MINUTE ITEM

This Calendar Item No. 22
was submitted for information
only, no action thereon
being necessary.

CALENDAR ITEM

22

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S 29

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W 15060
Pace

IMPLEMENTATION OF ASSEMBLY BILL 2568
(ELDER)

At its meeting on September 25, 1986, the Commission considered and regretfully rejected a proposal by the Long Beach Oil Royalty Owners for implementing AB 2568. The proposal was to provide some reduction in the rate of pay-back by the Townlot Royalty Interest Owners to the tideland interests as a result of the recent Long Beach Unit equity change. The proposal of the Long Beach Oil Royalty Owners contemplated that the cost of the change in method of royalty payments be borne by the Unit. The staff explained that the Unit Agreements did not permit these costs to be borne as Unit expense and that the Commission could not mandate the Unit to bear these costs. In addition, the State could not bear the costs of implementation because AB 2568 does not provide an appropriation.

AB 2568 is unworkable unless all parties in the Unit work together to effect some relief for the royalty interest owners and the costs of implementing any such relief would be minimal. However, the projected costs for the working interest owner oil companies to change their procedures for paying royalties have been reported as very high, and the oil companies are unwilling to incur these costs.

The Commission asked the staff to determined whether the oil companies were acting improperly by refusing to absorb additional costs for adjusting the rate of pay-back by royalty owners and if there were some means by which AB 2568 could be implemented without the agreement of the oil companies to incur these costs. Working with the Attorney General's Office, the staff has determined that the oil companies are not acting improperly by refusing to incur the implementation costs. In addition, the staff feels a plan to implement AB 2568 cannot be accomplished without the oil companies' agreement. Staff intends to meet with major working interest owners to see if a

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plan can be developed which provides reimbursement for any costs of implementing the proposal from royalty interest owners who participate.

The principal cause of the reduction in oil royalty today is the depressed price for crude oil, not the equity pay-back. It appears as if the royalty owners' best hope for relief is an increase in oil prices. An oil price increase will not only increase the royalty amounts, it also will considerably shorten the time of the pay-back.