MINUTE ITEM

This Calendar Item No. 1 was approved as Minute Item No. 1 by the State Lands Commission by a vote of 2 to 0 at its 3/31/86 meeting.

CALENDAR ITEM

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ASSIGNMENT BY PARTNERSHIP PROPERTIES CO. TO CENTURY RESOURCES DEVELOPMENT, INC. OF ITS INTERESTS IN TRACTS 1 AND 2 OF THE LONG BEACH UNIT

Partnership Properties Co. ("PP. Co."), a Colorado general partnership of Petro-Lewis Corporation and Petro-Lewis Funds, Inc., is the holder of the two and one half percent, one and one-half percent and one percent Nonoperating 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 nonoperating 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 public limited partnerships created for oil property investments and organized by and under the control of Petro-Lewis Corporation. The assignment transaction, whereby these interests were transferred simultaneously from the Atlantic Richfield to Century to PP Co., 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.

Since the assignment became effective, PP Co. has sold all of the crude oil from its Tract 1 and Tract 2 interests to Century under a separate oil sales contract. 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 an Agreement and Assignment whereby PP Co. would assign to Century effective March 1, 1986, all of its rights, title and interests under the Contractors' Agreement for

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Tract 1 and the Tract No. 2 Agreement. After acquiring these interests, Century would attempt to sell them to a responsible party, subject to the approval of the City and the State, and would share the sales proceeds with Petro-Lewis pursuant to a present agreement.

Under Article 25 of the Contractors' Agreement, no assignment or other disposition by any 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 Staff and the City have negotiated an arrangement with Century and PP Co. providing the terms and conditions upon which an assignment of the Tract 1 and Tract 2 interests would be acceptable. These terms are:

1. Century shall be bound by all the terms and conditions of the Contractors' Agreement (for Tract 1), the Tract No. 2 Agreement (for Tract 2) and the Unit Agreement and the Unit Operating Agreement for the Long Beach Unit (for Tracts 1 and 2), including those conditions imposed on PP Co. in conjunction with its acquisition of the Tract 1 and Tract 2 interests.

2. PP Co. shall timely pay in full the net profit payments due on March 31, 1986, for both its Tract 1 and Tract 2 interests. PP Co. shall be allowed as a credit against these net profits payments the adjusted amount of cash advances for its share of Unit expenditures made by it for the month of March, and miscellaneous adjustments, less the amounts still owing to the City and State, plus interest, under the terms of the Settlement Agreement entered into a November 1983 among Petro Lewis, the City and the State resolving a dispute over certain windfall profit taxes previously paid and charged to net profits and refundable under Section 201(h)(1) of the Technical Corrections Act of 1982. The net amount to be paid by PP Co. to City for Tract 1 is $629,051 and net amount to be paid by PP Co. to the State for Tract 2 is $220,232.

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3. Upon payment in full by PP Co. of the net amount specified in paragraph 2, the City and State shall release and return the performance bonds obtained by PP Co. covering their obligations in connection with their contractual interests in Tracts 1 and 2 and, except as otherwise provided, shall release PP Co. from all future obligations under these contracts.

4. PP Co. has charged to net profits the tax established by the Crude Oil Windfall Profit Tax Act of 1980, as amended, which was assessed against its interests in Tracts 1 and 2 since the inception of the tax in March 1980. The City and State contend that the charging of windfall profit taxes to net profits is not permitted by the terms of the Contractors' Agreement and the Tract No. 2 Agreement and claim that the charging to net profits of those taxes has improperly reduced their share of net profits from PP Co.'s interests in Tracts 1 and 2 by about $1.2 million to date. This issue is the subject of litigation in four consolidated cases (Mobil v. Long Beach, Shell v. Long Beach, et al., Texaco v. Long Beach and Exxon v Long Beach) presently on appeal to the Ninth Circuit Court of Appeals from a decision of the United States District Court for the Central District of California in favor of the City and State. PP Co. has agreed to be bound by a final decision in this federal court litigation and, if the City and State prevail, shall be responsible for paying to the City and State their net profits shares of all windfall profit taxes charged by PP Co. to its Tracts 1 and 2 net profits accounts before March 1, 1986. Century has agreed to be bound by this same decision and, in the event of a decision in favor of the City and State, shall be responsible for paying to the City and State whatever windfall profit taxes it charges to its Tracts 1 and 2 net profits accounts after March 1, 1986.

5. Century shall immediately establish with Security Pacific National Bank a "lock box" account into which it shall direct its purchasers of all of its Tract 1 and Tract 2 crude oil to deposit all payments for such oil. The money in this "lock box" account shall be accessible only to the Director of the Department of Oil Properties of the City of Long Beach, or his designee, and shall be used by him for paying Century's cash calls and other expenditures which are proper charges to the net profit accounts for its Tract 1 and Tract 2 shares of Long Beach Unit expenditures and for paying net profits to the City for Century's Tract 1 interests and net profits to the State for Century's Tract 2 interest. The money in the "lock box"

account would be used for no other purpose, not even payment to Century of its share of net profits, until the account is released by the City and State.

6. As required by the terms of the assignment from Atlantic Richfield through Century to PP Co., Century created a trust fund in the amount of $1 million ($625,000 in favor of the City for Tract 1 and $375,000 in favor of the State for Tract 2) to guarantee performance by PP Co. of its obligations with respect to its interests in Tracts 1 and 2. The $1 million is in a certificate of deposit with Security Pacific National Bank and is obtainable by the City and State in the event of a default by PP Co. that is not cured by Century. Upon the approval of the assignment from PP Co. to Century and the release by the City and State of the trust, Century shall deposit the entire principal sum of $1 million in the "lock box" account to be accessible only to the Director of Oil Properties or his designee. The $1 million shall be used for paying Tract 2's share of Unit expenditures and net profits to the State for the Tract 2 interest.

7. Century shall use its best efforts to obtain a responsible purchaser for the Tract 1 and Tract 2 interest. Century shall take into consideration the current depressed state of the crude oil market when determining whether an offer of purchase is acceptible. Time is of the essence in this obligation to make a sale to a responsible purchaser.

8. In the event that the offsetting of all or a portion of the amounts hereafter due to the City and State from PP Co. under the terms of the Settlement Agreement regard windfall profit taxes against the refund to PP Co. of cash ces for March 1986, which is provided for in paragr 2 above, is determined to be a preference under the 11 U.S.C. Section 547 and is avoided by a trustee in bankruptcy for PP Co. or its general partners, this part of the transaction shall be severed from and shall not affect the remainder of the assignment

11 This assignment is approved and Century becomes the holder of the Tract 1 and Tract 2 interests currently held by PP Co., Century will be unable to post performance bonds as required by the terms of the contracts. The security available to the City and State will be the "lock box" account established by Century. This "lock box" account will guarantee that all money received by Century for the sale of the oil will be available to pay Century's share of Unit expenditures and net profits to the city and State.

The "lock box" account will contain the $1 million from the certificate of deposit held in trust for the City and State. However, part of this money would replace the shortfall in revenues caused by the need to advance to Century money to pay its share of Unit expenditures for March and its April 1 cash call for Unit expenditures. Century has no resources until it receives payment for March oil deliveries on or about April 15. At that point, money from oil sales will be available to meet the April 15 cash call and other subsequent cash calls. The $1 million and any shortfall in City-State oil revenues may be replaced upon a sale by Century of its Tract 1 and Tract 2 interests. Since it is in Century's interest to recover as much of its $1 million as possible, it will have an incentive to make expeditiously a sale of the Tract 1 and Tract 2 interests to a responsible party.

No serious dislocation in City-State oil revenues beyond the temporary shortfall of revenues mentioned in the preceding paragraph, should result provided that Century is able to sell the crude oil allocated to the Tract 1 and Tract 2 interests at a price equal to or very near the price of the oil used in valuing it for the purpose of calculating net profits under the contracts. However, there is a reasonable probability that Century may be unable to sell all of the oil at such a price. If Century cannot obtain a price for the oil that is as high as the net profit price, Century has no financial ability to make up the loss.

The amount of oil allocable to the Tract 1 and 2 interests and which Century must sell is about 5,500 barrels per day. Century has a contract with Union Oil Company of California to purchase 2,000 barrels per day at the net profit price, which includes any increase resulting from the contractually provided review and adjustment for higher value, plus the $0.10 per barrel which Century must pay the City and State. This contract will run until December 31, 1986. The City and State agree that the purchase of this oil by Union from Century under their contract, while constituting a Purchase of Oil under the terms of the Contractors' Agreement, will not be used as a basis for assessing higher value under Article 9(c) against Union for its share of THUMS crude should a sell-off from Tract 1 not be in existence at any time during the term of the Century-Union contract.

Century has no firm contract for the remaining 3,500 barrels per day. Century may have to sell this oil at spot market prices. For the last several months, the spot market price has been several dollars per barrel lower than the posted prices upon which the net profits value is based. Any such shortage would have to be borne by the State in reduced oil revenues.

While this scenario is not bright, it provides what appears to be the best alternative for the City and State at this time. Century has in place the contract with Union for the sale of 2,000 barrels per day, which could not be duplicated by anyone today Century also has the expertise and the financial incentive (its sole resource of $1 million is totally at risk) for marketing the oil at the best possible price and obtaining a responsible buyer for the Tract 1 and Tract 2 interests. These interests will be the subject of bankruptcy proceedings and the losses and dislocations attendant with these proceedings. Furthermore, any default by PP Co. under the Contractors' Agreement or Tract No. 2 Agreement causing Century to default in making oil sales to Union would permit Union to cancel its oil purchase contract with Century. Therefore, the assignment to Century will remove the risk of the Tract 1 and Tract 2 interests becoming subject to a bankruptcy proceeding involving Petro-Lewis, preserve the Century-Union oil purchase contract and pave the way for a sale by Century of these Tract 1 and Tract 2 interests free of the burden of the uncertainties over the future of Petro-Lewis and PP Co.

At its meeting on March 25, 1986, the Long Beach City Council gave its consent to the assignment by PP Co. to Century of the Tract 1 interest.

IT IS RECOMMENDED THAT THE COMMISSION:

1 APPROVE THE CONSENT BY THE CITY OF LONG BEACH TO THE ASSIGNMENT BY PARTNERSHIP PROPERTIES CO. TO CENTURY RESOURCES DEVELOPMENT, INC. OF PP CO.'S RIGHTS AND OBLIGATIONS AS HOLDER OF THE TWO AND ONE-HALF PERCENT, ONE AND ONE-HALF PERCENT AND ONE PERCENT NONOPERATING CONTRACTOR'S INTERESTS IN THE CONTRACTORS' AGREEMENT FOR TRACT 1 OF THE LONG BEACH UNIT UNDER THE TERMS AND CONDITIONS SUBSTANTIALLY AS SET FORTH ABOVE IN THIS CALENDAR ITEM.

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2. CONSENT TO THE ASSIGNMENT BY PP CO. TO CENTURY OF PP CO.'S RIGHTS AND OBLIGATIONS AS HOLDER OF THE ENTIRE NONOPERATING CONTRACTOR'S INTEREST IN THE TRACT NO. 2 AGREEMENT FOR THE LONG BEACH UNIT UNDER THE TERMS AND CONDITIONS SUBSTANTIALLY AS SET FORTH ABOVE IN THIS CALENDAR ITEM.

3. AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE ON BEHALF OF THE COMMISSION ANY AGREEMENT OR AGREEMENTS NEEDED TO EFFECT THE COMMISSION'S ACTION.

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