

**CALENDAR ITEM
C86**

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**CONSIDER ACCEPTANCE OF THE
FIRST MODIFICATION AND SUPPLEMENT OF THE
LONG BEACH UNIT ANNUAL PLAN
(JULY 1, 2015 THROUGH JUNE 30, 2016),
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

GRANTEE:

City of Long Beach
Long Beach Gas and Oil Department
Attn.: Mr. Robert Dowell, Director
2400 East Spring Street
Long Beach, CA 90806

PROPOSED MODIFICATION:

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 (City) has submitted to the Commission the First Modification and Supplement of the Annual Plan (July 1, 2015 through June 30, 2016), Long Beach Unit.

On May 24, 2016, the Long Beach City Council adopted the proposed Modification and Supplement and authorized its submittal to the Commission. The City submitted the Modification to the Commission on June 6, 2016. The Commission has 30 days following submission to review and revise the Modification for consistency with the current Program Plan.

In accordance with Section 2.07 of the Optimized Waterflood Program Agreement, a modification of the Annual Plan is required because the amount to be expended for the Unit Field, Labor and Administrative Category will exceed 120 percent of its originally budgeted amount. This category will require an increase of \$12.1 million for higher severance and required pension contribution payments than originally planned for Fiscal Year 2015-16. The following table is a summary of the five budgeted categories indicating each category's currently approved amount, the amounts of the modified budget after

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the proposed change and the total estimated (current outlook) projected expenditures to the end of the fiscal year. Note that the revised Annual Plan will reduce overall expenditures by \$85.8 million.

IN MILLIONS OF DOLLARS		
Annual Plan Category	Approved Original Budget	Modified Budget "Current Outlook"
Development Drilling	83.0	28.4
Operating Expense	82.8	83.6
Facilities, Maintenance and Plant	79.9	53.2
Unit Field Labor and Administrative	31.4	43.5
Taxes, Permits and Administrative Overhead	48.1	30.7
Total	325.2	239.4

Commission staff has reviewed the First Modification and believes the Annual Plan is consistent with the Program Plan of July 2014 - June 2018, in that it meets or exceeds the goals contained in the current Program Plan as well as follows the industry practice of reduced activity during periods of lower oil prices.

OTHER PERTINENT INFORMATION

1. The current Annual Plan was approved by the Commission at its April 23, 2015 public meeting ([Calendar Item 109](#)).

2. Acceptance of the First Modification and Supplement of the Long Beach Unit Annual Plan is not a project as defined by the California Environmental Quality Act (CEQA) because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378, subdivision (b)(5).

3. This action is consistent with Strategy 1.5 of the Commission's Strategic Plan to ensure the highest level of environmental protection and public safety in the production and transportation of oil and gas resources, by applying Key Action 1.5.2 to ensure lease and contract compliance with sound oil and gas development practices in compliance with regulatory and statutory requirements.

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EXHIBIT:

- A. Letter from the City of Long Beach submitting the First Modification and Supplement of the Long Beach Unit Annual Plan (Fiscal Year 2015-16).

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

Accept, as consistent with the current Program Plan, the First Modification and Supplement of the Long Beach Unit Annual Plan (July 1, 2015 through June 30, 2016), Long Beach Unit, Wilmington Oil Field, Los Angeles County.

Exhibit A

W 17166

CITY OF LONG BEACH



DEPARTMENT

ROBERT DOWELL
DIRECTOR

2400 EAST SPRING STREET · LONG BEACH, CA 90806
(562) 570-2000 · www.lbgo.org

June 6, 2016

Ms. Marina Voskanian, Chief
Division of Mineral Resources Management
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 Long Beach Unit Annual Plan (July 1, 2015 through June 30, 2016)

Dear Ms. Voskanian:

In accordance with the provisions of Part IV, Sections A and B, of the Long Beach Unit Annual Plan, we are submitting for your approval the First Modification and Supplement of the Annual Plan covering the period July 1, 2015 through June 30, 2016.

Annual Plan Modification and Supplement

The modification will require a supplement to the Unit Field, Labor and Administrative category of the Annual Plan because additional costs were incurred in the category and the amount spent (\$43.5 million) will exceed the budgeted amount (\$31.4 million) by \$12.1 million which is more than 20 percent increase. The cost exceeded the budgeted amount due to higher severance and required pension contribution than were included in this category. We have seen a large reduction in this category over the past 4 years with the actual expenditures being reduced from \$63.5 million in FY2013 to \$38.5 million in FY2015 to an estimated \$43.5 million in the current year. Without the required pension contribution, anticipated costs would have been within the individual 20% budget threshold.

The current outlook for the same period has total costs \$86 million below the plan including the additional costs incurred in the Unit Field, Labor and Administrative category. THUMS Long Beach Company has responded quickly to the lower oil prices by exceeding the production and reducing the costs outlined in the plan and, despite of lower oil prices, expect Unit Net profits to exceed plan net profits by \$24 million, assuming an outlook price of \$35.93 per barrel.

Ms. Marina Voskanian
June 6, 2016
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The following is a summary of the impact of the modifications to the Annual Plan Categories:

- Unit Field Labor and Administrative: \$12.1 million increase

After approval of this request, the revised Annual Plan Category budgets will have the following outlook estimates:

Annual Plan Category	Original (\$MM)	Outlook (\$MM)
Development Drilling	83.0	28.4
Operating Expense	82.8	83.6
Facilities, Maintenance, and Plant	79.9	53.2
Unit Field Labor and Administrative	31.4	43.5
Taxes, Permits, and Administrative Overhead	48.1	30.7
Total	325.2	239.4

The subject Modification and Supplement was approved by the City of Long Beach, as Unit Operator, on May 24, 2016 at the City of Long Beach City Council meeting.

Your approval of the First Modification of the Annual Plan, covering the period of July 2015 through June 2016, is requested at your earliest convenience.

Please contact Kevin Tougas at 562-570-3963 for any questions on this matter.

Sincerely,



Robert Dowell
Director

cc: Robert A. Barnes, Executive Vice President of Operations, CRC
Kevin Tougas, Manager of Oil Operations