MINUTE ITEM

This Calendar Item No. 29
was approved as Minute Item
No. 27 by the State Lands
Commission by a vote of 3
to 2 at its 4/27/82
meeting.

MINUTE ITEM 29

4/27/82 Thompson

COMMON OF THELESS THAT OF DIVING A PERM AND APERATIONS AND BLUGGER. LOS AND BLUGGER. MEDICATION OF THE COMMON LOS ANGLES CONTRA

During consideration of Calendar Item 29 attached, Commission-Alternate Susanne Morgan requested that staff continue to monitor the expenditure and revenue programs of the Long Beach Unit.

Upon motion duly made and carried, the resolutions in Calendar Item 33 were approved as presented by a vote of 3-0.

Attachment: Calendar Item 29.

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CALENDAR ITEM

29

4/22/82 Thompson

APPROVAL OF 1982-83 PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, WILMINGTON OIL FIELD, LOS ANGELES COUNTY

Section 5, Chapter 138, Statutes of 1964, 1st E.S. (Exhibit "A"), and Article 4 of the Long Beach Unit Agreement requires adoption by the City of Long Beach of an annual Plan of Development and Operations and Budget. The Plan and Budget is then to be submitted to the State Lands Commission 100 days prior to submission to the participants of the Long Beach Unit.

The City Council of the City of Long Beach, at its meeting of March 16, 1982, adopted this proposed Plan of Development and Operations and Budget for 1982-83, and authorized its submittal to the State Lands Commission for consideration and approval. The Plan and Budget was submitted to the State by the City on March 16, 1982.

The State Lands Commission has 45 days after submittal to take action. If no action is taken, the Plan and Budget is deemed to be approved as submitted. Sections 5(b), (c) and (g) cover the actions the Commission can take; all three options have been used in the past. Section 5(b) covers approval by the Commission or modification at a formal hearing. Section 5(g) covers modification without a hearing, upon mutual agreement by the City of Long Beach and the State Lands Commission. Last year, in its Plan and Budget consideration, the Commission also retained budget fund transfer control over certain budget items.

The proposed Plan provides for continued development of the Long Beach Unit and the operation and maintenance of necessary facilities. Commencing with the last paragraph on page 19 and continuing on to pages 20 and 21, the proposed Plan and Budget would include in the Plan 16 items which are "under consideration or in preliminary planning stages". This is a policy decision for the Commission, whether to include these in the Plan, as proposed, or consider them for information only and not as a part of the Plan, or to delete them *ltogether.

To accomplish the development and facility additions that are proposed in the Plan and to manage, operate and maintain the various existing facilities, a Budget totalling \$253,070,000

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has been proposed by the City of Long Beach. This total is \$58,070,000 more than and 30 percent higher than the estimated expenditure of \$195,000,000 for the current year. The proposed Budget provides \$82,277,000 for capital investment, \$161,880,000 for expense and \$8,913,000 for administrative overhead. These are \$27,027,000, (37 percent), \$34,430,000, (27 percent) and \$1,813,000, (26 percent), respectively, more than estimated expenditures in the 1981-82 year. This is shown on Attachment "A".

Investment funding includes \$45,000,000 to drill new wells, \$1,414,000 for other well work and \$35,863,000 for field and well facilities. It is planned to operate nine drilling rigs for the purpose of drilling, redrilling and major well workovers. The Commission retains control of drilling rig activity in addition to funding. This is implemented by the requirement in the Procedures section of the Plan and Budget, that the Commission's Executive Officer approves the drilling or redrilling of each well during the Plan year.

Investment for facilities includes \$23,000,000 for island expansion and new well cellar construction. More than one-half of the nearly \$36 million in funds for new facilities proposed by the City is for the construction of 267 additional well locations with associated piping on Islands Chaffee and Freeman and on Pier J. The remaining \$12,863,000 in investment funding is distributed to pumps, vessels, pipelines, and electrical, drilling, production and other equipment. Justifications for some of the additional facilities were not transmitted to the Commission with the Plan and Budget. The staff has requested such data for the Commission's review.

The proposed investment Budget also includes an expenditure of \$2 million for engineering, design and permits for a proposed \$15 million new landfill and relocation of the Long Beach Units' warehousing, barge and docking facilities. This proposal is in response to the Long Beach Harbor Department's desire to relocate these Unit-owned facilities. This would be a policy decision for the Commission, whether to approve the expenditure of Long Beach Unit funds for relocating the existing facilities, and the enlargement of the filled Pier J area.

Some of the projects that are proposed are covered in the Commission's audit of the Field Contractor by Deloitte, Haskins and Sells in 1981. The Commission could consider removing those projects from this Plan and Budget and consider

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them at the time the Commission reviews the Field Contractor's response to the audit report and the proposal to install a cost effective data processing/management information system. This proposal is planned to be on the Commission agenda for the July 1982 meeting.

Expense funding provides \$132,840,000 for operating, \$10,062,000 for administrative and \$1,078,000 for other expense. This funding proposal is \$32,636,000, (33 percent), \$1,748,000, (21 percent), and \$54,000, (-5 percent), respectively, different than the estimated expenditures for the current year. \$17,900,000 is provided for taxes and licenses.

Operating expense funding in the Budget provides for oil, gas and water to be produced, separated and processed. Funding for operation of existing wells and facilities for production and injection is a major part of the Budget, and at the proposed level of almost \$133 million is 52 percent of the total proposed Budget. The historical cost trend of this Operating Expense Budget Division III B2 is shown on Attachment "B". Since the volume of fluids handled and the number of active wells to be operated provide bases for cost comparison, these are shown as Attachments "C" and "D", respectively. They are in dollars per active well per month and dollars per barrel of total fluids handled per month. These show cost trend increases for past years, and the increase that is proposed in the 1982-83 Budget. The funding for operating expense that is proposed for 1982-83 is \$132,840,000. Compared to an estimated expenditure of \$100 million for the current year, this 33 percent increased funding is too high. The anticipated increase in wells to be serviced is nine percent, with an increase of six percent in fluids expected to be handled. Part of the increased funding may be due to (1) pessimistic cost trending, (2) a greater than historical trend in well servicing requirements, without offsets in cost savings if the purchase of four production masts is approved and (3) a ten percent overail inflation factor.

A historical comparison of the cost and total number of Field Contractor employees is shown on Attachment "E". The staffing was increased from 466 to 524 positions in the 1981-82 Plan and Budget. A further increase to 578 positions is proposed for next year, with a funding increase of 24 percent. The increase of employees this year is without a corresponding increase in activity level. Analyses of spending trends do not support the payments used to justify previous employee additions and the equipment purchases for their use. A schedule of the number of such employees

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and their salaries and benefits must be approved by the Long Beach City Manager. He is required to give due regard to the requirements of good oil field engineering and operating practices and the compensation and other benefits normally allowed to comparable employees by the Field Contractor and by other responsible persons engaged in comparable oil field operations. The selection of employees used by the Field Contractor in conducting operations, their hours of labor, their conditions of employment, and their supervision is the responsibility of the Field Contractor.

In the operating expense, about \$39,000,000 is for electrical energy, a 39 percent increase over the current year's estimated costs. The funds for electrical energy are primarily for the purpose of lifting to the surface almost 200 million barrels of oil and water, and for the injection of a similar volume of produced saline water as a part of the pressure maintenance program. Electrical power rates have increased sharply in the first of 1982. (See Attachment "F".) The funding in the Budget must have been predicated upon an escalation of these higher rates per kilowatt hour, even in view of anticipated . Wer fuel oil costs and at least normal amounts of hydroelectric power available. The Commission restricted transfers from certain Budget Items containing electrical energy costs, in the 1981-82 Plan and Budget. It appears that the 1981-82 estimated expenditure of \$28,000,000 for electrical energy will be only about 85 percent of the budget funds requested originally.

The Procedures section of the 1982-83 Plan and Budget contains two significant changes, relative to previous years. Paragraph D.3.c. contains a new provision, the "any transfer of funds between Budget Category A.1.a. - Development Drilling and Budget Category B.2.a. - Wells" shall be excepted from the requirement that transfer of funds between Budget Divisions or Major Budget Classes be accomplished by a Budget Modification in accordance with Section 5(g) of Chapter 138. In addition, the City of Long Beach proposes to increase the Budget Contingency Fund from \$350,000 to \$500,000. This fund is intended to ensure continuing development and operation by providing a contingency fund for the emergency use of the Unit Operator.

Funding for Long Beach Unit taxes and licenses, in the amount of \$17,900,000, is primarily for mining rights taxes levied by the Los Angeles County. Actual amounts of taxes will not be known until November 1982. The proposed funding is at approximately the 1981-82 level. If additional funds are required, the matter will be brought back to the Commission at the appropriate time.

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Exhibits C-1 through C-4 of the Plan and Budget are estimates of production and injection rates and economic projections. The economic projections, Exhibits C-3 and C-4, estimate the oil and gas income for the Unit to be \$594 million. The estimate of net revenue, after deduction of proposed budget expenditures and without consideration of windfall profits tax, is \$341 million. The Commission staff, in analyzing crude oil pricing trends, believes that the estimate of \$25.50 per barrel of crude oil price for the 1982-83 Plan year is too high. The staff estimate of Unit gross income is \$560 million. If a severance tax is enacted, this estimate would be reduced accordingly. A historical comparison is shown on Attachment "G".

AB 884:

N/A.

EXHIBIT:

A. Section 5, Chapter 138, Statutes of 1964, 1st E. S.

ATTACHMENTS:

- A. Total Budget Expenditures.
- B. Operating Expense Total.
- C. Operating Expense and Active Wells.
- D. Operating Expense and Total Fluid.
- E. Contractors Salaries and Burden.
- F. Electrical Energy Costs.
- G. Comparison of Gross Revenue with Total Budget Expenditures.

IT IS RECOMMENDED THAT THE COMMISSION:

- 1. DETERMINE THAT THE ACTIVITIES CONTEMPLATED BY THE "PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1982 THROUGH JUNE 30, 1983" ARE PLANNED TO BE CARRIED OUT PURSUANT TO REEMENT APPROVED BY THE COMMISSION BEFORE APRIL 5, 1973, AND ARE THEREFORE ONGOING PROJECTS WITHIN THE MEANING OF 14 CAL. ADM. CODE 15070(B) (3), AND DO NOT REQUIRE THE PREPARATION OF EITHER AN EIR OR A NEGATIVE DECLARATION.
- 2. A. APPROVE THE "PLAN OF DEVELOPMENT AND OPERATIONS AND BUDGET, LONG BEACH UNIT, JULY 1, 1982 THROUGH JUNE 30, 1983" AS ADOPTED BY THE CITY OF LONG BEACH CITY COUNCIL ON MARCH 16, 1982, ON THE BASIS THAT

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CHANGES AGREED TO BY THE CITY OF LONG BEACH AND THE STATE LANDS COMMISSION WILL BE INCORPORATED INTO THE FIRST MODIFICATION OF THE PLAN AND BUDGET, WITH CORRESPONDING CHANGES IN THE PLAN LANGUAGE.

- B. FIND THAT THE PLAN AND BUDGET FORMAT, JUSTIFICATIONS FOR EXPENDITURES AND OVERALL ECONOMIC ANALYSIS ARE INADEQUATE FOR ITS DECISION MAKING PROCESS. IT DIRECTS THAY THE FIRST MODIFICATION OF THIS PLAN AND BUDGET INCLUDE A CHANGE TO A PROGRAMMATIC PLAN AND BUDGET FORMAT, BASED UPON THE ABOVE MODIFIED FUNDS.
- C. FIND THAT CERTAIN RECOMMENDATIONS IN THE AUDIT OF THE FIELD CONTRACTOR BY THE COMMISSION, AND PLAN AND BUDGET FORMAT CHANGES, ARE DIRECTED TOWARD THE SAME OBJECTIVES AND SHOULD BE PRESENTED TO THE COMMISSION JOINTLY.
- D. FIND THAT EXPENSE FUNDING AUGMENTATIONS AND TRANSFERS ARE NOT ANTICIPATED IN A TIMELY MANNER. THE QUARTERLY REVIEW OUTLINED IN THE PROCEDURES SHOULD INCLUDE EXPENDITURE TRENDS BY BUDGET ITEMS, ALONG WITH FORECASTS OF ANY FORESEEABLE REQUESTS OF THE COMMISSION FOR AUGMENTATION OR TRANSFERS OF FUNDS. SUCH FORECASTS WOULD ALLOW TIME FOR CONSIDERATION OF ALTERNATIVES AND FOR PLAN MODIFICATIONS IF NECESSARY.
- E. FIND THAT THE NET REVENUE FORECAST FOR THE 1982-83 YEAR REQUIRES RIGID COST CONTROL MEASURES. THE STAFF IS DIRECTED TO PROVIDE TO THE COMMISSION THE NEED AND ECONOMIC JUSTIFICATION FOR LOCAL TRANSFERS THAT EXCEED \$100,000 INTO ANY BUDGET ITEM FOR THE 1982-83 PLAN YEAR.

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EXHIBIT "A"

the total aggregate amount of remaining oil revenue (including advance payments) retained by the city on and after the effective date of this act should reach the sum of two hundred thirty-eight million dollars (\$238,000,000) at any date prior to January 1, 1988, the city shall retain during the next calendar year following the date at which such total aggregate sum is reached, and during each calendar year thereafter, the total sum of one million dollars (\$1,000,000) out of remaining oil revenue during each said year, in lieu of any amounts which might otherwise be specified in the above schedule in respect to said years.

(f) The contractors' agreement shall include a provision for a "reserve for subsidence contingencies." Such reserve shall accumulate at the rate of two million dollars (\$2,000,000) a year, exclusive of interest thereon, commencing from and after the first day of the second month following termination of the right to receive any advance payment from the field contractor and shall continue for a period of 20 years thereafter. Said amounts so accumulated, but not the interest thereon, shall be treated as a cost of oil production under the contractors' agreement and shall be deductible in computing oil revenue.

Said amounts so accumulated, together with interest, shall be impounded by the city in a separate fund and shall be invested in bonds issued by the State of California or, if such bonds are unavailable, then in securities of the United States. Said fund shall be available to indemnify and hold harmless the City of Long Beach, the State of California, and any and all contractors under the contractors' agreement from claims, judgments and costs of defense, arising from subsidence alleged to have occurred as a result of operations under said agreement. Said fund may also be used for the purpose of paying subsidence costs or for conducting repressuring operations in the event there is no oil revenue or the oil revenue is insufficient to pay such costs.

Said fund shall remain impounded until such time as the city and State shall jointly determine that there is no longer any hazard of such claims or judgments or that there is no potential danger of subsidence, whichever is later; provided, that if the city and State are unable to agree upon such a joint determination, the State Lands Commission may make application to a court of competent jurisdiction for determination by the court as to whether it is necessary to continue the impoundment of said fund.

Upon termination of such impoundment, the money so impounded, including all interest and earnings thereof, shall be distributed to the city (in addition to the amounts specified under subdivision (e) hereof) and the State as follows: an amount equal to 50 percent of all subsidence costs approved and disbursed by the city from the effective date of this act to and including December 31, 1968, shall be distributed and paid to the city; and the balance shall be paid and distributed to the State of California. Nothing herein contained shall constitute a waiver of sovereign immunity by the State of California; nor shall anything herein contained affect in any manner the rights and obligations of the City of Long Beach, the State of California, or the contractors under the contractors' agreement, or any of them, as against any other person or persons, relative to claims, judgments or liability arising from subsidence of the land surface.

Sec. 5. The contractors' agreement, and any unit agreement and unit orerating agreement between the City of Long Beach and any other persons.

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(including the State) relating to the undeveloped portion of the Long Beach tidelands, or any part thereof, shall include all provisions necessary to assure compliance with the ordinance adopted by the people of the City of Long Beach at the municipal election held on the 27th day of February, 1962, concerning the Offshore Area and Townlot Area therein defined; provided however that the City of Long Beach is hereby authorized and directed to exercise all controls and reservations of authority specified in Sections 4(c), 4(f) and 4(h) of said ordinance, in accordance with all of the provisions of this act and in accordance with plans of operation and development containing the provisions and adopted in accordance with the procedure set forth in this section. Nothing herein shall be construed as affecting the rights and powers of the State Lands Commission under Section 3(j) hereof.

- (a) All exploration, development and operation of the undeveloped portion of the Long Beach tidelands, or any part thereof, shall be in accordance with plans of development and operation. Said plans shall not cover a period in excess of one year (unless otherwise mutually agreed between the city and the State Lands Commission), and shall specify (unless otherwise mutually agreed between the city and the State Lands Commission) with particularity, in addition to other matters deemed necessary or desirable, the surface and bottom locations of both producing and injection wells to be drilled, drilling schedules, range of rates of production, range of rates and pressures of injection, location and capacity of facilities, and an itemized budget of intended expenditures relating to the exploration, development and operation of the undeveloped portion of the Long Beach tidelands. Each such plan of development and operation shall be initially adopted by the City of Long Beach and shall be submitted by the city to the State Lands Commission at least 100 days prior to its submission to the participants in any unit agreement covering the undeveloped portion of the Long Beach tidelands. Day-to-day operations shall be the responsibility of the field contractor acting under the direction and control of the city.
- (b) The State Lends Commission shall have 45 days after submittal within which to approve such plan or order a hearing to consider a modification of said plan. If the commission takes no action upon the plan within 45 days, the plan shall be deemed to be approved. If the commission believes that a modification of the plan is necessary, it shall conduct a formal hearing. At such hearing, the city may present evidence in support of its plan. After the hearing, the commission may order modification of the plan in any respect if it finds that such modification is necessary to promote good oil field practice, to prevent waste of oil or gas, to promote the maximum economic recovery of oil and gas, or to conserve reservoir energy in any zone or separate underground source of supply of oil or gas covered in whole or part by the contractors' agreement. Any modification of such plan shall be ordered not less than 30 days prior to the date such plan is to be submitted to the participants in said unit.
- (c) In the event the commission orders a modification of the plan after such hearing, the modification shall go into effect unless the city council of the City of Long Beach finds prior to the date such plan is to be submitted to the participants in said unit, after a formal hearing at which the commission may present evidence in support of its modification, that all or specified parts of the plan submitted by the city are required in order to carry out a

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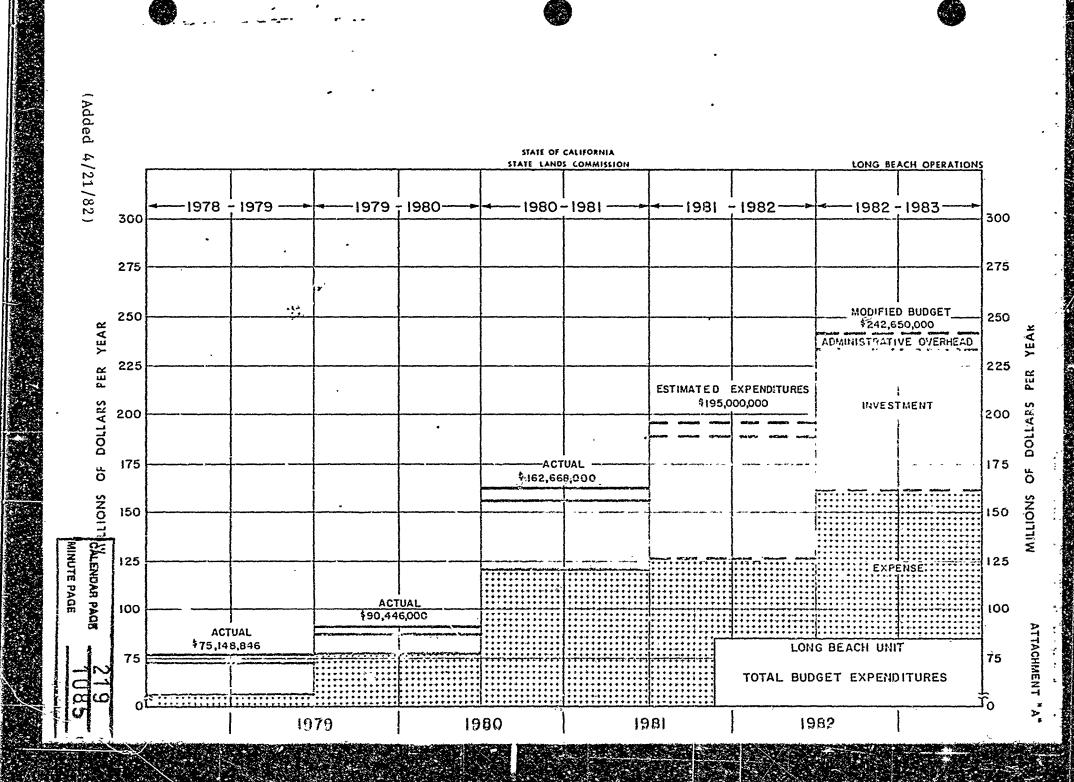
program of complete pressure maintenance or to prevent, arrest or ameliorate subsidence. In the event the city council makes such a finding, the city shall adopt a plan which includes all subsidence controls which it deems necessary or appropriate, but which will otherwise conform (to the extent consistent with said controls) with the modification ordered by the State Lands Commission. Said plan adopted by the city shall be submitted to the participants in said unit and shall go into effect and stay in effect unless and until, upon application of the commission to a court of competent jurisdiction, the court finds that there is no substantial evidence that the plan adopted by the city council, including all elements inconsistent with the modification ordered by the commission, is necessary either to carry out a program of complete pressure maintenance or to prevent, arrest or ameliorate subsidence. In the event of such finding, said plan shall be altered or rescinded, either before or after its submission to the participants, as ordered by the court. In the event the city's plan is rescinded, the modification ordered by the State Lands Commission shall go into effect.

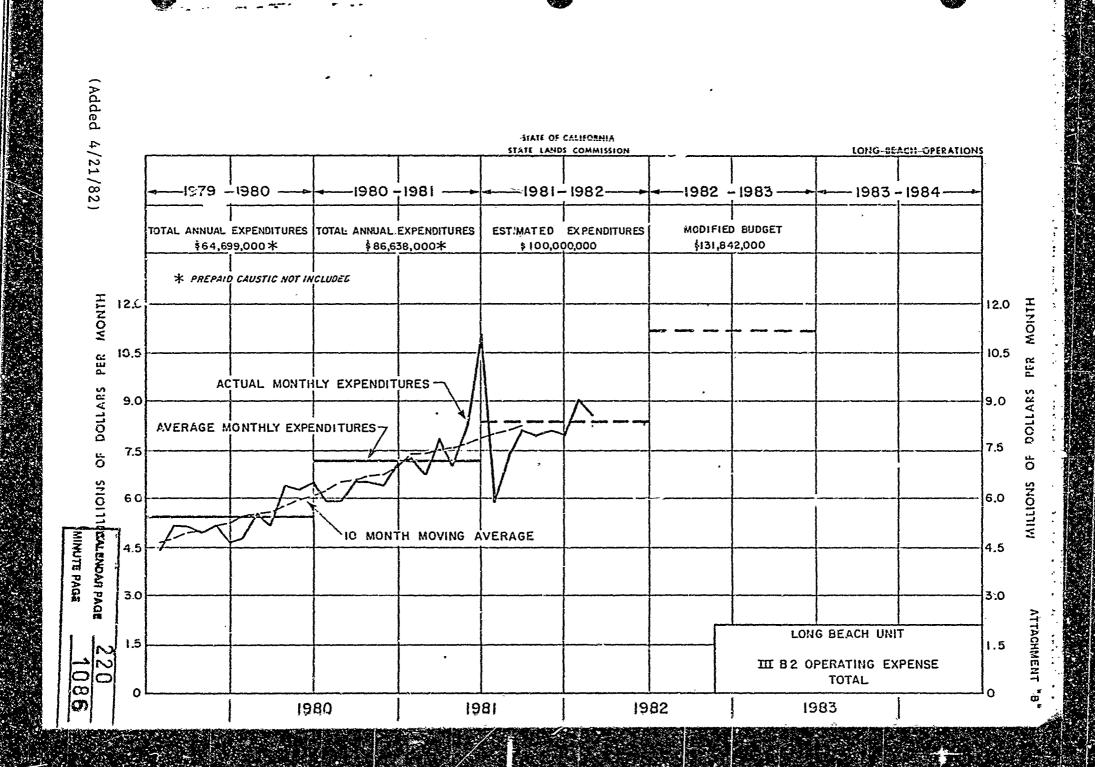
- (d) In the event the city disagrees with the findings of the commission that a modification of the plan is necessary in order to promote good oil field practice, to prevent waste of oil and gas, to promote the maximum economic recovery of oil and gas, or to conserve reservoir energy in any zone or separate underground source of supply of oil or gas covered in whole or part by the contractors' agreement, and the city council does not make the finding referred to in subdivision (c), the modification shall be submitted to the participants in said unit and shall go into effect and stay in effect unless and until, upon application of the city to a court of competent jurisdiction, the court finds that there is no substantial evidence that the modification of the plan is necessary in order to promote good oil field practice, to prevent waste of oil and gas, to promote the maximum economic recovery of oil and gas or to conserve reservoir energy in any zone or separate underground source of supply of oil or gas covered in whole or in part by the contractors' agreement. In the event of such finding, said modification shall be altered or rescinded, either before or after submission to the participants, as ordered by the court. In the event the modification is rescinded, the plan adopted by the city shall go into effect.
- (e) The city shall have the power, upon receipt of any evidence of subsidence or a significant diminution of underground pressure, to order a cessation or curtailment of production until the time such precautions have been taken, which, in the opinion of the city, are completely adequate and sufficient to prevent or arrest any land subsidence or carry out a program of complete pressure maintenance. Unless the city finds that earlier cessation or curtailment is necessary in order to prevent or correct such subsidence, it shall give the State Lands Commission 30 days' notice of such cessation or curtailment. In the event of a dispute between the city and the State Lands Commission over a cessation or curtailment of production ordered by the city under this subdivision, the State may make application to a court of competent jurisdiction for review of such action. Any cessation or curtailment of production by the city shall not be rescinded or modified by the court unless it finds that there is no substantial evidence that such cessation or curtailment is necessary in order to carry out a program of complete pressure maintenance or to prevent, arrest or emeliorate any land surface subsidence.

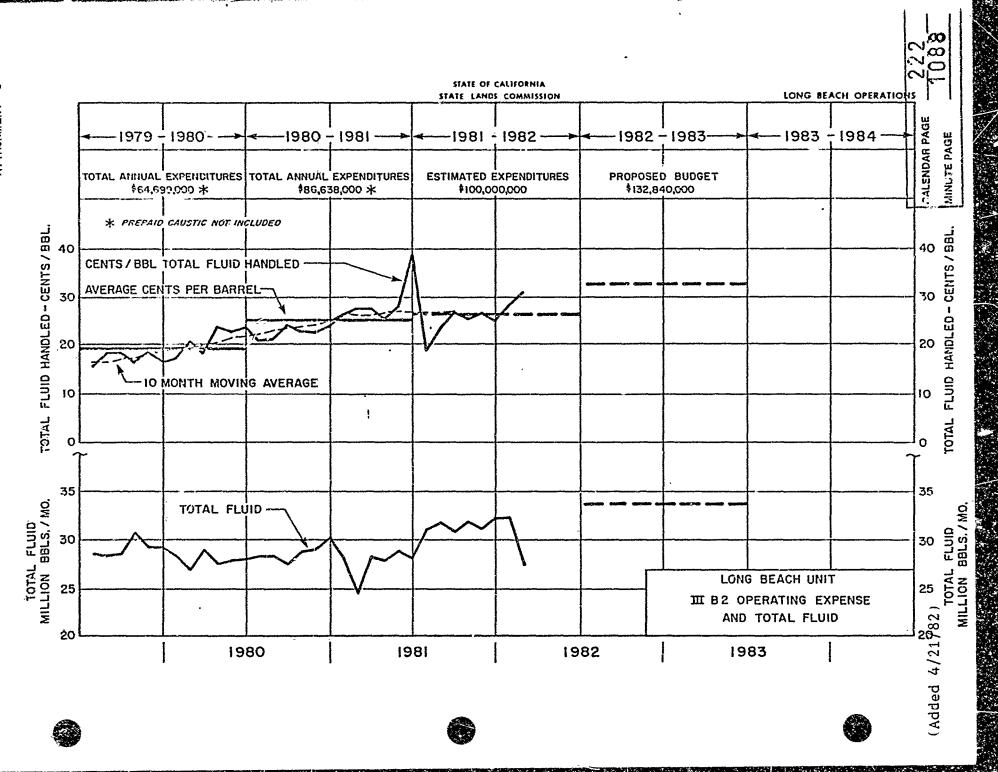
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- (f) In order to carry out the purposes of this section and to effect a speedy determination of any disagreement between the city and the commission, the Superior Court of the State of California for the County of Los Angeles (in the event such proceeding is filed in said court) shall give any proceeding filed under this section priority over other civil matters, and any court of competent jurisdiction in which such proceeding is filed shall have the power to issue appropriate temporary order. In any proceeding filed under this section for judicial review of any finding made under this section, the State Lands Commission and the city shall be entitled to offer evidence in addition to the evidence offered at the hearing at which the finding was made. Upon application of either the city or the State, and upon good cause, the court may rescind or modify the effectiveness of any modification ordered by the State Lands Commission or any plan or order adopted by the city, pending trial upon the merits.
- (g) The City of Long Beach and the State Lands Commission may, without a hearing, mutually agree upon any modification in any plan of development at any time or from time to time. The executive officer or acting executive officer of the State Lands Commission shall have the power to consent to a modification, provided that his consent shall be subject to ratification by the State Lands Commission at its next regular meeting. In the event the State Lands Commission does not ratify the consent of the executive officer or acting executive officer to such modification, neither the City of Long Beach nor the field contractor shall be liable to the State for any actions performed or taken under the consent or authority of the executive officer or acting executive officer.
- (h) The City of Long Beach, in exercising its right to vote the working interest in the undeveloped portion of the Long Beach tidelands on any date on or after January 1, 1968, shall vote as directed by the State Lands Commission upon all matters relating to the establishment of equity formula factors and tract assignments of oil, gas and other hydrocarbons produced from the lands covered by the unit and unit operating agreements including the undeveloped portion of the Long Beach tidelands, or any part thereof. Any such unit and unit operating agreements shall provide that all determinations relating to equity formula factors and tract assignments made between the effective date of such agreements and January 1, 1968, and for any subsequent period provided for in such agreements, shall be subject to retroactive adjustment.
- Sec. 6. The Legislature hereby finds that the remaining oil revenue hereinabove allocated to the City of Long Beach is needed and can be economically utilized by said city for the fulfillment of the trust uses and purposes described in said acts of 1911, 1925 and 1935 and described as follows in this act, which are hereby found to be matters of state, as distinguished from local, interest and benefit.
- (a) The construction, reconstruction, improvement, repair, operation and maintenance of works, lands, waterways, and facilities necessary for the harbor within the boundaries of the harbor district of said city (as said boundaries were defined on April 1, 1956).

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ATTACHMENT

