

MINUTE ITEM

4/27/72
CVB

18. APPROVAL OF OTHER SECURITIES IN LIEU OF SURETY BONDS, CRUDE OIL SALES CONTRACT, LONG BEACH UNIT, SELL-OFF OIL, 7% AND 4% INCREMENTS, CITY OF LONG BEACH, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

After consideration of Calendar Item 17 attached, and upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION APPROVES THE ACCEPTANCE OF THE ASSIGNMENT OF CRUDE OIL SALES CONTRACTS AND LETTERS OF CREDIT IN LIEU OF THE SURETY BONDS REQUIRED PURSUANT TO SECTION 11 OF THE CRUDE OIL SALES CONTRACT, LONG BEACH UNIT, SELL-OFF OIL, 7% AND 4% INCREMENTS, AS REQUESTED BY THE CITY OF LONG BEACH.

Attachment:

Calendar Item 17 (2 pages)

CALENDAR ITEM

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17.

APPROVAL OF OTHER SECURITIES IN LIEU OF SURETY BONDS, CRUDE OIL SALES CONTRACT, LONG BEACH UNIT, SELL-OFF OIL, 7% AND 4% INCREMENTS, CITY OF LONG BEACH, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

The Commission, at its December 21, 1971 meeting, approved the award of three Crude Oil Sales Contracts, for Sell-Off Oil comprising 12-1/2% of the oil allocated to Tract No. 1, Long Beach Unit. These Crude Oil Sales Contracts require the Purchaser to post performance bonds in the amounts of \$700,000, \$400,000, and \$150,000 for the 7%, 4% and 1-1/2% increments, respectively.

Section 11 of the subject sales contracts provides that the City of Long Beach, with Commission approval and upon determination that the Purchaser is financially responsible, may reduce or cancel the bond requirement or accept other security in lieu of bond.

San Joaquin Refining Company and West Coast Oil Company, purchasers of the 7% and 4% increments under the subject oil sales contracts, have requested permission to post other security in lieu of the required performance bonds. The proposed other security consists of, (1) Crude oil sales contracts between the Purchasers and the Standard Oil Company of California, assigned by the Purchasers to the City of Long Beach. These assignments guarantee that Standard will take and pay for the volume of oil allocated to the 7% and 4% increments at Standard's posted price. (2) Letters of credit from the Bank of America in the amounts of \$36,363.64 on behalf of West Coast Oil Company and \$63,636.36 on behalf of San Joaquin Refining Company furnished to the Long Beach Unit Field Contractor's agent by the Purchasers. The amount of these letters of credit is approximately equal to the amount paid by the Purchasers as bonus above the price at which the Field Contractor accounts to the City for an 80 day period. These letters of credit are in effect sight-drafts payable upon demand in case of default by the Purchasers.

The City Council of the City of Long Beach approved these securities in lieu of a performance bond at the meeting of April 4, 1972.

The subject documents have been submitted for review to the Office of the Attorney General, who have advised that they are legally sufficient.

The proposed substitution of oil sales contracts and letters of credit for performance bonds has been reviewed by the Division. The Division has found that the substitution will provide long-term protection comparable to that required by the original contracts together with a considerable bond premium savings. Bond premiums up to \$22,000 per year would be deductible from the additional oil value paid to the City and State.

CALENDAR ITEM NO. 17. (CONTD)

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE ACCEPTANCE OF THE ASSIGNMENT OF CRUDE OIL SALES CONTRACTS AND LETTERS OF CREDIT IN LIEU OF THE SURETY BONDS REQUIRED PURSUANT TO SECTION 11 OF THE CRUDE OIL SALES CONTRACT, LONG BEACH UNIT, SELL-OFF OIL, 7% AND 4% INCREMENTS, AS REQUESTED BY THE CITY OF LONG BEACH.