

**STAFF REPORT
C70**

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**CONSIDER ACCEPTANCE OF THE FINAL REPORT AND CLOSING
STATEMENT FOR THE LONG BEACH UNIT ANNUAL PLAN
(JULY 1, 2017, THROUGH JUNE 30, 2018),
LONG BEACH UNIT, WILMINGTON OIL FIELD,
LOS ANGELES COUNTY**

GRANTEE:

City of Long Beach

BACKGROUND:

The City of Long Beach submitted its Final Report and Closing Statement for the Annual Plan, Long Beach Unit, for Fiscal Year 2017-2018 (Report), covering the period July 1, 2017, through June 30, 2018, to the Commission, as required by section 10 of Chapter 138, Statutes of 1964, 1st Extraordinary Session. Although Commission action on the Report is not a requirement under the statute or various Long Beach Unit agreements, the City of Long Beach has requested the Commission's concurrence with and acceptance of the Report by letter dated October 30, 2018 (Exhibit C, attached). This Report provides the actual performance for the full Fiscal Year 2017-2018.

Total expenditures for the Long Beach Unit were \$257.5 million, which was \$32.4 million less than the approved budget for Fiscal Year 2017-2018. Total unit costs were less than planned due to lower than anticipated drilling development, and lower facility, tax, permits, and administrative overhead costs during the fiscal year.

The Unit's net profit for Fiscal Year 2017-2018 was \$188.9 million, which was \$134.6 million higher than the approved budget estimate. The higher-than-planned net profit was the result of the higher realized oil price of \$60.01 per barrel compared to the original estimated price of \$45.00 per barrel.

The average oil and gas rates for Fiscal Year 2017-2018 were reported to be 20,188 barrels (bbls)/day of oil (419 bbls/day less than the Plan estimate) and 7,246 thousand cubic feet (MCF)/day of gas (686 MCF/day lower than the Plan estimate). The cumulative recoveries and injection through June 2018 are as follows:

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Oil Production	1,058,972,000 barrels
Gas Production	287,597 million cubic feet (MMCF)
Water Production	10,820,411,000 barrels
Water Injection	13,095,786,000 barrels

Cumulative Injection - Gross Production Ratio is 1.10 bbls/bbl.

The approved budget forecast assumed an oil price of \$45.00/bbl and a gas price of \$2.00/MCf, whereas the actual prices averaged \$60.01/bbl for oil and \$1.82/MCf for gas for the fiscal year. See the tables below for additional details.

ACTUAL OIL AND GAS PRICES, EXPENDITURES, AND NET PROFIT FOR FY 2017-2018 (IN MILLIONS OF DOLLARS)					
	ACTUAL FIRST QUARTER FY 17/18	ACTUAL SECOND QUARTER FY 17/18	ACTUAL THIRD QUARTER FY 17/18	ACTUAL FOURTH QUARTER FY 17/18	ACTUAL FY 17/18
Oil Revenue	89.1	107.4	116	129.1	441.6
Gas Revenue	1.4	1.2	1.4	0.8	4.8
Expenditures	60.8	65.6	68.8	62.3	257.5
Net Profit	29.7	43.0	48.6	67.6	188.9
Oil Price \$/BBL	47.1	57.6	64.7	70.9	60.01
Gas Price \$/MCF	2.03	1.91	2.15	1.21	1.82

ORIGINAL BUDGET NET PROFIT AND CHANGE FOR FY 2017-2018 (IN MILLIONS OF DOLLARS)					
	FIRST QUARTER FY 17-18	SECOND QUARTER FY 17-18	THIRD QUARTER FY 17-18	FOURTH QUARTER FY 17-18	TOTAL FY 17-18
Original Budget Net Profit	21.1	24.3	0.9	7.9	54.3
Actual Net Profit	29.7	43.0	48.6	67.6	188.9

Staff reviewed the Report, including production, injection, expenditures and revenue figures, and has prepared Exhibits A and B, attached, to represent graphically the actual fiscal year performance compared to the approved budget.

OTHER PERTINENT INFORMATION:

1. 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

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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.

2. Acceptance of the Final Report and Closing Statement is not a project as defined by the California Environmental Quality Act 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, sections 15378, subdivision (b)(5).

EXHIBITS:

- A. LBU Financial Performance, FY 2017-2018, Annual Plan vs. Actual
- B. LBU Oil Rate Performance, FY 2017-2018, Annual Plan vs. Actual
- C. Letter from the City of Long Beach requesting acceptance of the Final Closing Statement to the Annual Plan

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

Accept for filing the Final Report and Closing Statement for the Long Beach Unit Annual Plan, for the period July 1, 2017, through June 30, 2018, Long Beach Unit, Wilmington Oil Field, Los Angeles County.

Exhibit A
LBU Financial Performance
FISCAL YEAR 2017-2018 ANNUAL PLAN VS ACTUAL

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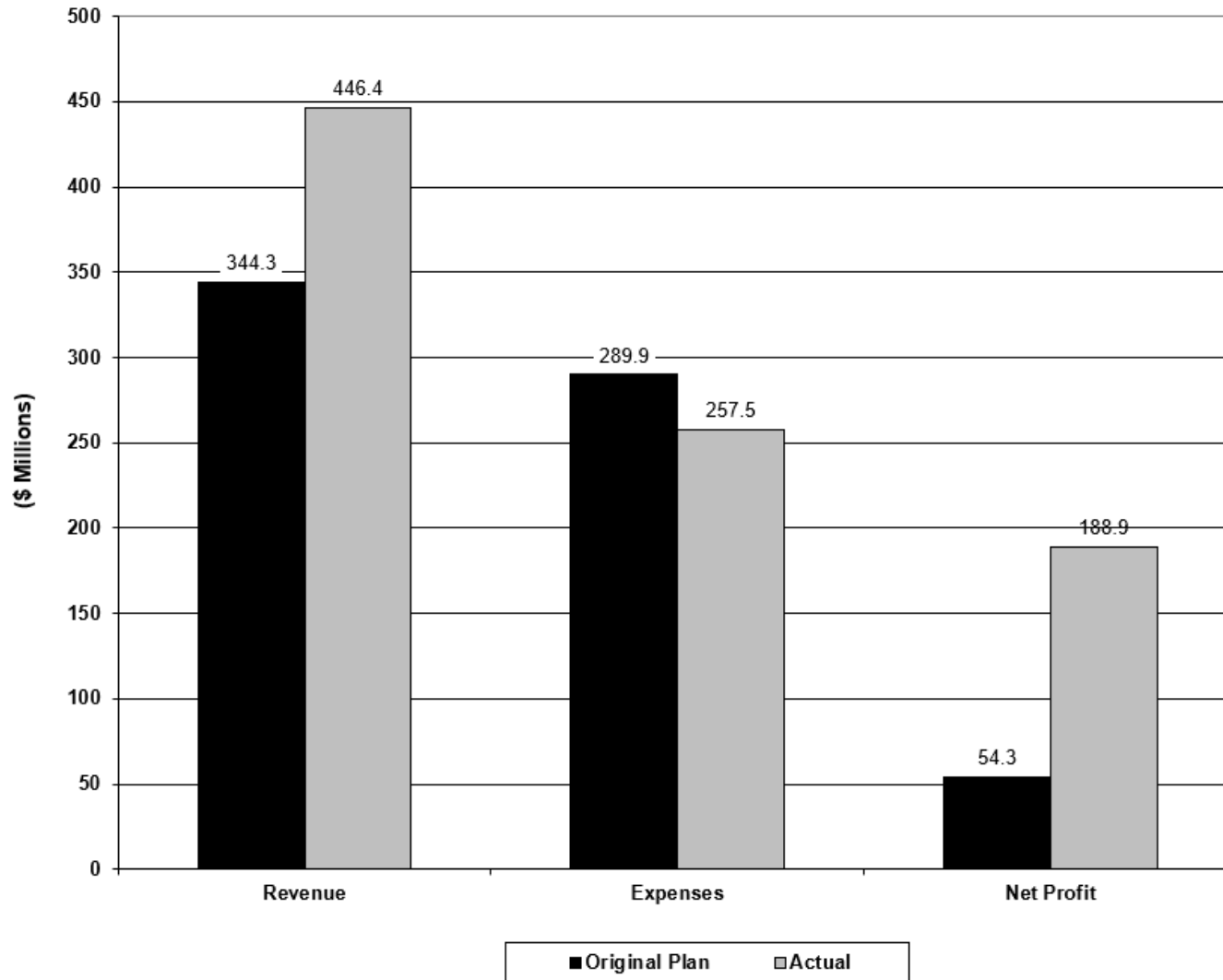
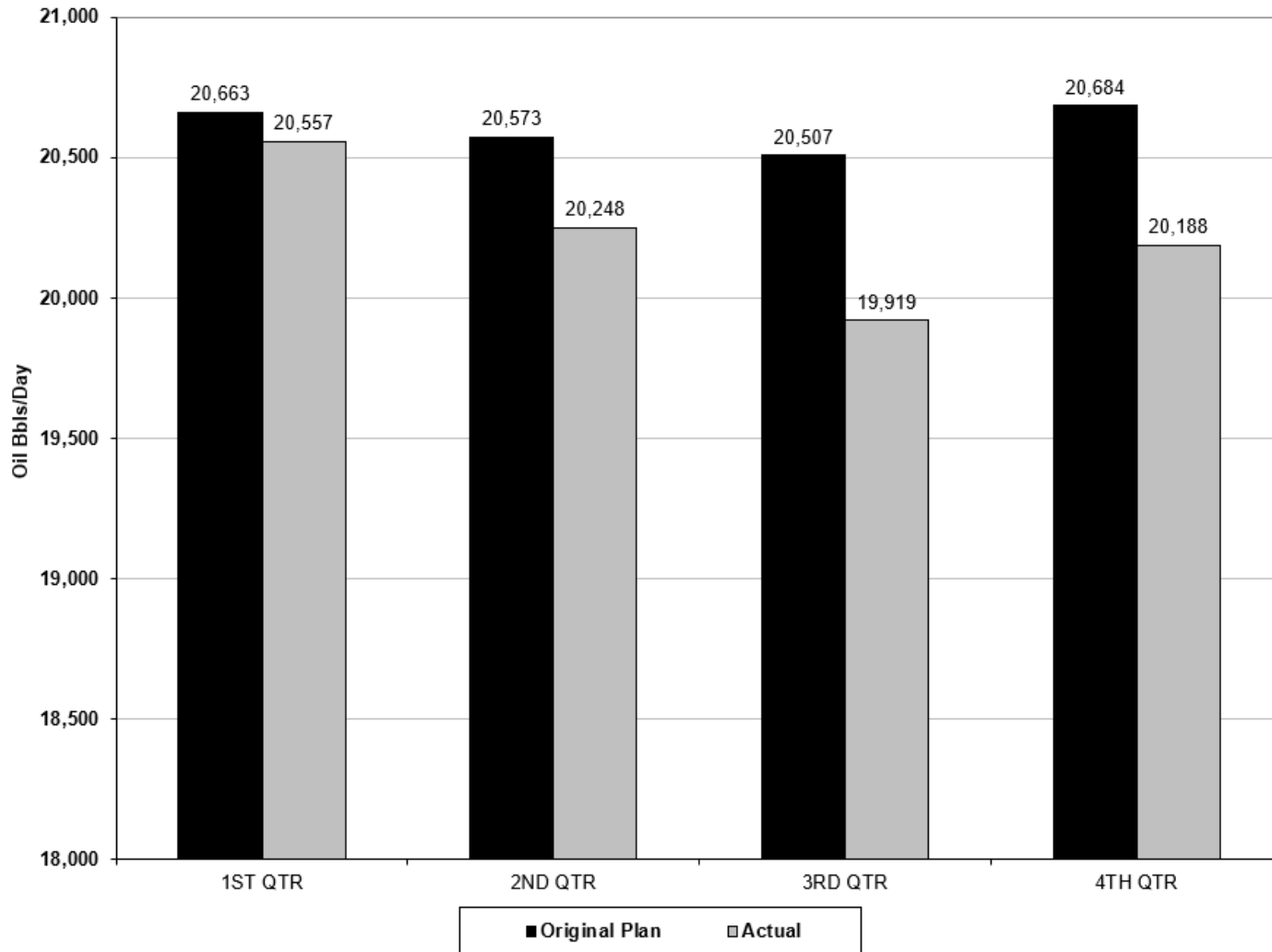


Exhibit B

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LBU OIL RATE PERFORMANCE
FISCAL YEAR 2017-2018 ANNUAL PLAN VS ACTUAL



CITY OF
LONG BEACH
ENERGY RESOURCES

2400 EAST SPRING STREET • LONG BEACH, CA 90806
 (562) 570-2000 • www.longbeach.gov

October 30, 2018

Ms. Marina Voskanian
 Chief, Mineral Resources Management Division
 California State Lands Commission
 200 OceanGate, 12th Floor
 Long Beach, CA 90802-4331

SUBJECT: REQUEST FOR APPROVAL OF THE FINAL REPORT AND CLOSING STATEMENT TO THE ANNUAL PLAN (JULY 1, 2017 THROUGH JUNE 30, 2018) - REVISED

Dear Ms. Voskanian:

In accordance with provisions of Part IV, Section C, of the Annual Plan, attached for your approval is the final report and closing statement to the Annual Plan covering the period July 1, 2017 through June 30, 2018. This report contains a reconciliation of Unit activities by category.

The Long Beach Unit FY2018 budget was \$289.9 million while the actual spent was \$257.5 million or 89 percent of budget. The higher realized oil prices than built into the Plan combined with lower spending have resulted in fiscal year profit of \$188.9 million compared to \$54.3 million originally estimated in the Plan.

Funding Category	Budget	Actual	Variance
Development Drilling	70.7	40.8	Drilled and completed 23 wells with 0.75 drilling rig pace instead of planned 45 wells with 1.5 drilling rigs.
Operating Expense	92.8	96.2	Slightly higher capital workover pace and spending on downhole production equipment.
Facilities, Maintenance, and Plant	53.6	49.7	Lower spending level as a result of project timing and reduction in facility project scope.
Unit Field Labor and Administrative	43.0	41.2	Slightly lower spending but generally consistent with budget.
Taxes, Permits, and Administrative Overhead	29.9	29.7	Spending generally consistent with budget.
Total	289.9	257.5	

Notes: Numbers in table are in millions of Dollars (rounded).

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Significant effort was made during the Plan period to achieve best-in-class waterflood performance, which is paramount to increasing long-term value for the Unit. The development program was successfully implemented, which was optimized for capital investment, cash flow, and market volatility while maintaining focus on health, environment, and safety.

Your concurrence with this Final Report and Closing Statement to the Annual Plan is requested.

Sincerely,



Robert Dowell
Director

Attachment: Final Report and Closing Statement – Annual Plan (July 1, 2017 - June 30, 2018)
prepared by California Resources Corporation, October 29, 2018.

CONCURRENCE:

MARINA VOSKANIAN
Chief, Mineral Resources Management
California State Lands Commission



October 29, 2018

Robert Dowell, Director
 Long Beach Energy Resources
 2400 East Spring Street
 Long Beach, CA 90806

Dear Mr. Dowell:

Subject: 41-18 Thums Request
 Final Report and Closing Statement
 Annual Plan (July 1, 2017 - June 30, 2018)

In accordance with provisions of Part IV, Section C, of the Annual Plan, we are submitting for your approval this final report and closing statement to the Annual Plan covering the period July 1, 2017 through June 30, 2018. This report contains a reconciliation of Unit activities by category.

DEVELOPMENT DRILLING

The Development Drilling category provides funding for all drilling and redrilling activity, as well as maintenance and replacement of drilling equipment within the Unit.

Operations Review

FY2018 reflects the successful implementation of the Unit’s operation strategy that has attempted to manage the fluctuations in the oil price environment. During the FY2018 Plan period, operations activities adapted to manage persistent commodity market risk while maximizing return to the Unit. During the period, the Unit operated at a 0.75 rig pace since July 2017 (0.5 rig July – December 2017, and 1 full-time rig January – June 2018). A total of 23 wells were drilled and completed during the period. The following is a listing of both new completions and redrills by zone:

Zone	New Completions			Redrills		
	Prod	Inj	Total	Prod	Inj	Total
Tar	0	0	0	0	0	0
Ranger	14	0	14	4	0	4
Terminal	5	0	5	0	0	0
UP-Ford	0	0	0	0	0	0
237	0	0	0	0	0	0
Total	19	0	19	4	0	4

On June 30, 2018, the total number of wells in the Unit was 1,532, of which 713 were active producers, 414 were active injectors, and 405 wells were shut in due to mechanical or reservoir related issues. Excluded from these totals are the abandoned wells.

Budget to Actual Variance

The Plan provided funds for 45 new and redrilled wells that were to be drilled with 1.5 full-time drilling rigs. The actual number of wells drilled and completed was 23 using a 0.75 drilling rig pace.

The budget for the Development Drilling Category was \$70.7 million, while actual spend was 42.3% lower at \$40.8 million. The lower spending level was primarily due to reduced drilling rig pace.

OPERATING EXPENSE

The Operating Expense Category provides funding for the ongoing cost of day-to-day well production and injection operations necessary for producing, processing, and delivering crude oil and gas, and for all electric power costs and abandonment costs.

Operations Review

- Unit oil production during the Plan period averaged 20,188 bbls/day, which was 419 bbls/day lower than the Plan estimate.
- Gas production averaged 7,246 mcf/day, which was 686 mcf/day lower than the Plan estimate.
- Water injection averaged 1,175,951 bbls/day, which was 68,434 bbls/day lower than originally estimated in the Plan. Water production averaged 1,114,697 bbls/day, which was 55,275 bbls/day less than the Plan estimate.
- The average price for Unit crude was \$60.01/bbl during the Plan period. The Plan was based on \$45.00/bbl crude. The average price for Unit gas was \$1.82/mcf and the Plan was based on \$2.00/mcf.

Budget to Actual Variance

Total spending for Operating Expense was \$96.2 million, compared to \$92.8 million approved budget. The spending was 3.7% higher than Plan and primarily driven by a higher capital workover pace and increased spending on downhole production equipment.

FACILITIES, MAINTENANCE AND PLANT

The Facilities, Maintenance and Plant Category provides funds for maintenance, repairs, upgrades, additions of surface facilities and pipelines, and costs for general field services.

Operations Review

Projects with significant expenditures during the fiscal year include the following:

- Power Plant Upgrades
- White Water Transfer Pump Piping
- Chaffee Injection Piping Replacement
- Pier G to J Double Track
- B&M Oil Shipping Line Replacements
- Smart Pigging

Budget to Actual Variance

The Facilities, Maintenance and Plant Category had a budget of \$53.6 million, of which \$49.7 million, or 92.7%, was spent. The lower spending level was primarily related to project timing and the reduced facility project scope.

UNIT FIELD LABOR AND ADMINISTRATIVE

The Unit Field Labor and Administrative Category provides funding for salaries, benefits, training, and other expenses of all Unit personnel, and costs for other Unit support activities. Unit support activities include costs for professional and temporary services, data processing and general office equipment and materials, Unit Operator billable costs, California Resources Long Beach Inc. billable costs, management projects, extraordinary losses and claims, and prior year adjustments.

Budget to Actual Variance

The Unit Field Labor and Administrative Category had a budget of \$43.0 million. Actual spend was 4.2% lower at \$41.2 million. The overall spending for this category was consistent with the budget assumptions.

TAXES, PERMITS, AND ADMINISTRATIVE OVERHEAD

The Taxes, Permits, and Administrative Overhead Category provides funding for specific taxes, permits, licenses, land leases, and all administrative overhead costs for the Unit.

Budget to Actual Variance

The Taxes, Permits, and Administrative Overhead Category had a budget of \$29.9 million, while actual spend was 0.8% lower at \$29.7 million. The overall spending for this category was consistent with the budget assumptions.

SUMMARY

The Long Beach Unit FY2018 budget was \$289.9 million, of which \$257.5 million, or 89%, was spent. Due to higher realized oil price than built into the Plan as well as lower spending, fiscal year profit was \$188.9 million in comparison to \$54.3 million originally estimated in the Plan.

Significant effort was made during the Plan period to achieve best-in-class waterflood performance, which is paramount to increasing long-term value for the Unit. The development program was successfully implemented, which was optimized for capital investment, cash flow and market volatility, while maintaining focus on health, environment and safety. Your concurrence with this Final Report and Closing Statement of the Annual Plan is requested.

Yours very truly,

Bob Grundstrom
Leader – LA Basin

California Resources Corporation

APPROVED:

Robert Dowell

Date

PR

Attachments

cc: Management Team

Economic Projections

Data in Thousands of \$	ACTUAL FIRST QUARTER FY18	ACTUAL SECOND QUARTER FY18	ACTUAL THIRD QUARTER FY18	ACTUAL FOURTH QUARTER FY18	ACTUAL TOTAL FISCAL YEAR FY18	BUDGET TOTAL FISCAL YEAR FY18	% ACTUAL OVER/UNDER (-) BUDGET FY18
ESTIMATED REVENUE							
Oil Revenue	\$ 89,090	\$ 107,430	\$ 115,982	\$ 129,103	\$ 441,605	\$ 338,472	30.5%
Gas Revenue	\$ 1,357	\$ 1,240	\$ 1,408	\$ 808	\$ 4,814	\$ 5,791	-16.9%
TOTAL REVENUE	\$ 90,447	\$ 108,670	\$ 117,390	\$ 129,911	\$ 446,419	\$ 344,263	29.7%
ESTIMATED EXPENDITURES							
Development Drilling	\$ 6,345	\$ 8,952	\$ 9,738	\$ 15,735	\$ 40,769	\$ 70,680	-42.3%
Operating Expense	\$ 23,909	\$ 26,662	\$ 27,629	\$ 17,999	\$ 96,198	\$ 92,760	3.7%
Facilities & Maintenance	\$ 11,811	\$ 12,908	\$ 10,651	\$ 14,324	\$ 49,695	\$ 53,580	-7.3%
Unit Field Labor & Admin	\$ 10,447	\$ 10,283	\$ 12,495	\$ 7,948	\$ 41,173	\$ 42,998	-4.2%
Taxes, Permits & Admin Overhead	\$ 8,265	\$ 6,823	\$ 8,295	\$ 6,269	\$ 29,651	\$ 29,905	-0.8%
TOTAL EXPENDITURES	\$ 60,776	\$ 65,627	\$ 68,809	\$ 62,274	\$ 257,486	\$ 289,922	-11.2%
NET PROFIT	\$ 29,671	\$ 43,043	\$ 48,582	\$ 67,637	\$ 188,932	\$ 54,341	247.7%

Major Planning Assumptions

	ACTUAL FIRST QUARTER FY18	ACTUAL SECOND QUARTER FY18	ACTUAL THIRD QUARTER FY18	ACTUAL FOURTH QUARTER FY18	ACTUAL TOTAL FISCAL YEAR FY18	BUDGET TOTAL FISCAL YEAR FY18	% ACTUAL OVER/UNDER (-) BUDGET FY18
OIL PRODUCTION :							
QUARTERLY (1,000 BBL)	1,891	1,863	1,793	1,822	7,369	7,522	
AVERAGE B/D	20,557	20,248	19,919	20,019	20,188	20,607	-2.0%
GAS PRODUCTION :							
QUARTERLY (MMCF)	670	651	657	667	2,645	2,895	
AVERAGE MCF/D	7,285	7,071	7,295	7,334	7,246	7,933	-8.7%
WATER PRODUCTION :							
QUARTERLY (1,000 BBL)	101,599	102,668	101,431	101,167	406,864	427,040	
AVERAGE B/D	1,104,335	1,115,954	1,127,009	1,111,725	1,114,697	1,169,972	-4.7%
WATER INJECTION :							
QUARTERLY (1,000 BBL)	107,782	109,073	106,614	105,754	429,222	454,201	
AVERAGE B/D	1,171,539	1,185,579	1,184,599	1,162,126	1,175,951	1,244,385	-5.5%
AVG. OIL PRICE (\$/BBL)							
	47.10	57.63	64.69	70.86	60.01	45.00	33.4%
AVG GAS PRICE (\$/MCF)							
	2.03	1.91	2.15	1.21	1.82	2.00	-8.8%

Location	<u>Oil Production</u>		<u>Gas Production</u>	
	Average B/D	Cumulative Mbbls	Average MCF/D	Cumulative MMCF
	7/1/17 - 6/30/18	6/30/2018	7/1/17 - 6/30/18	6/30/2018
Grissom	5,233	201,602	1,096	32,841
White	4,320	185,193	2,081	51,682
Chaffee	4,508	231,096	2,080	77,770
Freeman	3,538	287,294	1,207	96,599
Pier J	2,588	153,787	783	28,704
Total	20,188	1,058,972	7,246	287,597

Reservoir				
SHALLOW GAS	0	0	0	0
TAR	234	2,350	118	1,010
RANGER	15,244	787,730	5,749	187,274
TERMINAL	3,131	155,167	842	32,440
Union-pac-ford	1,579	109,444	536	61,888
237	0	4,281	0	4,986
Total	20,188	1,058,972	7,246	287,597

Location	<u>Water Production</u>		<u>Water Injection</u>	
	Average B/D	Cumulative Mbbls	Average B/D	Cumulative Mbbls
	7/1/17 - 6/30/18	6/30/2018	7/1/17 - 6/30/18	6/30/2018
Grissom	285,306	2,662,538	291,706	3,203,236
White	249,905	2,121,611	212,761	2,479,223
Chaffee	204,576	1,868,495	211,438	2,637,087
Freeman	222,444	2,513,099	288,774	2,771,861
Pier J	152,466	1,654,668	171,273	2,004,378
Total	1,114,697	10,820,411	1,175,951	13,095,786

Reservoir				
SHALLOW GAS	0	0	0	0
TAR	4,225	15,383	8,601	34,626
RANGER	892,978	8,935,898	938,190	10,796,701
TERMINAL	158,995	1,350,299	171,720	1,626,753
Union-pac-ford	58,498	513,671	57,440	637,705
237	0	5,161	0	0
Total	1,114,697	10,820,411	1,175,951	13,095,786

Number of wells
As of June 30, 2018

By Location	Producer	Injectors	Total
Grissom	234	107	341
White	212	128	340
Chaffee	209	137	346
Freeman	212	121	333
Pier J	107	65	172
Total	974	558	1,532

By Reservoir			
SHALLOW GAS	2	0	2
TAR	17	3	20
RANGER	690	402	1,092
TERMINAL	166	92	258
UP-Ford	95	61	156
237	4	0	4
Total	974	558	1,532