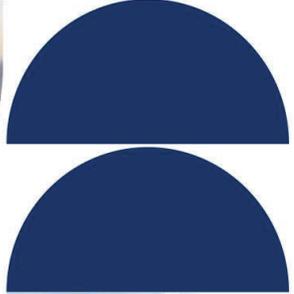


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Fiscal Year
2025
Proposed
Budget



Oil-Well Abandonment Costs and Oil-Related Revenue

Budget Oversight Committee Meeting
August 20, 2024

CITY OF
**LONG
BEACH**

Wilmington Oil Field Abandonment Liability

Estimated Wilmington Oil Field Abandonment Liabilities:

State	\$1,067 million
City	\$ 185 million
Townlot	\$ 82 million (~7,700 townlot owners @ \$10,600 per owner)
CRC	\$ 95 million
<hr/>	
Total	\$1,429 million

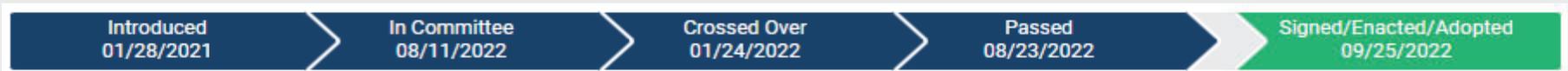
Existing Reserves for Oil Abandonment Liability

Current Reserves for the Wilmington Oil Field Abandonment:

State	\$345 million (32% of State liability)
City	\$ 88 million (48% of City liability)
Townlot	Unknown
CRC	Per State law, CRC has a bond for their share of the abandonment liability

AB 353 (O'Donnell) – Oil Revenue: Oil Trust Fund

- The Oil Trust Fund (Fund) was created in 2005 to save a portion of the State Tidelands' oil extraction profits, capped at \$300 million, to cover the State's costs when those oil wells are eventually abandoned
- AB 353 timeline:



- Removes the \$300 million cap on the Fund, thereby allowing the State to add more funds for its future abandonment liability
- Requires the Controller to transfer \$2 million or 50% of the remaining oil revenue (whichever is less) to the Fund on a monthly basis starting in January 2023
- The money in the Fund is appropriated to SLC to finance the costs of well abandonment, pipeline removal, facility removal, remediation, and other costs associated with removing oil and gas facilities from the Long Beach Tidelands

Wilmington Oil Field Abandonment Planning

- Currently, uneconomic wells are abandoned annually using operating revenue to decrease the inventory of idle wells.
- When oil operations cease, the City will bid for a new contractor focused exclusively on abandoning wells and closing out the oil field.
- Abandonment progression will occur first in areas that have become uneconomic to operate.
- It is anticipated that abandonment well work will require 3 to 5 years to complete.
- Post-production injection will continue for at least 5 years after oil operations cease. City has a funds to support post-production injection.

Wilmington Oil Field Abandonment Planning Risks

- Oil price collapse. Oil prices need to support funding the abandonment reserve while also providing net revenue to the City to support services.
- Cost to abandon the oil field increases faster than anticipated. LBER assumes a cost savings when the entire focus of the operation will be on abandoning the oil field.
- Regulation changes that could increase the cost of abandonment or shorten the economic life of the oil field before the fully funded abandonment liability targeted date of 2035.
- A financial situation that requires the City to use the abandonment reserve for another purpose.

Combined Revenue Effects from SB 1137 & CalGEM Regulations

Conservative forecast assumptions

- Oil price of \$55/bbl.
- Six-month phase-in of CalGEM's injection gradient regulation
- Annual decline in oil production of 10.5%
- Annual oil-well abandonment set-aside sufficient to fully fund by FY 35 the City's \$185 million liability
 - \$7.125 million Tidelands Oil Revenue Fund
 - \$1.625 million Uplands Oil Fund

Combined Revenue Effects from SB 1137 & CalGEM Regulations

General Fund: FY 25 – FY 30 Total Projected Annual Revenue*

(Amounts rounded to the nearest tenths)

Oil Revenue Forecast (\$ in Millions)	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30
Revenue with SB 1137 and 6-month CalGEM Regulation (FY 25 Budget)	\$2.7	\$2.2	\$2.0	\$1.6	\$1.3	\$1.0
Revenue with SB 1137 and 5- year CalGEM Regulation (Potential Scenario)	\$4.7	\$3.9	\$3.2	\$2.4	\$1.6	\$1.2
Potential Additional Revenue	\$2.0	\$1.7	\$1.2	\$0.8	\$0.3	\$0.1

*Forecast at \$55 per barrel. Excludes City's strategy to reduce structural reliance on oil revenues.

- Combined revenue impacts from SB 1137 and 6-month CalGEM Regulation implementation results in \$2.7 million total Uplands Oil Proceeds to General Fund. A \$4.4 million structural revenue reduction in FY 25.

General Fund and Oil-Related Revenue – Going Forward

- FY 25 Proposed Budget reduces Proceeds from Uplands Oil and Oil Production Taxes (General Fund, Measure US, and Proposition H) from General Fund structural revenue forecast:

(\$ million)	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30
Annual Total	\$1.25	\$2.50	\$3.75	\$8.16	\$12.67	\$17.21

- Any oil-related revenue that does happen to come in will be recommended for allocation to one-time investments like capital projects and additional abandonment set-aside.

Questions

