

MINUTE ITEM

This Calendar Item No. 33
was approved as Minute Item
No. 33 by the State Lands
Commission by a vote of 3
to 0 at its 11/21/85
meeting.

MINUTE ITEM

33

11/21/85
W 15060
Pace

Reduction in Rate of Retroactive Equity Adjustment
Long Beach Unit

During consideration of Calendar Item 33 attached, Assemblyman Dave Elder appeared to state his support of staff's recommendations.

Chairman Cory thanked Mr. Elder for appearing and requested a status report at the January meeting as to the time frame for Commission compliance with the provisions of AB 2568.

Upon motion duly made and carried, the Resolution in Calendar Item 33 was approved, as presented, by a vote of 3-0.

Attachment: Calendar Item 33.

CALENDAR ITEM

A 58

33

11/21/85

W 15060

Pace

S 29

REDUCTION IN RATE OF RETROACTIVE EQUITY ADJUSTMENTS, LONG BEACH UNIT

Under a recently enacted amendment to Chapter 138, Statutes of 1964, 1st E.S., AB 2568 (Chapter 1985, Statutes of 1985), the State Lands Commission may accept reduced retroactive adjustments to the extent permitted by law and the Unit Agreement and for so long as deemed appropriate. Adjustments result from equity changes in the Long Beach Unit giving an increased allocation to the offshore. AB 2568 allows the Commission to consent to a payback of not less than ten percent of the hydrocarbons allocated to any tract which has received a decreased allocation. The amendment also provides that no reduction in the rate of retroactive adjustments shall be accepted by the Commission unless it finds that the reduction will be implemented so that the rate will be reduced only for royalty interest owners and working interest owners other than producing oil companies.

Any reduction in the rate of retroactive equity adjustments permitted by AB 2568 does not depend exclusively on a decision of the State Lands Commission agreeing to a reduction. The participants in the Long Beach Unit, principally the Tract 1 Contractors who would have a short-term reduction in their allocation of hydrocarbons as a result of a reduction in the rate of payback, would have to waive their contractual rights to a 50 percent rate of payback. Also, the oil company participants in the townlot would have to agree to pass on to their royalty interest owners all of the benefits of a reduced rate of payback and to provide the Commission with a method for verifying that this was done.

The group of Long Beach Unit townlot royalty interest owners, which supported the bill, has requested that the Commission take action under the bill. Since implementation of any reduction in the rate of retroactive adjustments depends upon

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the waiver of contractual rights by and agreements from other parties in the Long Beach Unit, the Commission at this time only needs to express its position on whether it would consider approval of some reduction in the event those waivers and agreements were obtained. If the Commission would consider the implementation of some reduction in the rate of payback, it could direct the Executive Officer to contact, through the Long Beach Unit Operator, the appropriate Long Beach Unit Participants for the purpose of attempting to obtain from them the agreements that are prerequisites to the acceptance by the Commission of a reduced rate of payback. The Unit Operator would also attempt to obtain information from which the Commission can find that the benefits of such reduction will inure only to royalty interest owners and working interest owners other than producing oil companies.

Commission staff does not have access to all the royalty arrangements of the townlot working interest owners. Staff assumes that royalty rates will vary among the hundreds of townlot leases and further assumes that most will fall within a range of 25 percent to 40 percent. Almost all of the potential monetary loss to the State is in the money's present worth value, since almost all of the money will ultimately be received but will be received over a longer term than under the present 50 percent payback rate.

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. AGREE TO CONSIDER APPROVAL OF A REDUCTION IN THE RATE OF RETROACTIVE EQUITY ADJUSTMENTS, PROVIDED THAT ALL STATUTORY PREREQUISITES ARE MET AND THAT ANY REDUCTION SHALL APPLY TO ALL ROYALTY INTEREST OWNERS AND WORKING INTEREST OWNERS OTHER THAN PRODUCING OIL COMPANIES.
2. AUTHORIZE THE EXECUTIVE OFFICER TO CONTACT, THROUGH THE LONG BEACH UNIT OPERATOR, THE APPROPRIATE LONG BEACH UNIT PARTICIPANTS FOR THE PURPOSE OF ATTEMPTING TO OBTAIN FROM THEM THE AGREEMENTS REQUIRED FOR THE IMPLEMENTATION OF ANY REDUCTION IN THE RATE OF EQUITY PAYBACKS.
3. DIRECT THE EXECUTIVE OFFICER TO REPORT BACK TO THE COMMISSION ON PROGRESS TOWARD OBTAINING ALL OF THE REQUIRED AGREEMENTS AND INFORMATION FROM WHICH THE COMMISSION CAN MAKE THE REQUIRED STATUTORY FINDING. AT THAT TIME THE COMMISSION CAN CONSIDER A SPECIFIC PAYBACK RATE THAT IS CONSISTENT WITH THE BEST INTERESTS OF THE STATE AND THE PURPOSE OF AB 2568.