

MINUTE ITEM

This Calendar Item No. 26
was approved as Minute Item
No. 26 by the State Lands
Commission by a vote of 2
to 0 at its 9/26/85
meeting.

CALENDAR ITEM

A 35

26

S 18

09/26/85
PRC 6534
Tanner

REDUCTION IN THE AMOUNT OF LETTER OF CREDIT
FOR ROYALTY OIL SALES CONTRACT,
STATE OIL AND GAS LEASE PRC 3242,
SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY

APPLICANT: Huntway Refining Company
Attn: Mr. Juan Forster, President
1651 Alameda Street
Wilmington, California 90744

On May 23, 1985 the State Lands Commission awarded to Huntway Refining Company the Royalty Oil Sales Contract for State Oil and Gas Lease PRC 3242, South Ellwood Offshore Field, Santa Barbara County. Huntway Refining Company made the highest bonus bid offering to pay \$1.33 per barrel above the posted price. The contract is scheduled to begin on January 1, 1986. As a condition of this contract, Huntway Refining Company is required to submit to the State a letter of credit in the amount of \$4 million which is equivalent to the value of 60 days production from this lease as determined at the time of the bid offering. The purpose of the letter of credit is to ensure faithful performance by the purchaser of all the obligations under the contract.

For the past six months, production from this lease has dropped significantly. In addition, the posted price for the oil has dropped \$0.65 per barrel. These factors have resulted in a reduction of the value of 60 days' production and Huntway Refining Company has requested an equivalent reduction in the amount of the letter of credit.

Staff has reviewed the request and recommends that the letter of credit be reduced from \$4 million to \$3.5 million, which is approximately 15 percent higher than the value 60 days' production from State Oil and Gas Lease PRC 3242 at the present production levels and posted prices. Should the value of an

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estimated 60 days' production of royalty oil increase or decrease by at least 15 percent of the July 1985 base value of \$3,021,800 then a corresponding 15 percent increase or decrease shall be made in the amount of the letter of credit. There is no limit on the number of adjustments that may be made except that the sum of the adjustments may not vary the amount of the letter of credit more than 30 percent from \$3.5 million. An Amendment Agreement is attached as Exhibit "A".

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines

Authority: PRC 21065 and 14 Cal. Adm. Code 15378.

AB 884: N/A.

EXHIBIT: A. Amendment.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY PRC 21065 AND 14 CAL. ADM. CODE 15378.
2. APPROVE THE REDUCTION IN THE AMOUNT OF THE LETTER OF CREDIT FOR THE ROYALTY OIL SALES CONTRACT FOR STATE OIL AND GAS LEASE PRC 3242, SOUTH HILWOOD OILFIELD, SANTA BARBARA COUNTY, HELD BY BUNTWAY REFINING COMPANY, FROM \$4 MILLION TO \$3.5 MILLION WITH THE CONDITION THAT IF THE VALUE OF AN ESTIMATED 60 DAYS' PRODUCTION OF ROYALTY OIL INCREASES OR DECREASES BY AT LEAST 15 PERCENT OF THE JULY 1985 LEASE VALUE OF \$3,021,800 THEN A CORRESPONDING 15 PERCENT INCREASE OR DECREASE SHALL BE MADE IN THE AMOUNT OF THIS LETTER OF CREDIT, PROVIDED THAT THE SUM OF THIS ADJUSTMENT SHALL NOT VARY THE AMOUNT OF THIS LETTER OF CREDIT BY MORE THAN 30 PERCENT FROM \$3.5 MILLION OR PROVIDED IN THE AGREEMENT ATTACHED HERETO AS EXHIBIT "A" AND MADE A PART HEREOF.

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EXHIBIT "A"

File Ref.: PRC 6534.1

AGREEMENT FOR THE MODIFICATION
OF THE ROYALTY OIL SALES CONTRACT
FOR STATE OIL AND GAS LEASE PRC 3242
SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY

Pursuant to the action taken at the September 26, 1985 meeting of the State Lands Commission, the Royalty Oil Sales Contract for State Oil and Gas Lease PRC 3242, South Ellwood Offshore field, Santa Barbara County, between the State of California, acting through the State Lands Commission and Huntway Refining Company; hereafter referred to as PRC 6534.1, is modified as follows:

1. Section 18 of the Contract for PRC 6534.1 is hereby amended to reduce the amount of the Letter of Credit required to be submitted to the State, from the sum of \$4 million to the sum of \$3.5 million. This amount is approximately 15 percent greater than the current value of 60 days production from this lease.
2. Both parties agree that the proposed reduction in the amount of the Letter of Credit will be conditioned on Huntway Refining Company's agreement to provide additional security on thirty (30) days written notice from the State.
3. An increase in the Letter of Credit will be requested if the current monthly production rate and/or price increase the value of an estimated 60 days of production by 15 percent or more from an estimate based on the preceding month's production rate. The initial base month will be July 1985 with a value of \$3,021,800.00.
4. All other terms in the contract will remain in full force and effect.

STATE LANDS COMMISSION
OF THE STATE OF CALIFORNIA

By:

Chief, Extractive Development

Program

Date

Huntway Refining Company

By:

(Title)

Date

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