

MINUTE ITEM

This Calendar Item No. 25  
was approved as Minute Item  
No. 25 of the State Lands  
Commission by a vote of 3  
to 0 at its 4/27/82  
meeting.

MINUTE ITEM

25

4/27/82  
PRC 6029  
HAMILTON

APPEAL BY SUNLAND REFINING CORPORATION  
OF PENALTY PROVISION OF ROYALTY OIL  
SALES CONTRACT PRC 6029.1

During consideration of Calendar Item 25 attached, Chairman Cory reiterated that the Commission is bound by statute to impose the penalty on the Sunland Refining Corporation. Executive Officer Claire Dedrick stated the Commission is attempting to amend this statute this legislative session to provide the Commission with more discretion in their consideration of these matters. Chairman Cory stated that Sunland's only recourse would be a claim before the State Board of Control. Mr. Cory also requested staff to inform the Sunland Refining Corporation that the Commission is attempting to amend the statute.

There being no further discussion, the Recommendation in Calendar Item 25 was approved as presented by a vote of 3 - 0.

CALENDAR ITEM

23

4/22/82  
PRC 6029  
Hamilton

APPEAL BY SUNLAND REFINING CORPORATION  
OF PENALTY PROVISION OF ROYALTY OIL  
SALES CONTRACT PRC 6029.1

PURCHASER: Sunland Refining Corporation  
P. O. Box 1345  
Bakersfield, California 93302  
Attention: Gail Lack, Controller

At the June 24, 1981 meeting, the State Lands Commission approved a sales contract with Sunland Refining Corporation for royalty oil produced from State Oil and Gas leases PRC 145, PRC 410, PRC 427, PRC 429 and PRC 1466 in the Rincon Oil Field, Ventura County. The contract became effective July 1, 1981, and requires Sunland to pay a bonus of \$1.126 over the base price (the highest price posted for oil of like gravity and quality in the Rincon Oil Field). The contract also contains penalty (5 percent) and interest (1 percent per month) provisions for late payment of amounts due the State as required by P.R.C. Section 6224.

On January 19, 1982, the State invoiced Sunland for royalty oil delivered during the month of December 1981. Sunland received the invoice on January 22, 1982 and had ten days or until February 1, 1982 to make payment. Due to a clerical error on Sunland's part, payment was not received within the specified time period. The staff telephoned Sunland on February 5, 1982 to ask why payment was late. It was determined that Sunland's clerical staff had misplaced the invoice. Upon finding the invoice Sunland made immediate payment.

As the payment was four days late, Sunland was invoiced for penalty and interest as specified in the sales contract. The interest was computed at the rate of 1 percent per month and amounted to \$173.88 for four days. The penalty was computed at 5 percent of the amount of the invoice and amounted to \$6,606.01. Sunland admitted it was late with its payment and that interest should be charged, but they also felt that a 5 percent penalty for being four days late is excessive for an unintentional mistake and has paid the penalty portion of the late payment charge under protest. Other than this one time, Sunland has never been late with its payments and has on several occasions paid a few days early.

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CALENDAR ITEM NO. 25 (CONTD)

Sunland Refining Corporation requests that the State Lands Commission waive the penalty provision of Royalty Oil Sales Contract PRC 6029.1 for this one time only and refund the \$6,606.01 paid to the State as a penalty.

Under the current P.R.C. Section 6224(b), any person who fails to make payments when they are due must pay the penalty specified in the lease plus interest at a rate not to exceed one percent per month. Staff is therefore required to recommend denial of Sunland's request.

Assemblyman Kapiloff has introduced legislation this year which would authorize the Commission to adopt rules and regulations governing the assessment and waiver of penalty and interest.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DENY THE REQUEST OF SUNLAND REFINING CORPORATION TO WAIVE THE PENALTY PROVISION OF ROYALTY OIL SALES CONTRACT PRC 6029.1, COVERING THE LATE PAYMENT FOR OIL DELIVERED DURING DECEMBER 1981.