

MINUTE ITEM

This Calendar Item No. 32  
was approved as Minute Item  
No. 32 by the State Lands  
Commission by a vote of 2  
to 0 at its 4/23/87  
meeting.

CALENDAR ITEM

A	)	32	04/23/87
	)		W 5077
S	)		Pace

ACTUAL REVENUES FOR THE FIRST SIX MONTHS OF 1986-87  
AND REVENUE ESTIMATES FOR 1986-87, 1987-88, 1988-89

Supplemental language to the 1981-82 Budget for the State of California affects item 232, giving the following directive to the State Lands Commission:

"The State Lands Commission shall report semiannually to the Legislature and the Governor on its actual revenue during the past fiscal year, revenue to date in the current year, and estimated revenue in each of the next two years. For each major oil, gas or geothermal property or producing zone, the reports shall include production levels; prices; costs, taxes or payments deductible from gross revenues and the percentage of net profits or royalty to the State. The report shall state important assumptions and discuss any factors which may significantly affect revenue for the next five years."

In compliance with this directive, the staff has prepared a report for these years as shown on the attached Exhibit "A".

AB 884: N/A.

EXHIBIT: A. Revenue Detail - Actual and Forecast.

IT IS RECOMMENDED THAT THE COMMISSION:

1. APPROVE THE REPORT COVERING ACTUAL REVENUES FOR THE FIRST SIX MONTHS OF 1986-87 AND THE ESTIMATES FOR FUTURE YEARS, AND AUTHORIZE ITS PRESENTATION FOR THE STATE LANDS COMMISSION REVENUE REPORT TO THE STATE LEGISLATURE AND THE GOVERNOR.

EXHIBIT "A"

ESTIMATED REVENUE

	<u>Actual Revenue</u> <u>July-Dec 1986-87 FY</u>	<u>Est.Revenue</u> <u>1986-87 FY</u>	<u>Est.Revenue</u> <u>1987-88 FY</u>	<u>Est.Revenue</u> <u>1988-89 FY</u>
<u>Oil and Gas</u>				
Statewide	14,656,732	35,000,000	35,000,000	30,000,000
L.B. Operations Ch. 138/64	52,193,635	130,000,000	150,000,000	130,000,000
Total (Subject to Section 6217 PRC)	66,850,367	165,000,000	185,000,000	160,000,000
<u>Geothermal</u>	4,351,835	7,200,000	5,100,000	5,700,000

The revenue estimates are based on extrapolated oil, gas and geothermal steam production rates, prices and operating costs. Applicable royalty percentages are adjusted for projected production rates. For net profits sharing contracts, expenditures are included for anticipated investment projects, fluid production and injection rates and level of support activity. There are additional revenues of between \$24 million and potentially \$40 million to be received in 1987-88 and 1988-89 from money judgement settlements and suits. These will result because of the State and City of Long Beach winning the Long Beach Unit Field Contractor's Windfall Profit Tax net profit contract case. There will be follow-up suits in the other Long Beach tidelands net profits contracts.

Major assumptions are:

1. That crude oil prices used in the remainder of the 1986/87 fiscal year and for the next two fiscal years are adjusted for each lease from a current Wilmington Field posted price of \$14.00 per bbl. for 17° API crude, except for Elwood Field crude where the posting for 22° crude is \$10.75. A \$0.15 per degree gravity differential above 20.0° and a \$0.20 per degree below 20.0° was used in the adjustment. The average crude price for State royalty and net profit oil in 1986-87 was \$11.15 per barrel compared to the average of \$14.10 per barrel for 1987-88 and 1988-89.
2. That there will be a new Interim Area Assignment for the Long Beach Unit in 1987.

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3. That prices for The Geysers Geothermal Field steam sold under PG&E contracts will decline under the steam sales provisions due to declining fossil fuel prices and to a greater share of PG&E's power being generated with nuclear fuel.
4. That PRC 5217 in The Geysers Geothermal Field will be placed on production in 1988-89 with payment of steam sales royalties.
5. That projected revenue from the sale of royalty oil to the highest bidder includes bonuses over the posted price only on existing sell-off contracts.
6. Long Beach Operations revenues do not reflect any Long Beach Unit expenditures for the construction of an electrical cogeneration facility or any reduced power rates from such a facility.

The factors that could have the most significant impact on revenue in the next five years would be:

- A. Changes in future oil, gas and geothermal steam prices and the relationship between oil prices and costs in the Long Beach net profits contracts.
- B. Coal Oil Point Development, PRC 308-309, PRC 3242 and PRC 3120, being placed on production. This is presently projected to be in 1990-91.
- C. Development plans being completed for PRC 2879, Cojo Field, and the project being placed on production. Delays have pushed production back to some time in the 1990's.
- D. Development plans being completed for the Hercules Project, PRC 2920, and the project being placed on production. Production will be delayed until some time in the 1990's.
- E. The leasing of quit-claim parcels in offshore Santa Barbara County, and successful exploration on those leases. The leasing EIR should be certified in late 1987.
- F. Reduction in oil or gas production rates or sliding scale royalty rates from offshore Santa Barbara County leases due to actions by the State Lands Commission, Santa Barbara County Board of Supervisors, Air Pollution Control District or the California Coastal Commission.

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- G. Oil and gas exploration and development on Statewide leased lands which currently are not producing.
- H. The leasing of State Tidelands from Point Conception to Point Arguello with attendant bonuses, successful exploration and discoveries, and development of known resources resulting from offsetting discoveries on the federal OCS.
- I. Leasing and development of Statewide lands with geothermal potential in 1990's.
- J. Additional geothermal electrical generating plants coming on line utilizing State steam.
- K. Resolution of the Elk Hills indemnity problems so that royalties from either the Elk Hills parcels themselves or parcels acquired in lieu thereof are received by the State.
- L. Contract renewal in 1989 for Long Beach Tidelands Prior Development Parcel and Parcel "A".

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