

MINUTE ITEM

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Partnership Properties Company

Calendar Item 34, attached, was pulled from the agenda prior to the meeting.

Attachment: Calendar Item 34.

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DISAPPROVAL OF PROPOSED ASSIGNMENT  
BY PARTNERSHIP PROPERTIES CO. TO  
CENTURY RESOURCES DEVELOPMENT, INC.,  
OF ITS INTEREST IN TRACT 2  
OF THE LONG BEACH UNIT

Partnership Properties Co., a Colorado general partnership ("PP Co.") is the holder of the two and one half percent, one and one-half percent and 1 percent Non-operating Contractor's interests in the Contractors' Agreement for Tract 1 of the Long Beach Unit. PP Co. is also the holder of the entire Contractor's interest, which is a non-operating interest, under the Tract No. 2 Agreement, Long Beach Unit. PP Co. acquired these interests upon an assignment from Atlantic Richfield Company through Century Resources Development, Inc. ("Century"), effective January 1, 1979. PP Co. holds these interests as nominee for Petro-Lewis Funds, Inc. and Petro-Lewis Producing Company II, entities created for oil property investments that are under the control of Petro-Lewis Corporation.

The assignment transaction, whereby these interests were transferred simultaneously from Atlantic Richfield to Century to PP Co., was conceived in 1978 and was a product of Atlantic Richfield's desire to divest itself of its Long Beach tidelands properties, Century's desire for a guaranteed supply of oil and the Commission's desire to obtain a financially responsible contractor. Atlantic Richfield initially approached the Commission with a proposal to assign its Tract 1 and Tract 2 interests to Century. The Commission at that time did not believe that Century possessed the financial resources sufficient to protect the public's interest in these contractual arrangements for production and disposition of crude oil. Accordingly, PP Co. was brought in as the responsible contracting party.

Since the assignment became effective, PP Co. has sold all of the crude oil from its Tract 1 and Tract 2 interests to Century

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under a separate oil sales contract. Century still wants to preserve for itself a supply of crude oil from these interests. However, Petro-Lewis would like to dispose of its interests as a part of the scaling back of its operations due to the depressed market for crude oil and crude oil producing properties. Accordingly, PP Co. and Century have entered into a Sale and Purchase Agreement whereby PP Co. would sell and Century would purchase all of PP Co.'s rights, title and interests under the Contractors' Agreement for Tract 1 and the Tract No. 2 Agreement. The Commission finds itself again face to face with the issue of Century's financial ability to assume the responsibilities of these interests.

Under Article 25 of the Contractors' Agreement, no assignment or other disposition by the Contractor of its rights, privileges or obligations under the agreement is valid without the consent of, and is subject to the terms and conditions prescribed by, the Long Beach City Manager acting with the approval of the State. Article 19 of the Tract No. 2 Agreement makes any assignment or other disposition by the Contractor of its rights, privileges or obligations under the agreement subject to the prior approval of, and the terms and conditions prescribed by, the State. The City has not given its consent to the assignment from PP Co. to Century of the Tract 1 interests. It is awaiting the action of the Commission on the Tract 2 interest.

Under the terms of the proposed assignment, Century would continue to pay the additional ten cents per barrel required of PP Co. for all crude oil allocated to its interests in Tracts 1 and 2. This additional ten cents per barrel payment would remain outside the net profits accounts so that the full value of the additional payment would inure to the City and State. However, since Century would not be buying the oil from PP Co. but would be taking it directly as the Contractor, the payment by Century would not constitute a Purchase of Oil and would not be available for use in determining a higher value for crude oil under the crude oil valuation provisions of the Contractors' Agreement and the Tract No. 2 Agreement. As with PP Co., Century would only be allowed to charge one-half of one percent of any bond cost to the net profits accounts. Also, under the Tract No. 2 Agreement, the notification time for taking of returning sell-off oil would continue to be sixty days.

In November 1983, the City of Long Beach, the State and Petro-Lewis Corporation and its corporations and partnerships

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with interests in the Long Beach tidelands properties entered into a Settlement Agreement resolving disputes over windfall profit taxes previously paid and charged to the net profits accounts and refundable under section 201(h)(1) of the Technical Corrections Act of 1982. This agreement involved, among other things, a commitment by Petro-Lewis (acting through Petro-Lewis Funds, Inc.) to make quarterly payments to the City for Tract 1 and to the State for Tract 2 of specified amounts relating to such windfall profit taxes. The payment for Tract 1 is \$1,922,507, with interest at 10.185 percent per year, payable in twelve equal quarterly installments of \$160,209, plus accrued interest, beginning December 31, 1983 and ending September 30, 1986. The payment for Tract 2 is \$1,189,238.40, with interest at the same rate, payable in twelve equal quarterly installments of \$99,103.20, plus accrued interest, over the same period. Petro-Lewis has paid timely all installments previously due. The remaining balance due is \$640,835 for Tract 1 and \$396,412.80 for Tract 2, for a total of \$1,037,248.80. If the proposed assignment were approved, Petro-Lewis would remain liable for the payment of the amounts still due as provided under the agreement and would provide the City and State with a written acknowledgement of its continuing liability.

A dispute presently exists between the City-State and Petro-Lewis, as well as the other tidelands contractors, over whether windfall profit taxes are chargeable to the net profits accounts under the terms of the Contractors' Agreement and the Tract No. 2 Agreement. The contractors, including PP Co., have continually charged their windfall profit taxes to their net profits accounts. This matter is in litigation in California, et al. v. Texaco, et al. (Los Angeles Superior Court No. C471629) and in several cases brought in the United States District Court for the Central District of California. Petro-Lewis is a party to the state court suit but not to the federal court suits. Petro-Lewis and Century would agree to be bound by a final decision in federal court on this matter. Should the proposed assignment be approved and the City-State prevail in this litigation, Petro-Lewis would be liable for the windfall profit taxes it has charged to the net profits accounts (the City-State claim is estimated currently to be about \$1.2 million), and Century would be liable for windfall profit taxes charged to the net profits accounts after the effective date of the assignment. This monthly charge is a continually decreasing amount.

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As a condition to approval of the assignment Century has agreed to submit and maintain in effect at all times a letter of credit to protect the City and State from loss in the event of a default. The letter of credit would be in the amount of \$3.25 million for Tract 1 and \$2.75 million for Tract 2, for a total of \$6 million. It is the minimum deemed necessary to cover the expense obligations incurred and oil received prior to the time the interests could be terminated in the event of a default. An escalation would be included in the security requirement. Each year, on the anniversary of the effective date of the assignment, the oil price and security would be reviewed. If the average of the prices posted in the Wilmington field by Arco, Chevron, Mobil, Texaco and Union increased by at least five percent over its level of the previous year, the minimum security requirement would be increased by a percentage equal to 80 percent of the percentage increase in the oil price over the past year.

As a condition to State approval in 1978 of the previous Atlantic Richfield to Century to PP Co. assignments, Century has maintained a trust account in Security Pacific National Bank in favor of the State to secure performance by PP Co. of its obligations under the Contractors' Agreement and the Tract No. 2 Agreement. This trust account is for \$1 million (\$625,000 for Tract 1 and \$375,000 for Tract 2). As a part of the State's consent to the proposed assignment, this trust account would be released making the \$1 million available to Century for use in its purchase of the PP Co. interests.

Century has submitted to the Staff its financial statements as of June 30, 1985. The financial statements show that Century has very little assets and that after payment of the purchase price for PP Co.'s Tract 1 and Tract 2 interests, will have even less. It appears that Century could not meet the cash calls that would be required of it as a Participant in the Long Beach Unit nor could it pay for the oil allocated to it by the Unit on a current basis if it were unable continually to sell the oil promptly and convert the sales proceeds into the payments for cash calls and crude oil.

The State needs assurance that the party holding either or both of these Tract 1 and Tract 2 interests will meet the cash calls for Unit expenses and take and pay for its Unit share of crude oil regardless of its ability to dispose of the oil. This assurance can only come from an entity with sufficient assets to meet these obligations without having to rely exclusively on

the proceeds from the immediate sale of its monthly share of Unit oil. In order to obtain the benefit of its net profits arrangement in the unitized operation in Tract 2, the State must be able continually to rely on its contractor to meet its obligations to the Long Beach Unit by paying its share of expenses and taking its share of the oil. The State does not have the ability to meet these obligations itself should its contractor default in its obligations. It has no facilities for taking the oil and no authority to commit money to meeting cash calls.

The letter of credit that Century has agreed to supply will only provide the State with limited protection. It will protect it from a short-term loss upon a singular failure by Century to pay for the oil and meet a cash call. It will not provide protection against an inability of Century continually to meet its contractual requirements over an extended period in the event of serious dislocations in the crude oil market. It is this security that Staff believes must be available to protect the public interest.

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DISAPPROVE THE PROPOSED ASSIGNMENT BY PARTNERSHIP PROPERTIES CO. (PP CO.) TO CENTURY RESOURCES DEVELOPMENT, INC. (CENTURY) OF PP CO.'S RIGHTS AND OBLIGATIONS AS HOLDER OF THE ENTIRE CONTRACTOR'S INTEREST IN THE TRACT NO. 2 AGREEMENT.