

MINUTE ITEM

This Calendar Item No. 30
was submitted for information
only, no action thereon
being necessary.

INFORMATIVE
CALENDAR ITEM

30

4/22/82
Thompson

POTENTIAL LOSS OF OIL REVENUE,
SELL-OFF DEFAULT,
LONG BEACH UNIT

Lunday-Thagard Oil Company has defaulted on its obligation in regard to its receipt of Long Beach Unit Tract No. 1 sell-off oil for the months of January and February 1982. The Field Contractor plans to deduct the loss of approximately \$1,000,000 from the Net Profits Payments due the City of Long Beach on March 31, 1982. It may be possible to levy on an existing Letter of Credit for \$600,000 thereby reducing the loss to \$400,000. The Attorney General is working with the Commission staff on this default. Exhibit "A" is attached for further details.

A 57, 58

S 27, 31

-1-

CALENDAR PAGE	226
MINUTE PAGE	1092

LAW OFFICES OF
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A PROFESSIONAL CORPORATION
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LOS ANGELES, CALIFORNIA 90017

(213) 680-9590

EXHIBIT "A"

March 26, 1982

Mr. John E. Dever, City Manager
City of Long Beach, City Hall
333 West Ocean Boulevard
Long Beach, California 90802

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Re: Contractors' Agreement
Long Beach Unit

Gentlemen:

This letter is written on behalf of the five companies comprising the Field Contractor and relates to sums owed by Lunday-Thagard Oil Company by reason of deliveries of crude oil made to Lunday-Thagard from the Field Contractor's share of Tract 1 crude oil.

Pursuant to bids solicited by the City in 1971, Lunday-Thagard commenced purchasing sell-off oil on July 1, 1972, pursuant to a Crude Oil Sales Contract dated December 31, 1971, between the City of Long Beach, Lunday-Thagard, and the companies comprising the Field Contractor. That contract covered 1-1/2% of 100% of the oil allocated to Tract 1 from the Field Contractor's 80% share.

In 1980, the City again solicited bids for the sell off of percentages of crude oil allocated to Tract 1 from the Field Contractor's share. Upon receipt of a high bid of \$0.350 per barrel bonus for the 1-1/2% portion then being purchased by Lunday-Thagard, the City offered Lunday-Thagard the opportunity to match that bonus bid and thereby continue purchasing the 1-1/2% portion under the 1971 contract. Lunday-Thagard accepted that offer from the City in writing, and inquired of the City what further was required of it:

"As discussed, we would appreciate knowing what further is required of Lunday-Thagard - (Letter of Credit, Financial Statement) prior to [3/1/81]."

We do not know what, if anything, the City then obtained from Lunday-Thagard.

CALENDAR PAGE
MINUTE PAGE

227
1093

Under the 1971 contract, Lunday-Thagard had furnished a letter of credit in the amount of \$150,000. In June, 1981 Union Oil (on behalf of the City and the companies comprising the Field Contractor) requested Lunday-Thagard to furnish a more substantial letter of credit to reflect the then increased crude oil values. Fortunately, an amendment to the former letter of credit was obtained which increased the value to \$600,000.

Lunday-Thagard's letter of credit, as amended, is an irrevocable letter of credit issued by First City National Bank of Houston, is in favor of Texaco, Humble, Union, Mobil, Shell, and the City of Long Beach, is valid to June 30, 1982, and is in the amount of \$600,000. Copies of the original letter of credit dated June 25, 1980, and the amendments thereto dated May 27, 1981 and July 1, 1981, are enclosed. The originals thereof are in the possession of Union Oil and will be furnished the City as directed.

By the early part of this month, Lunday-Thagard was past due on its obligations for deliveries of oil and contacts were made with it. Their representatives confirmed that cash flow was low, but stated payments would be made in the weeks of March 15 and 22. On March 18 a payment of \$200,000 was received but no further sums have been forthcoming. As of today, and subject to adjustment as provided by contract, Lunday-Thagard has a past due and outstanding obligation in the amount of \$1,037,104.58, of which the sum of \$16,541.35 represents bonus amounts unrelated to the Net Profits Accounts.

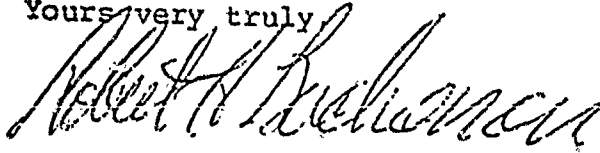
By reason of these circumstances and the provisions of the Contractors' Agreement (inclusive of Article 4(a)(2)(d) and (h) thereof), the companies comprising the Field Contractor believe, and hereby assert, that these obligations of Lunday-Thagard, except for the \$16,541.35 in bonus amounts, are properly chargeable to the Net Profits Accounts of the companies comprising Field Contractor. Accordingly, the payment being made by the companies comprising Field Contractor to the City of Long Beach on March 31, 1982 under the Contractors' Agreement is being reduced by the sum of \$975,250.22, which represents 95.56% of the non-bonus obligations of \$1,020,563.23 owed by Lunday-Thagard. Any sums as are collect on Lunday-Thagard's obligations of the \$1,020,563.23 shall be properly credited to said Net Profits Accounts.

City of Long Beach
Page 3

Please be assured that the companies comprising the Field Contractor stand ready and willing to cooperate with the City in all further efforts regarding the obligations of Lunday-Thagard, including without limitation, the attempted collection of Lunday-Thagard's letter of credit.

The companies comprising the Field Contractor shall await direction from the City of Long Beach on these matters. Please feel free to contact the undersigned in these regards.

Yours very truly,



Robert H. Buchanan

RHB:dh

CA' ENDAR PAGE	<u>229</u>
MINUTE PAGE	<u>1095</u>