tier crude is to be followed by a hearing in the first quarter of 1978. The purpose of this review will be to determine if any additional entitlement adjustment is required for California producers to receive ceiling

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prices for their oil. This positive action by the Department of Energy is reinforced by the inclusion in the energy statement last December by President Carter, prior to leaving on his middle east trip, of the need to maximize California production. He also outlined the necessity of increasing domestic energy sources in his recent State of the Union message to Congress. Approval of this modification would be clear indication of the Commission's intent to fulfill its role to maximize production from the Long Beach Unit.

As an addendum to the above recommendation, the Commission may wish to consider the provision that production acceleration projects such as workovers and remedial work, stimulation, redrilling, and drilling of wells shall be restricted to those oil wells which will produce upper tier oil. The Commission's Staff would report on any changes in crude oil pricing at the February, 1978 meeting, at which time the Commission could evaluate the above restraint.