

MINUTE ITEM

19. REQUEST OF CITY OF REDONDO BEACH FOR APPROVAL OF MODIFICATION OF OIL AND GAS CONTRACT WITH SIGNAL OIL AND GAS COMPANY AND RESERVE OIL AND GAS COMPANY - W.O. 4469, GEN. DATA.

On Calendar Item 20, attached, the Executive Officer reported that since the Redondo Beach lease had preceded the enactment of the 1959 statutes by four years, there is some question as to the requirement for State Lands Commission approval of the modification. Mr. Francis E. Hopkins, City Manager of Redondo Beach, concurred in the Executive Officer's statement, and indicated their desire for Commission consideration.

Deputy Attorney General Jay L. Shavelson stated that in view of the ambiguity of the statutes and the absence of disagreement between the City and the State regarding the desirability of Commission action, the City is entitled to Commission approval to clear up any possible doubt.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE EXECUTIVE OFFICER IS AUTHORIZED TO INFORM THE CITY COUNCIL OF THE CITY OF REDONDO BEACH THAT THE STATE LANDS COMMISSION INTERPOSES NO OBJECTION TO THE ADOPTION OF CITY OF REDONDO BEACH ORDINANCE NO. 1766.

Attachment
Calendar Item 20 (1 page)

REQUEST OF CITY OF REDONDO BEACH FOR APPROVAL OF MODIFICATION OF OIL AND GAS CONTRACT WITH SIGNAL OIL AND GAS COMPANY AND RESERVE OIL AND GAS COMPANY - W.O. 4469.

By the provisions of Chapter 1457, Statutes of 1959 (Public Resources Code Sections 7058.5, 7059, 7060, 7061 and 7062), an existent lease between the City of Redondo Beach (hereinafter referred to as "City") and Signal Oil and Gas Company and Reserve Oil and Gas Company (hereinafter referred to as "Operator") entered into on November 22, 1955 may require Commission approval prior to any modification. Whether or not the Commission is in fact required to approve a lease modification pertaining to a lease entered into prior to the effective date of the aforesaid statute has not been determined legally. However, the City of Redondo Beach is desirous of obtaining a review by the Commission of a proposed modification.

Pursuant to the terms of the aforesaid lease, the Operator has requested a modification in the royalty rate paid to the City. The Operator has the right, under the lease, to terminate if the agreement becomes unprofitable. The Operator is presently required to pay an 18% royalty, with a minimum annual rental of \$250,000.00. Production has declined more rapidly than estimated originally, and the Operator cannot continue to operate profitably if the minimum payment requirements are not modified.

Pursuant to the Operator's request for modification, the City caused a study of the problem to be made by a responsible firm of petroleum engineers. It is the recommendation of the consultants that the lease be amended to provide for a basic 18% royalty or 50% of the net profits, whichever is greater, and that the minimum annual rental be eliminated. The Division staff have reviewed the report and concur in the recommendation. The City proposes to adopt Ordinance No. 1766, to permit amendment of the contract in accordance with this recommendation.

IT IS RECOMMENDED THAT THE EXECUTIVE OFFICER BE AUTHORIZED TO INFORM THE CITY COUNCIL OF THE CITY OF REDONDO BEACH THAT THE STATE LANDS COMMISSION INTERPOSES NO OBJECTION TO THE ADOPTION OF CITY OF REDONDO BEACH ORDINANCE NO. 1766.