



February 21, 2012

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Approve the Long Beach Unit Annual Plan (July 1, 2012 - June 30, 2013). (Citywide)

DISCUSSION

In accordance with Chapter 138 of the Statutes of 1964, First Extraordinary Session, an Annual Plan of Development and Operations and Budget for the Long Beach Unit (LBU) must be adopted by the City of Long Beach and approved by the State Lands Commission (SLC).

Chapter 941, California Legislature, 1991 Sessions, amended Chapter 138 and requires the City and the Contractor, Occidental Long Beach, Inc. (OLBI), to prepare a one-year Annual Plan, which includes an itemized budget of intended expenditures.

The Annual Plan provides for the further development of the LBU through the Agreement for Implementation of an Optimized Waterflood Program that was entered into in November 1991 as part of the above legislation. Preparation is a joint effort by the staffs of the City of Long Beach, Gas & Oil Department (Unit Operator), OLBI (Field Contractor), and THUMS Long Beach Company (Agent for Field Contractor). A copy of the Annual Plan is attached.

This matter was reviewed by Deputy City Attorney Richard Anthony on February 1, 2012 and by Budget Management Officer Victoria Bell on January 30, 2012.

TIMING CONSIDERATIONS

Chapter 941, California Legislature, 1991 Sessions, also requires that the City submit formal copies of the Plans to the SLC for approval no later than March 23, 2012. To meet that requirement, City Council approval is requested on February 21, 2012.

HONORABLE MAYOR AND CITY COUNCIL
February 21, 2012
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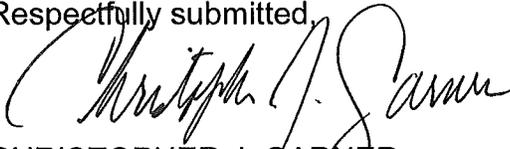
FISCAL IMPACT

City Council approval of the Annual Plan for transmission to the California State Lands Commission has no fiscal impact or local job impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER J. GARNER
DIRECTOR OF LONG BEACH GAS AND OIL

CJG:KMT:ld
LBU Annual Plan 2012-2013

Attachment: Long Beach Unit Annual Plan

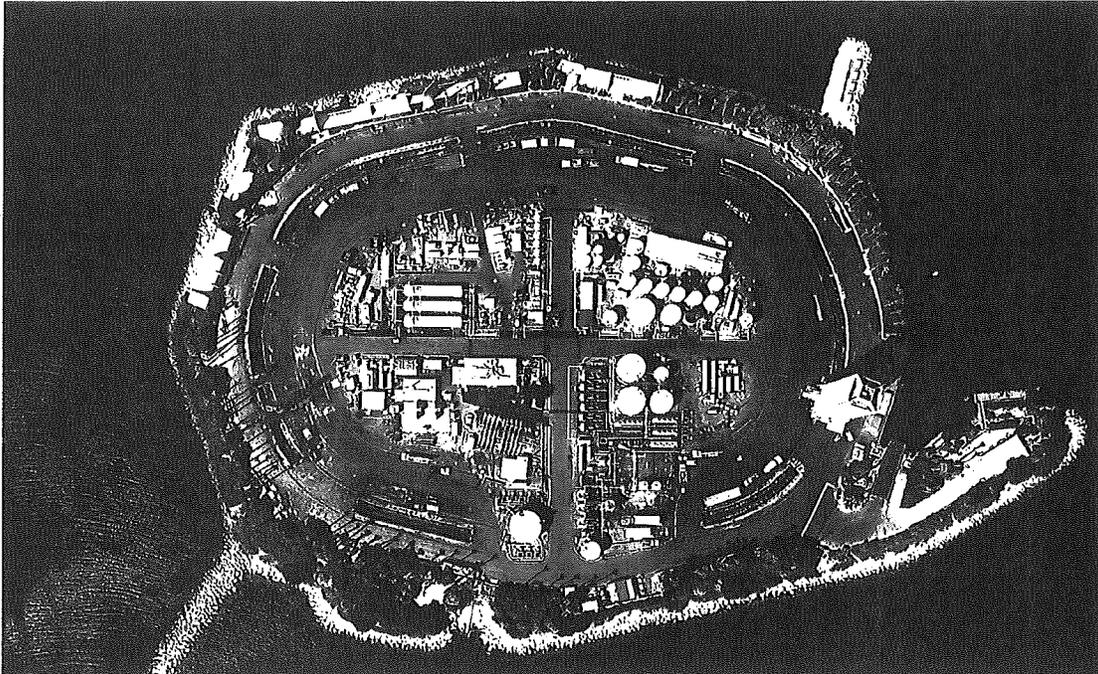
APPROVED:



PATRICK H. WEST
CITY MANAGER

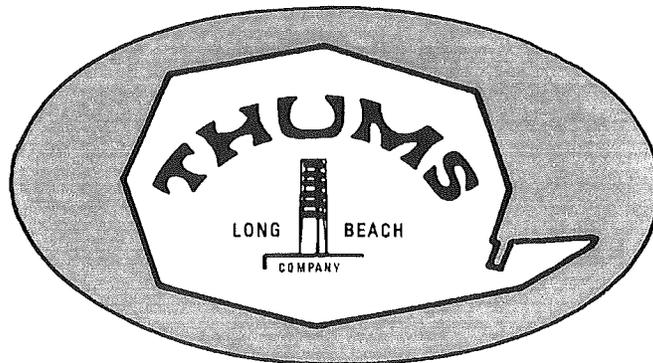
Long Beach Unit

THUMS Long Beach Company (Agent for Field Contractor)



ANNUAL PLAN

July 1, 2012 through June 30, 2013



ANNUAL PLAN

July 1, 2012 through June 30, 2013

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Part I

Introduction

This Annual Plan ("Plan") was developed to reflect anticipated activity levels during the fiscal period from July 1, 2012 through June 30, 2013 ("FY13"). It is being submitted as required by Section 5(a) of Chapter 138, Statutes of 1964, First Extraordinary Session, and as revised by passage of Assembly Bill 227 (Chapter 941, Statutes of 1991) and the Optimized Waterflood Program Agreement approved by the State of California, the City of Long Beach, and Atlantic Richfield Company, whose interest has been assigned to Occidental Petroleum Corporation.

This Plan provides for drilling, producing, water injection, and other associated activities from offshore and onshore locations. The budget for these activities is grouped into the following five major categories:

Plan Category	Fiscal Year 2012 – 2013 (\$ Million)
Development Drilling	\$ 118.5
Operating Expense	\$ 108.6
Facilities, Maintenance, and Plant	\$ 93.0
Unit Field Labor and Administrative	\$ 60.8
Taxes, Permits, and Administrative Overhead	\$ 44.4
Total	\$425.3

A. Plan Basis

This Plan was developed based on the parameters outlined in the Program Plan for the period July 2011 through June 2016 and provides current and updated estimates of volumes, drilling activity and expenditures for FY13.

Volumes

Oil and gas production volumes are predicted to average 23.7 Mbopd and 9.0 MMcfd, respectively, in FY13. Water production for the period is expected to average 999 Mbwpd and water injection is expected to average 1,059 Mbwpd.

Revenue and Expenses

A projected oil price of \$55.00/bbl Wilmington and gas price of \$4.00/mcf will result in revenues of \$488 million. Budgeted expenses for FY13 total \$425 million. Projected net profit in FY13 is \$63 million.

Drilling

This Plan allows for drilling approximately 67 new and redrilled development and/or replacement wells. The plan is to use approximately two and a half drilling rigs. The rig utilization could potentially change due to variations in oil price. Workover rigs will perform drilling preparation and completion work.

The location of production and injection wells to be drilled or redrilled are generally consistent with those given in the Program Plan (see attached Part II, Schedule 2B). Locations of anticipated drilling candidates have been better defined since the Program Plan was developed and are outlined in Revised Schedule 2B (attached). Significant variances include potential increased well targets on Island Grissom and Chaffee compared to the Program Plan.

Maintenance

Most of the major facility projects anticipated during the Plan period are required to maintain current equipment capabilities or to enhance operations. Other projects will be necessary to take advantage of improvement opportunities and to address changes in the oil field operating environment.

The Unit has a Mechanical Integrity and Quality Assurance (MIQA) program to assess and maintain critical equipment. The MIQA program is designed to meet internal and regulatory requirements and provide a high level of equipment integrity to reduce risk and increase reliability. Key elements include :

- Identification, evaluation, and determination of what equipment and/or process components are critical (i.e. their failure or malfunction could

adversely affect the safety of personnel, operations, and/or the environment).

- A process to ensure equipment and components comply with material specifications, design and construction codes or standards thus providing a measure of safety and reliability.
- Methodologies for inspecting, testing and maintaining the equipment and documenting such action.

The MIQA program is an integral piece of the overall flow of maintenance, from inspection/testing through maintenance and, when necessary, repair or replacement. The program is supported through the use of a comprehensive database and work order system that provides control and management of all maintenance activities.

Many projects will be undertaken to repair or replace equipment that has outlived its useful life. Items needing to be repaired or replaced include, but are not limited to, facilities piping, tanks, and vessels. These projects are consistent with past activities to keep the Unit facilities in safe operating condition.

Abandonment

Wells and facilities with no further economic use will be abandoned to reduce current and future Unit liability. This Plan provides funds for plugging wells to surface, in-zone, and conditional abandonments.

Safety, Environmental, and Regulatory Compliance

The Unit is committed to conducting all aspects of its business in a manner that provides for the safety and health of employees, contractors and the public, and safeguards the environment in which it operates. Key safety programs include incident reporting and investigation, safety meetings and training, Management of Change (MOC), Process Hazard Reviews (PHR), emergency response planning and drills, and a behavior based safety observation program. Key aspects of the Environmental program include compliance with AQMD requirements, waste management and minimization, spill prevention plans and Business Emergency Plans (BEP's).

The effectiveness and compliance of the above programs are assured through internal and external (OOG) audit programs. In addition, numerous agencies conduct periodic audits, including the DOT, State Fire Marshal, AQMD, EPA, local fire department and health departments, Port of Long Beach and City of Long Beach.

Emergency response planning and preparedness is bolstered by partnering with Marine Spill Response Corporation (MSRC). MSRC is an independent, non-

profit, national spill response company dedicated to rapid response to environmental incidents. In 2010, MSRC provided the single largest oil spill response effort for the BP Macondo incident. MSRC has a major west coast base of operations in the Port of Long Beach and their equipment and expertise is readily available for Unit emergencies and is incorporated in onsite training exercises. The training exercises also involve a close working relationship with the United States Coast Guard and California Department of Fish and Game.

Environmental and community outreach is also a fundamental part of Thums program and each of the Islands are currently designated 'Corporate Lands for Learning' sites by the Wildlife Habitat Council. This designation is awarded to facilities that provide for public education and involvement through wildlife related projects and learning opportunities on the facilities.

Projects relating to safety, environmental issues, or other situations necessary for meeting compliance with code, permit, or regulatory requirements will continue to be implemented under this Plan in accordance with all Unit agreements. In addition, THUMS will be placing additional emphasis on risk and system reviews and operational safeguards to assure reliable and compliant environmental performance.

Beginning in January 2012, the State Lands Commission will commence a comprehensive Safety and Environmental audit of the Unit. This audit is intended to both verify and potentially improve the Unit performance in these areas. This audit will consist of approximately 10 months of field review and a final report in approximately 15 months. Important topics include:

- Mechanical integrity
- Process Safety
- Safe work practices
- Training
- Emergency planning and response
- Injury and Illness prevention
- Safety culture

Economic Review

Project expenditures during the Plan period are subject to economic review through the Determination and Authority for Expenditure processes. All existing wells are frequently reviewed in light of changing crude prices to determine if they are economic to operate. Well servicing work is justified on economics and other conditions consistent with good engineering, business, and operating practices.

The Unit remains committed to careful management of subsidence related to its oil and gas production through strict adherence to existing regulations and voidage rules.

B. Economic Projections

(Data in Millions of Dollars)

	BUDGET FIRST QUARTER FY13	BUDGET SECOND QUARTER FY13	BUDGET THIRD QUARTER FY13	BUDGET FOURTH QUARTER FY13	BUDGET TOTAL FY13
<u>ESTIMATED REVENUE</u>					
Oil Revenue	\$120.4	\$119.4	\$116.9	\$118.4	\$475.2
Gas Revenue	\$3.4	\$3.4	\$3.1	\$3.2	\$13.1
TOTAL REVENUE	\$123.8	\$122.8	\$120.0	\$121.6	\$488.3
<u>ESTIMATED EXPENDITURES</u>					
Development Drilling	\$31.5	\$22.5	\$27.0	\$37.5	\$118.5
Operating Expense	\$27.7	\$26.7	\$26.9	\$27.4	\$108.6
Facilities & Maintenance	\$21.7	\$21.7	\$24.8	\$24.9	\$93.0
Unit Field Labor & Administration	\$22.3	\$11.2	\$15.8	\$11.5	\$60.8
Taxes, Permits & Overhead	\$11.5	\$10.5	\$11.1	\$11.4	\$44.4
TOTAL EXPENDITURES	\$114.6	\$92.6	\$105.5	\$112.6	\$425.3
<u>NET PROFIT</u>	\$9.2	\$30.2	\$14.5	\$9.0	\$63.0

C. MAJOR PLANNING ASSUMPTIONS

	BUDGET FIRST QUARTER <u>FY13</u>	BUDGET SECOND QUARTER <u>FY13</u>	BUDGET THIRD QUARTER <u>FY13</u>	BUDGET FOURTH QUARTER <u>FY13</u>	BUDGET TOTAL <u>FY13</u>
<u>OIL PRODUCTION</u>					
PRODUCED (1000 BBL)	2,190	2,170	2,126	2,153	8,640
(AVERAGE B/D)	23,803	23,591	23,627	23,664	23,671
<u>GAS PRODUCTION</u>					
PRODUCED (1000 MCF)	849	855	773	799	3,276
(AVERAGE MCF/D)	9,231	9,296	8,587	8,775	8,972
<u>WATER PRODUCTION</u>					
PRODUCED (1000 BBL)	91,180	91,637	90,094	91,552	364,462
(AVERAGE B/D)	991,082	996,050	1,001,043	1,006,060	998,559
<u>WATER INJECTION</u>					
INJECTED (1000 BBL)	96,727	97,212	95,576	97,122	386,637
(AVERAGE B/D)	1,051,385	1,056,655	1,061,952	1,067,275	1,059,317
OIL PRICE (\$/BBL)	\$55.00	\$55.00	\$55.00	\$55.00	\$55.00
GAS PRICE (\$/MCF)	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00

Part II

Program Plan Schedules

Schedule 2 A

Range of Production and Injection FY 2013

Long Beach Unit Program Plan, July 2011-June 2016

FISCAL YEAR	RANGE OF PRODUCTION AND INJECTION RATES			
	OIL MBOPD	WATER MBWPD	GAS MMCFPD	INJECTION MBWPD
2012/13	23.0 - 25.3	950 - 1,106	8.5 - 11.3	1,015 - 1,200

FISCAL YEAR	RANGE OF INJECTION PRESSURES			
	TAR PSI	RANGER PSI	TERMINAL PSI	U. P./FORD PSI
2012/13	UP TO 1500	UP TO 2500	UP TO 2500	UP TO 3000

Schedule 2 B
Anticipated New and Redrilled Wells
Fiscal Year 12/13
Long Beach Unit Program Plan, July 2011-June 2016

Reservoir	CRB	Producers					Injectors				
		Grissom Min - Max	White Min - Max	Chaffee Min - Max	Freeman Min - Max	Pier J Min - Max	Grissom Min - Max	White Min - Max	Chaffee Min - Max	Freeman Min - Max	Pier J Min - Max
Tar SG Ranger West		0 - 2	0 - 2				0 - 1	0 - 2			
		0 - 1	0 - 2	0 - 1			0 - 1				
	1	0 - 1					0 - 9				
	2	1 - 4	0 - 1				0 - 2	0 - 1			
	3	1 - 5	0 - 1				0 - 1	0 - 1			0 - 1
	4	1 - 3	0 - 1		0 - 1	0 - 2		0 - 1		0 - 1	0 - 1
	5	0 - 1			0 - 1	0 - 2				0 - 1	0 - 1
	7				0 - 1					0 - 1	
	8										
	9		0 - 1					0 - 1			
	10		0 - 1					0 - 1			
	11		0 - 1					0 - 1			
	12		0 - 1					0 - 1			
13		0 - 1					0 - 1		0 - 1		
36					0 - 1	0 - 2			0 - 1	0 - 1	
37					0 - 1				0 - 1		
Ranger East	14		0 - 1					0 - 1			
	15		0 - 1		0 - 1			0 - 1		0 - 1	
	16		0 - 1					0 - 1			
	17			0 - 1					0 - 1		
	18			0 - 1					0 - 1		
	20			0 - 1					1 - 1		
	21			1 - 2					1 - 1		
	22			0 - 1					0 - 1		
33			0 - 1					0 - 1			
Terminal	24		0 - 1					0 - 1			
	38	0 - 1				0 - 2	0 - 1			0 - 1	
	39	0 - 1	0 - 1				0		0 - 1		
	40		0 - 1								
	41	0 - 1				0 - 2	0			0 - 1	
	42			0 - 1				0 - 1			
	43			0 - 1	0 - 1			0 - 1	0 - 1		
47											
UP Ford	26				0 - 1					0 - 1	
	27		0 - 1		0 - 1			0 - 1		0 - 1	
	30			0 - 1	0 - 1		0				
	31	0 - 1	0 - 1		0 - 1	0 - 2		0 - 1		0 - 1	
	44			0 - 1				0 - 1			
	45			0 - 2				0 - 1	0 - 1		
46		0 - 1	0 - 1	0 - 1			0 - 1	0 - 1			
237	30	0 - 1		0 - 2	0 - 2						
		Total					Total				
		4 - 86					2 - 64				

Schedule 2 B - Revised
Anticipated New and Redrilled Wells
Fiscal Year 12/13
Long Beach Unit Program Plan, July 2011-June 2016

Reservoir	CRB	Producers					Injectors				
		Grissom	White	Chaffee	Freeman	Pier J	Grissom	White	Chaffee	Freeman	Pier J
		Min - Max									
Tar SG Ranger West		0 - 1	0 - 0			0 - 2	0 - 1				0 - 2
		0 - 1	0 - 0								
	1	5 - 8	0 - 1				1 - 3				
	2	2 - 4	0 - 1				0 - 1				
	3	4 - 7	0 - 1			0 - 3	1 - 3				0 - 2
	4	4 - 7	0 - 1		0 - 0	0 - 3	0 - 3	0 - 0		0 - 1	0 - 2
	5	0 - 1			0 - 0	0 - 3				0 - 1	0 - 2
	7				0 - 0	0 - 2				0 - 1	0 - 2
	8				0 - 0					0 - 1	
	9		0 - 1		0 - 0			0 - 0		0 - 1	
	10		0 - 1				0 - 1	0 - 0			
	11		0 - 1				0 - 1	0 - 0			
	12		0 - 1					0 - 3			
	13		0 - 1					0 - 0			
36		0 - 1		0 - 0	0 - 3		0 - 0		0 - 1	0 - 2	
37				0 - 0					0 - 1		
Ranger East	14		0 - 1					0 - 0			
	15		0 - 1		0 - 1			1 - 2		0 - 1	
	16		0 - 1	0 - 1	0 - 0			0 - 0	0 - 1	0 - 1	
	17			0 - 1					0 - 1		
	18			0 - 3					1 - 3		
	20			0 - 1					1 - 3		
	21			0 - 1					1 - 3		
	22			0 - 1					0 - 1		
33			3 - 6					1 - 3	0 - 1		
Terminal	24	0 - 1	0 - 0			0 - 2	0 - 1		1 - 3		0 - 1
	38	0 - 1	0 - 1		0 - 0	0 - 2	0 - 1	0 - 1		0 - 1	0 - 1
	39	0 - 1	0 - 1		0 - 0		0 - 1	0 - 1		0 - 1	
	40		0 - 0		0 - 0			0 - 0		0 - 1	
	41	0 - 1									0 - 1
	42			0 - 1					0 - 1		
	43			1 - 3	0 - 0				0 - 1	0 - 0	
47											
UP Ford	26		0 - 0		0 - 0			0 - 0		0 - 0	
	27		0 - 1		0 - 0			0 - 0		0 - 0	
	30	0 - 1	0 - 0	0 - 0	0 - 0	0 - 0	0 - 1	0 - 0	0 - 1	0 - 0	0 - 1
	31		0 - 1	0 - 0	0 - 0			0 - 0	0 - 0	0 - 0	
	44		0 - 0	1 - 3	0 - 0			0 - 0	0 - 1	0 - 0	
	45		0 - 0	1 - 3	0 - 0			0 - 0	0 - 1	0 - 0	
46			0 - 1								
237	30	0 - 0		1 - 3	0 - 0						
		Total					Total				
		22 - 100					8 - 76				

Part III

Itemized Budget of Expenditures

A. Development Drilling **\$118.5MM**

The Development Drilling category of expenditures encompasses all new well and replacement well drilling activity, as well as maintenance and replacement of drilling equipment within the Unit. Funds for development drilling are based on the assumption that 67 wells will be developed and/or replaced during the Plan year and 26 investment wellwork projects will be carried out, using approximately two and half drilling rigs and two workover rigs, respectively.

Drilling and completing new wells, as well as re-drilling and recompleting existing wells, account for 90 percent of the funding provided in this Category. Included in these activities is funding for rig move-in, drilling and casing, completion activities, drilling rig in-zone plugs and conditional abandonments, and unscheduled activity (fishing operations, cement squeezing, special logging, contract drilling services).

Exact specifications regarding the distribution of wells, bottom hole locations, and completion intervals will be determined by OXY Long Beach, Inc. (OLBI). These decisions will be influenced by contributions from reservoir engineering personnel, results from ongoing engineering studies, and new well performance. This information will be reviewed and approved in accordance with Unit Agreements during regularly scheduled Unit forums.

B. Operating Expense **\$108.6MM**

The Operating Expense category of expenditures encompasses the ongoing costs of day-to-day well production and injection operations necessary for producing, processing, and delivering crude oil and gas, and for all electric power charges. Expenses for this category are based on estimated oil production of 23.7 Mbopd, estimated gas production of 9.0 MMcfpd, water injection requirement of 1,059 Mbwpd, and water production of 999 Mbwpd. Anticipated operating expenses were based on operating four workover rigs per month for servicing an average active well count of 775 producers and 469 injectors. Abandonment well count will be determined as a function of drilling activity and the number of idle wells with no future use identified.

The day-to-day costs for production and injection well subsurface operations represent approximately 44 percent of the funding provided in this category. Included are funds for acidizing, fracturing, routine well work, well conversions,

in-zone plugs, conditional abandonments, and other charges incurred for well maintenance.

Electricity makes up 45 percent of the funds in this Category. Cost for electric power is based on estimated kilowatt usage of 770,179,000 Kwh at an average rate of \$0.068/kwh. This cost includes all sources of Unit electrical power, including all costs associated with the power plant and electric utility purchases.

C. Facilities, Maintenance, and Plant \$93.0MM

The Facilities, Maintenance, and Plant category of expenditures encompasses costs for maintenance, repairs, upgrades, additions of surface facilities and pipelines, and costs for general field services.

Approximately 44 percent of the funding in this category is for general field and operating costs. This includes, but is not limited to, charges for general labor, equipment rentals, and materials for general maintenance (painting, welding, electrical, etc.) of all Unit systems, such as oil gathering, treating, storage, and transfer; gas gathering and treating; scale and corrosion control; produced water handling; waste disposal; leasehold improvements; electrical system; fresh water system; fire protection and safety; marine operations; and automotive equipment. Funds are also provided for chemical purchases and laboratory-related charges for chemical treatment of produced and injected fluids; gas processing charges; make-up water; security; transportation; small tools; and other miscellaneous field activities.

Approximately 49 percent of the funding in this Category is for facilities repair and improvement projects. Approximately 20% of the repair project category is focused on inspection, maintenance and repair in support of the MIQA program. This work includes regulated pipeline inspection surveys and evaluation, inspection and repair of cathodic protection systems, and infrastructure piping integrity inspections not covered by regulatory control.

Improvement projects include spending for the construction of the Pier J electrical distribution, White Culvert Piping, Island Pipe Traps and J-6 Vapor Recovery piping and other infrastructure related investments that position the Unit for longevity.

D. Unit Field Labor and Administrative \$60.8MM

The Unit Field Labor and Administrative category of expenditures encompasses costs for Unit personnel and other Unit support activities.

Funding for Unit personnel includes costs of salaries, wages, benefits, training, and expenses of all THUMS employees. These costs represent approximately 95 percent of the category total.

Funding for Unit support activities includes, but is not limited to, costs for professional and temporary services necessary for the completion of support activities; charges for data processing; computer hardware and software; communications; office rent; general office equipment and materials; drafting and reprographic services; Department of Transportation drug and alcohol testing; special management projects; and other miscellaneous support charges.

E. Taxes, Permits, and Administrative Overhead \$44.4MM

The Taxes, Permits, and Administrative Overhead category of expenditures includes funds for specific taxes, permits, licenses, land leases, and all administrative overhead costs for the Unit.

Funding is provided for taxes levied on personal property, mining rights, and oil production; for the Petroleum and Gas Fund Assessment; annual well permits and renewals; Conservation Committee of California Oil and Gas Producers Assessment; California Oil Spill Response, Prevention, and Administration fee; land leases; and pipeline right-of-way costs. These costs represent approximately 58 percent of the Category total.

Funding is also provided in this Category for all Administrative Overhead (including Unit Operator billable costs and OLBI billable costs) as called for in Exhibit F of the Unit Operating Agreement.

PART IV

Definitions

This Annual Plan may be Modified or Supplemented after review by the State Lands Commission for consistency with the current Program Plan. All Modifications and Supplements to this plan will be presented by the Long Beach Gas and Oil Department, City of Long Beach, acting with the consent of OLBI, to the State Lands Commission in accordance with Article 2.06 of the Optimized Waterflood Program Agreement.

In addition, on or before October 1, 2013 the City of Long Beach shall present to the State Lands Commission a final report and closing statement of the FY13 Annual Plan, in accordance with the provision in Section 10 of Chapter 138.

A. Modifications

The City of Long Beach, acting with the consent of OLBI, has the authority to cause the expenditures of funds for Unit Operations in excess of the amount set forth in the budget included in the Annual Plan, provided, however, that no such expenditure shall be incurred that would result in any category of expenditures set forth in the budget to exceed 120 percent of the budgeted amount for that category. A budget modification would be required for any expenditures which would cause a budget category to exceed its budgeted amount by 120 percent.

Any transfer of funds between budget categories or an augmentation or decrease of the entire budget may be accomplished by a budget modification in accordance with section 5(g) of Chapter 138 and Article 2.06 of the Optimized Waterflood Program Agreement.

Investment, facilities, and management expense projects commenced in prior budget periods, which are to be continued during the current budget period, may be added to this budget by a modification in accordance with Article 2.06 of the Optimized Waterflood Program Agreement.

B. Supplements

This Annual Plan contains all the investment and expense projects reasonably anticipated at the time the Plan was drafted and for which adequate detailed studies existed. Any significant and uncommon expenses not originally contemplated may be added to this budget or transferred by a supplement in accordance with Article 2.06 of the Optimized Waterflood Program Agreement.

The amount of the supplement shall include sufficient funds to complete the projects.

C. Final Report and Closing Statement

The final report and closing statement for FY13 shall contain a reconciliation by category as finally modified and the actual accomplishments, including:

1. New wells and redrills by zone.
2. Facilities and capital projects.
3. Production by zone.
4. Injection by zone.