

MINUTE ITEM

15. REQUEST FOR CONSENT TO HYPOTHECATION, OIL AND GAS LEASES P.R.C. 2205.1 AND 2207.1, SANTA BARBARA COUNTY, AUSTRAL OIL COMPANY, INCORPORATED - W.O. 4325.

After consideration of Calendar Item 4 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE EXECUTIVE OFFICER IS AUTHORIZED TO INFORM THE AUSTRAL OIL COMPANY, INCORPORATED, THAT:

THE STATE LANDS COMMISSION HAS NO OBJECTION TO THE ASSIGNMENT AND TRANSFER, BY TRUST DEED DATED MARCH 2, 1962, TO SECURITY TITLE INSURANCE COMPANY, TRUSTEE, OF THE LEASE INTERESTS OF AUSTRAL OIL COMPANY, INCORPORATED, ONE OF THE LESSEES IN STATE OIL AND GAS LEASES P.R.C. 2205.1 AND P.R.C. 2207.1, WHICH ASSIGNMENT AND TRANSFER WERE MADE FOR SECURITY PURPOSES ONLY, WITH THE UNDERSTANDING THAT:

1. THE COMMISSION DOES NOT HEREBY APPROVE IN ADVANCE ANY ASSIGNMENT, TRANSFER, OR SUBLEASE WHICH MAY BE ATTEMPTED BY SAID TRUSTEE PURSUANT TO THE PROVISIONS OF SAID TRUST DEED OR OTHERWISE, AND THE COMMISSION RESERVES THE RIGHT TO DISAPPROVE ANY SUCH ASSIGNMENT, TRANSFER, OR SUBLEASE;
2. THE COMMISSION DOES NOT HEREBY APPROVE IN ADVANCE ANY CHANGE IN THE OPERATOR OR MANAGEMENT OF SAID LEASES WHICH MAY OCCUR SUBSEQUENTLY PURSUANT TO THE PROVISIONS OF SAID TRUST DEED OR OTHERWISE, AND THE COMMISSION RESERVES THE RIGHT TO DISAPPROVE ANY SUCH CHANGE IN OPERATOR OR MANAGEMENT, OR ANY PROPOSED OPERATING, DRILLING, OR DEVELOPMENT CONTRACT;
3. AUSTRAL OIL COMPANY, INCORPORATED, LESSEE, REMAINS FULLY BOUND BY ALL ITS OBLIGATIONS UNDER THE SAID LEASES, AS LESSEE, AND THE SURETIES ON ITS BOND HERETOFORE FILED IN CONNECTION WITH SAID LEASES ARE IN NO WAY RELEASED OR EXONERATED HEREBY; AND
4. THE STATE OF CALIFORNIA AND THE STATE LANDS COMMISSION RETAIN ALL THEIR RIGHTS AND POWERS UNDER SAID LEASES, UNAFFECTED BY THE EXECUTION OF SAID TRUST DEED OR THE FAILURE OF THE COMMISSION TO OBJECT THERETO.

Attachment  
Calendar Item 4 (2 pages)

CALENDAR ITEM

4.

REQUEST FOR CONSENT TO HYPOTHECATION, OIL AND GAS LEASES P.R.C. 2205.1 AND 2207.1, SANTA BARBARA COUNTY, AUSTRAL OIL COMPANY, INCORPORATED - W.O. 4325.

Austral Oil Company, Incorporated, one of the Lessees under offshore oil and gas leases P.R.C. 2205.1 and P.R.C. 2207.1, proposes to deliver to Security Title Insurance Company, a California corporation, as Trustee, a Deed of Trust in favor of First National City Bank, by which said Deed of Trust the Austral Oil Company, Incorporated, will hypothecate oil production payments out of its Lessee's interest in the above-numbered lease as security for the repayment of certain indebtedness of Austral Oil Company, Incorporated, to First National City Bank.

Austral Oil Company, Incorporated, has requested that the Commission either (a) consent to the proposed hypothecation, or (b) advise Austral Oil Company, Incorporated, that no such consent is required.

The office of the Attorney General has reviewed, informally, similar problems of other State Lessees (P.R.C.s 91.1, 145.1, 186.1, 920.1), with the following conclusions:

"Strictly speaking, although the trust deed in question purports among other things to 'assign' and 'transfer' the leases to the trustee, the purpose of the conveyance is so limited that it does not appear to be the type of transfer concerning which Section 6804 of the Public Resources Code calls for approval by the State Lands Commission. The situation is comparable to the case cited by counsel for the Lessee wherein the Department of the Interior declined either to give or to deny consent to a similar security transaction involving a lease under the Federal Mineral Leasing Act of 1920.

"Notwithstanding the fact that Commission approval does not appear to be required, it would be unwise to advise the parties that the Commission has no objection to the lease unless it were to be made clear that any changes in operation or ownership pursuant to the provisions of the trust deed will remain subject to approval of the Commission. Counsel for the Lessee have indicated that some definite statement by the Commission is desired and unquestionably the parties are entitled to such a statement. Moreover, now that the Commission has been apprised of the existence of the trust deed, silence might be interpreted as an approval of the transaction without reservation.

"It is therefore recommended that the Commission: (1) formally declare that it has no objection to the trust deed (if in fact that is the case), and, (2) expressly indicate that no advance approval of future transfers is being made and that the State reserves all its rights and powers under the leases."

CALENDAR ITEM 4. (CONTD.)

IT IS RECOMMENDED THAT THE EXECUTIVE OFFICER BE AUTHORIZED TO INFORM THE AUSTRAL OIL COMPANY, INCORPORATED, THAT:

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4. THE STATE OF CALIFORNIA AND THE STATE LANDS COMMISSION RETAIN ALL THEIR RIGHTS AND POWERS UNDER SAID LEASES, UNAFFECTED BY THE EXECUTION OF SAID TRUST DEED OR THE FAILURE OF THE COMMISSION TO OBJECT THERETO.