

MINUTE ITEM

This Calendar Item No. 69
was approved as Minute Item
No. 69 by the State Lands
Commission by a vote of 3
2 at its 6/11/90
meeting.

CALENDAR ITEM

A 57, 58

69

06/11/90

W 17098

S 29

Pace

Hager

**APPROVE ASSIGNMENT TO GOLDEN WEST REFINING COMPANY
OF NONOPERATING INTERESTS IN THE CONTRACTORS' AGREEMENT
TRACT 1, LONG BEACH UNIT, LOS ANGELES COUNTY**

APPLICANT: Century Resources Development, Inc.
14711 Bentley Circle
Tustin, California 92680

Century Resources Development, Inc. holds the 2-1/2 percent, 1-1/2 percent, and one percent nonoperating contractor interests under the Contractors' Agreement for Tract 1 of the Long Beach Unit. Chevron U.S.A., Inc. holds the five percent nonoperating contractor interest under the same agreement. Golden West Refining Company proposes to acquire all of these interests which together comprise ten percent of Tract 1. The remaining 90 percent of Tract 1 consists of the 80 percent operating contractor interest held by ARCO (3/5), Mobil (1/5) and Exxon (1/5) and a ten percent nonoperating contractor interest held by Pauley Petroleum.

The two most important considerations in assessing a company's qualification to hold a nonoperating contractor interest are its ability to meet the financial obligations of the nonoperating contractor and its ability to take the oil allocated to its interest.

The Commission's staff and the City of Long Beach financial staff have reviewed Golden West's financial records and have concluded that Golden West is financially sound and fully capable of meeting the financial obligations of all of the nonoperating contractor interests it proposes to acquire. Golden West Refining is a wholly owned subsidiary of Thrifty

CALENDAR ITEM NO. 59 (CONT'D)

Oil Company and operates a 45,000 barrels per day refinery in Santa Fe Springs which, among other things, helps to ensure a gasoline supply for Thrifty's retail outlets. As a Los Angeles Basin refiner, Golden West Refining has the ability to take the oil allocated to the nonoperating interests it proposes to acquire either to use directly or to trade for other crude to run in its refinery. Therefore, Golden West Refining qualifies in both cases.

The 2-1/2 percent, 1-1/2 percent, and one percent interests held by Century Resources Development, Inc. are burdened with the obligation that the contractor pay a ten cents per barrel bonus on all oil allocated to these interests. This obligation made these interests unsalable, and the Commission and the City of Long Beach have for some time, looked to have Century consummate a sale to a company with greater financial resources. Accordingly, the Commission, at its meeting in October 1989, agreed to remove the ten cents bonus obligation, if and when Century consummates a sale of the interests to a responsible buyer acceptable to the Commission. Since Century has made a sale to a responsible buyer, the consent to the assignment would remove the ten cents bonus obligation.

In view of the high costs for bonds and the difficulty in obtaining them faced by even the most financially sound companies, staff recommends that Golden West be permitted to submit a \$1,000,000 letter of credit in lieu of the bonds required by the Contractors' Agreement for the Tract 1 interests (the 2 1/2%, 1 1/2% and 1% interests). A letter of credit is a more efficient and effective form of security than a bond because of the comparative ease in collection. Consistent with the contract provisions regarding bonds, Golden West would be permitted to charge to its net profits accounts the cost of the letter of credit. However, the amount that may be charged to each net profits account shall not exceed one percent of the face amount of the share of the letter of credit attributable to the particular interest. The City would waive the letter of credit after one year if there has been no need to levy on it.

Under Article 25 of the Contractors' Agreement, an assignment of a contractor interest, in order to be effective, must receive the consent of the City Manager acting with the approval of the State. Since the City's consent must be with the Commission's approval, the Commission must take the initial action. However, the Department of Oil Properties of the City of Long Beach has recommended that the City Manager consent to the assignment.

CALENDAR ITEM NO. 69 (CONT'D)

AB 884: N/A.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State's CEQA guidelines (14 Cal. Code Regs. 15061), the staff has determined that this activity is exempt from the requirements of CEQA because it is not a "project" as defined by CEQA and the State's CEQA guidelines.

Authority: P.R.C. 21065 and 14 Cal. Code Regs. 15378.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21056 AND 14 CAL. CODE REGS. 15378.
2. APPROVE THE CONSENT TO BE GIVEN BY THE LONG BEACH CITY MANAGER TO THE ASSIGNMENT BY CENTURY RESOURCES DEVELOPMENT INC. TO GOLDEN WEST REFINING COMPANY OF THE 2-1/2 PERCENT, 1-1/2 PERCENT, AND ONE PERCENT NONOPERATING CONTRACTOR INTERESTS IN THE CONTRACTORS' AGREEMENT AND THE ASSIGNMENT BY CHEVRON U.S.A., INC. TO GOLDEN WEST REFINING COMPANY OF THE 5% NONOPERATING CONTRACTOR INTEREST IN THE CONTRACTORS' AGREEMENT FOR TRACT 1 OF THE LONG BEACH UNIT.

485
1607