

MINUTE ITEM

The Calendar Item No. 24
 was approved as Minute Item
 No. 24 by the State Lands
 Commission by a vote of 2
0 at its 3/27/86

CALENDAR ITEM

A 35, 57, 58
 S 18, 29, 37

24

PRC 1824 03/27/86
 PRC 3133 W 9603.27
 PRC 3150 W 12037
 PRC 4000 PRC 6480
 PRC 6481 PRC 6532
 PRC 6497 Tanner
 Willard

STATUS OF ROYALTY OIL SELL-OFF CONTRACTS

Six crude oil purchasers, four holding contracts with the State Lands Commission and two holding contracts with the City of Long Beach, have elected to return the sell-off oil to the City and State because of the deteriorating crude oil market and sustained heavy financial losses by these purchasers.

MacMillan Ring Free Oil Company, Caljet, Inc. and Edgington Oil Company have returned the oil to the State under four contracts awarded last year. Pacific Refining, Inc. and Crysen Trading and Marketing, Inc. have done the same to the City of Long Beach under two contracts.

MacMillan Ring Free Oil Company is the State's purchaser under Royalty Oil Sales Contract PRC 6532. The royalty oil is from State Leases PRC 3133, PRC 3150, PRC 4000 and PRC 1824, Carpinteria-Summerland Offshore Fields, Santa Barbara County. The contract began on January 1, 1986 for a period of 14 months and was scheduled to expire on March 1, 1987. On January 29, 1986 Mr. Walter Weed of MacMillan contacted the SLC staff and asked that the State attempt to return the royalty oil from these leases to the State's lessees. As a result of discussions among SLC staff, Chevron, USA and Exxon, USA, Inc., Chevron, USA has agreed to waive the required 180 day "give back" period for their leases, while Exxon, USA Inc. has refused to do so. Therefore, for State Leases PRC 1824, PRC 3150, and PRC 4000, the oil has been returned to Chevron effective February 1, 1986, while for State Lease PRC 3133, the oil will be returned to Exxon effective August 1, 1986. MacMillan Ring Free Oil Company has agreed to continue to take

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the oil from State Lease PRC 3133 until it is returned to Exxon on August 1, 1986. MacMillan has agreed to pay the State the difference between the price the State receives for the royalty oil from its lessees and the contract price, which should be equivalent to the bid bonus of \$0.816 per barrel. Because the State's financial exposure will be reduced MacMillan has requested that its letter of credit value be reduced to the following: \$300,000 between February 1, 1986 and August 1, 1986 and \$141,000 thereafter, until 45 days after the contract term.

Caljet, Inc. is the State's purchaser under the Royalty Oil Sales Contract PRC 6480. The royalty oil is from State Lease PRC 426, Huntington Beach Field, Orange County. The contract began on May 1, 1985 for a term of 22 months and was scheduled to terminate on February 1, 1987. On January 31, 1986, Caljet, Inc. served notice to the State via a letter of its intent to stop taking delivery of oil under this contract effective March 1, 1986. Phillips Oil Company, the State's lessee, will begin to take the oil back on March 1, 1986 since State Lease PRC 426 is an "on demand" lease. Caljet, Inc. has agreed to pay the State the difference between what Phillips Oil Company, the State's lessee, pays the State for its royalty oil and the contract price which will be at least the bonus Caljet bid for this oil which is \$0.671 per barrel. As a result of the State's reduced financial exposure Caljet has requested a reduced letter of credit in favor of the State in the amount of \$155,000 until 45 days after the expiration date of the contract (February 1, 1987).

Edgington Oil Company is the State's purchaser under Royalty Oil Sales Contracts PRC 6481 and PRC 6497. The royalty oil is from State Lease E 392 (PRC 6481) and PRC's 91 and 425 (6497), Huntington Beach Field, Orange County. Sales Contract PRC 6481 commenced on May 1, 1985 for a term 17 months ending on October 1, 1986 and PRC 6497 commenced on June 1, 1985 for a term of 20 months terminating on February 1, 1987. On February 28, 1986, Edgington notified the State of its intent to stop taking delivery of the State's royalty oil under these contracts as soon as possible. Phillips, the State's lessee, has been requested to take the oil back effective March 1, for leases PRC 91 and PRC 425 (on demand leases) and effective May 1, for E 392 (60-day notice). Edgington has agreed to pay the State the difference between what Phillips pays the State for the returned royalty oil and the contract price which will be at least the bonus Edgington bid for each contract. The

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bonus for PRC 6481 was \$0.724 per barrel and for PRC 6497 it was \$0.795 per barrel. Because the State's financial exposure is reduced Edgington has requested reduced letters of credit in the amount of \$113,000 and \$225,000 for PRC 6481 and PRC 6497, respectively until 45 days after the expiration of each contract.

Pacific Refining Company is the City of Long Beach's purchaser under the Crude Oil Sales Contract for the 7% segment of Tract No. 1, Long Beach Unit, Wilmington Oil Field, Los Angeles County. The contract began on March 1, 1985 and was for a period of eighteen months and was scheduled to terminate on September 1, 1986. On September 25, 1985 Pacific Refining Company notified the City of Long Beach that effective October 1, 1985 Pacific Refining Company would no longer purchase this sell-off oil. The City Manager notified the Field Contractor on September 27, 1985 that this sell-off oil would be returned on October 1, 1985. Pacific Refining Company is responsible to the City of Long Beach for the difference between the price the Field Contractor pays the City for the oil and the contract price which is slightly more than the bonus bid of \$2.2060 per barrel. This matter is now the subject of litigation between the City of Long Beach and Pacific Refining Company.

Crysen Trading and Marketing, Inc. is the City of Long Beach's purchaser under the Crude Oil Sales Contract for the Long Beach Harbor Department Tidelands Parcel 8% segment, Wilmington Oil Field, Los Angeles County. The contract is for a period of eighteen months. It began on March 1, 1985 and was scheduled to terminate on September 1, 1986. On January 16, 1986 the City was notified by Crysen Trading and Marketing, Inc. that effective February 1, 1986 it would no longer purchase the oil under the contract. The returned sell-off oil was sold by the City to Texaco Refining and Marketing Inc. for the remainder of the contract term. Crysen Trading and Marketing, Inc. will be responsible to pay the City the difference between Texaco's posted price which will be paid to the City for the oil and the sell-off contract price, which will be about \$1.765 per barrel, the amount of the bonus bid.

These State Royalty Oil Sales Contracts and City Crude Oil Sales Contracts will begin to expire in the fall of 1986. In view of the depressed crude oil market it is recommended that the Commission defer future royalty oil offerings and request payment under the leases in money rather than in kind until

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market conditions improve. The Commission staff would propose presenting a status report or proposed resumption of sell-off of these leases to the Commission in the September 1986 meeting. In June, 1986, there will be presented to the Commission proposals for three other lease sell-offs which are expiring. Consideration on a lease-by-lease basis of the remaining sell-offs will be done in the future.

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. AUTHORIZE REDUCTION OF THE LETTER OF CREDIT REQUIRED UNDER ROYALTY OIL SALES CONTRACT PRC 6532 FROM \$1,025,000 TO \$300,000 BETWEEN FEBRUARY 1, 1986 AND AUGUST 1, 1986 AND \$141,000 THEREAFTER UNTIL 45 DAYS AFTER THE CONTRACT EXPIRES OR APRIL 15, 1987;
2. AUTHORIZE REDUCTION OF THE LETTER OF CREDIT REQUIRED UNDER ROYALTY OIL SALES CONTRACT PRC 6480 FROM \$1,100,000 TO \$155,000 FROM MARCH 1, 1986 UNTIL 45 DAYS AFTER THE CONTRACT EXPIRES OR MARCH 13, 1987;
3. AUTHORIZE REDUCTION OF THE LETTERS OF CREDIT REQUIRED UNDER ROYALTY OIL SALES CONTRACTS PRC 6481 AND PRC 6497 FROM \$1,400,000 AND \$1,250,000 TO \$113,000 AND \$226,000, RESPECTIVELY, FOR THE PERIOD OF MARCH 1, 1986 TO MARCH 13, 1987 FOR PRC 6497 AND MAY 1, 1986 TO NOVEMBER 15, 1986 FOR PRC 6481; AND
4. DEFER FUTURE OFFERS FOR SALE OF ROYALTY OIL UNTIL THE CRUDE OIL MARKET CONDITION IMPROVES.