

MINUTE ITEM

This Calendar Item No. 40
was approved as Minute Item
No. 40 by the State Lands
Commission by a vote of 2
to 0 at its 6-5-79
meeting.

MINUTE ITEM

5/79
Willard

40. AMENDMENTS TO OIL AND GAS LEASE

During consideration of Calendar Item 40 attached, Mr. James F. Trout, Assistant Executive Officer, explained that Petro-Lewis, the potential assignee of the contract, has asked the Commission to find that if the amendments of 1970 and 1972 had been submitted to the Commission for approval, it would have approved them. Chairman Kenneth Cory asked if the 1970 and 1972 amendments were increases in size. Mr. Trout stated the 1972 amendment increased the size an additional 320 acres. Mr. Cory stated he had no trouble with the 1970 amendment, but did have trouble with the one in 1972 as it could encourage others to do the same and then return to the Commission to be bailed out.

Mr. Kenneth Williams, representing Petro-Lewis, appeared. He stated the situation was the result of the law being unclear. He stated unless the Commission approves the above two amendments, the lease is void. In that event, the City of Redondo Beach and others will be in a bad situation because a pending bankruptcy could hold up the flow of funds to them that are required to service the City's bonds.

Mr. Cory expressed concern about the precedent setting aspect in approving these amendments. However, Robert C. Hight, Chief Counsel, pointed out the subject statute only applies to a limited number of grantees and does not include the ones with the majority of oil production.

With an expression of reluctance, the motion was duly made and carried, and the resolution in Calendar Item 40 was approved by a vote of 2-0.

Attachment: Calendar Item 40.

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CALENDAR ITEM

40.

AMENDMENTS TO OIL AND GAS LEASE

5/79
W 40162
Willard

On November 22, 1955, the City of Redondo Beach leased a parcel of tide and submerged lands for the development of oil and gas. The lands were granted to the City in trust by the State Legislature in 1915. Development under the lease requires all drilling be conducted from specified upland drillsites.

In accordance with the provisions of P.R.C. 7058.5 et. seq. (Chapter 1457, Statutes of 1959), the City, in 1962, requested Commission review and approval of an amendment modifying the royalty terms of the lease. Although there was some question as to the legal necessity of Commission approval because the lease preceded enactment of the 1959 legislation, the Commission advised the City that it would not interpose any objection to the amendment.

Two subsequent amendments were approved by City ordinance after public notice but were not submitted for Commission review and approval. One amendment dated July 8, 1970, provided certain minor changes relating to drillsite cleanup and abandonment, salvage, bonding and minimum royalty payments. The other amendment dated February 7, 1972, provided for the addition of a new area of tidelands of approximately 320 acres to the original lease area of 1,930 acres and renewed the original term an additional 35 years commencing from the effective date of the amendment.

Petro-Lewis Corporation is presently negotiating for an assignment of the lease from the current lessee, American Pacific International, Inc. (API). At the request of Petro-Lewis the City has petitioned the Commission for ratification of the 1970 and 1972 amendments addressed above, in order to avoid any question of the validity of the lease from the Commission's standpoint.

The staff of the Commission has reviewed the two subject amendments, in 1970 and 1972, previously approved by the City, based upon the pertinent information which would have been available at the time of those amendments. On that basis, it is the opinion of the staff that such information would have been sufficient to have supported recommendations for approval of both amendments by the Commission at the respective times, had they been presented to the Commission then.

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CALENDAR ITEM NO. 40. (CONTD)

Sections 7054.5, 7058.5 and 7060 of the P.R.C. require the Commission's prior approval of or consent to any oil and gas lease by a City of tide and submerged lands previously granted in trust to it, or any modification, amendment or renewal thereof. In addition to the requirements of Section 7057 of the same Code, Sections 7058.5 and 7059 impose the necessity of competitive bidding as to any such lease entered into by a City. (The provisions of such Section 7057 appear to have been satisfied in this case.) Section 7061, however, provides an exemption from that competitive bidding procedure which may be granted by the Commission. Specifically, a given lease may be exempted in the Commission's discretion where, by reason of the small size of the leasehold or of actual or imminent drainage, adherence to the bidding procedure would be impractical in the judgement of the Commission.

The Commission staff has reviewed technical data obtained from Petro-Lewis and A.P.I., along with data from previous drainage studies in the area, and has concluded that interpretive geological and petroleum production information, available at the time, covering both the adjacent onshore and developed offshore portions of the oil field, would have supported extrapolation of the petroleum producing subsurface horizons into the south lease area (added by the February 7, 1972 amendment). For that reason, potential or likely drainage from that area by existing wells could have been shown. The absolute certainty of actual or imminent drainage at the time of the lease modification in 1972 would have been difficult to establish. However, staff is of the opinion that lease development trends in the adjacent on shore area and petroleum production data existing and available at or immediately prior to 1972 would have provided ample data to have supported a determination of actual or imminent drainage at that time. On that basis, the staff believes that adherence to the competitive bidding procedure would have been impractical then.

EXHIBIT: A. Site Map.

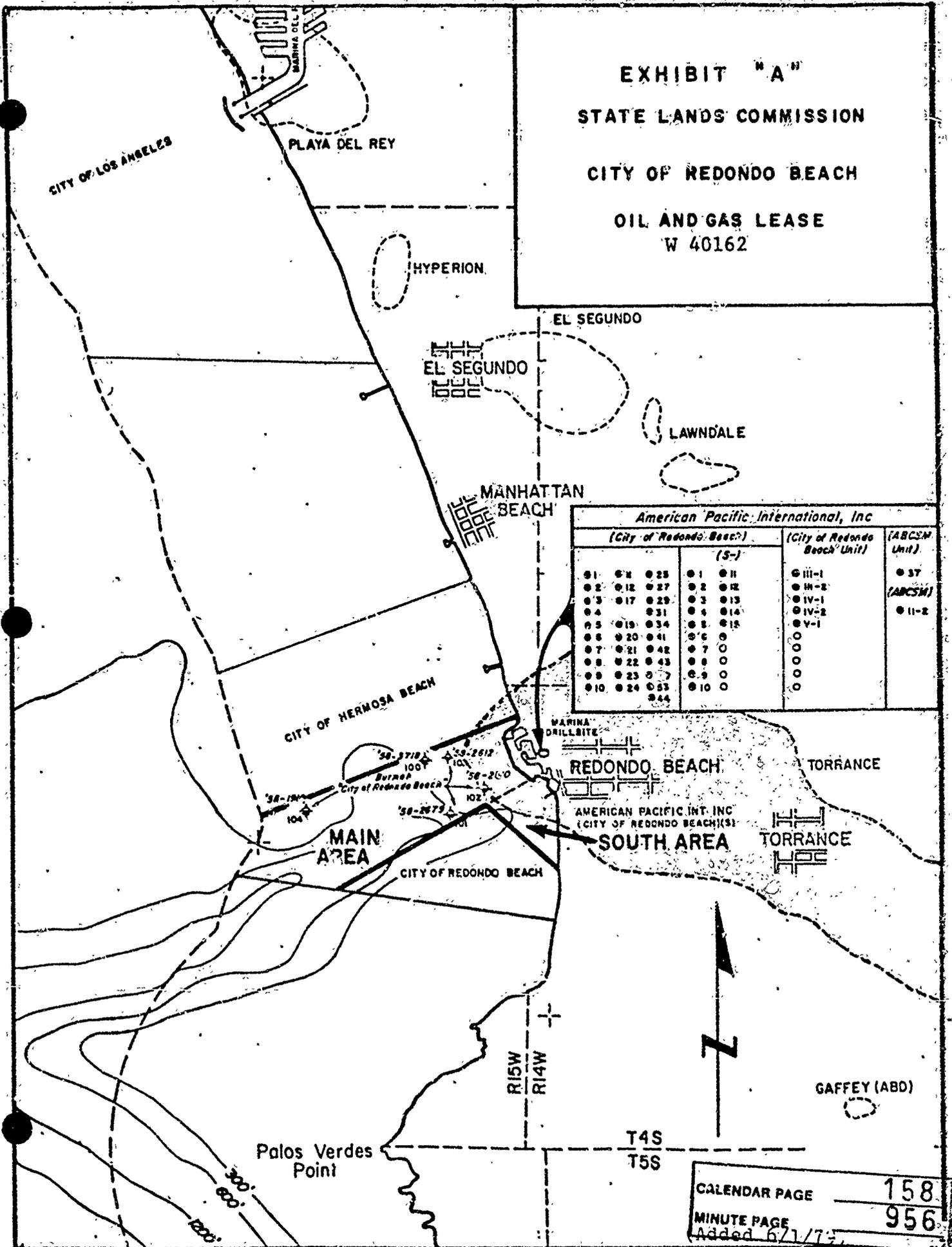
IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT THERE WOULD HAVE BEEN NO OBJECTION TO THE 1970 AMENDMENT TO THE SUBJECT LEASE, AND THAT IT WOULD HAVE BEEN APPROVED IN ACCORDANCE WITH SECTIONS 7054.5, 7058.5, AND 7060 OF THE P.R.C., HAD IT BEEN PRESENTED TO THE COMMISSION IN 1970.

CALENDAR ITEM NO. 40. (CONTD)

2. FIND THAT, BASED UPON THE INFORMATION AVAILABLE OR KNOWN AT THE TIME OF THE 1972 AMENDMENT TO THE SUBJECT LEASE, THE COMMISSION COULD HAVE CONCLUDED THEN THAT THERE WOULD BE ACTUAL OR IMMINENT DRAINAGE FROM THE AREA CONTAINED IN THAT AMENDMENT.
3. FIND THAT, BECAUSE OF SUCH ACTUAL OR IMMINENT DRAINAGE, ADHERENCE TO THE COMPETITIVE BIDDING PROCEDURE REQUIRED BY SECTION 7058.5 OF THE P.R.C. WOULD HAVE BEEN IMPRACTICAL AT THE TIME OF THE 1972 AMENDMENT.
4. DETERMINE THAT THE 1972 AMENDMENT WOULD HAVE BEEN EXEMPTED FROM SUCH COMPETITIVE BIDDING PURSUANT TO SECTION 7061 OF THE P.R.C., HAD IT BEEN PRESENTED TO THE COMMISSION IN 1972.
5. FIND THAT THE REQUIREMENTS OF SECTION 7057 OF THE P.R.C. WOULD HAVE BEEN MET AT THE TIME OF THE 1972 AMENDMENT.
6. DETERMINE THAT HAD IT BEEN PRESENTED TO THE COMMISSION IN ACCORDANCE WITH SECTIONS 7054.5, 7058.5 AND 7060 OF THE P.R.C. IN 1972, THERE WOULD HAVE BEEN NO OBJECTION TO THE AMENDMENT.
7. RATIFY, APPROVE AND CONSENT TO THE AMENDMENTS DATED JULY 8, 1970, AND FEBRUARY 7, 1972, TO OIL AND GAS LEASE DATED NOVEMBER 22, 1955, BETWEEN THE CITY OF REDONDO BEACH AND PREDECESSORS IN INTEREST TO AMERICAN PACIFIC INTERNATIONAL, INC.

EXHIBIT "A"
STATE LANDS COMMISSION
CITY OF REDONDO BEACH
OIL AND GAS LEASE
W 40162



American Pacific International, Inc									
(City of Redondo Beach)					(City of Redondo Beach Unit)			(ABCSM Unit)	
(S-)									
01	04	05	01	01	03 III-1	037			
02	012	027	02	012	04 IV-2	(ABCSM)			
03	017	029	03	013	05 IV-1	011-2			
04	031	031	04	014	06 V-1				
05	019	034	05	015	07				
06	020	041	06	0	08				
07	021	042	07	0	09				
08	022	043	08	0	10				
09	023	057	09	0	044				
10	024	053	10	0					

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 Added 6/1/75