MINUTE ITEM

This Calendar Item No. 29 was approved as Minute Item No. 29 by the State Lands Commission by a vote of 3 to 0 at its 4/24/86 meeting.

CALENDAR ITEM

29

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04/24/86
PRC 6534
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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 the state a bonus of $1.33 per barrel above the posted price. The posted price is defined in the Royalty Oil Sales Contract as the highest price posted for oil of like gravity and quality in the South Ellwood Offshore Field on the day of delivery by a company purchasing or paying royalties on oil in that field at its posted price or at a price using as one of its components its posted price.

The contract began on January 1, 1986. As a condition of this contract, Huntway Refining Company was required to submit to the State a Letter of Credit in the amount of $4 million, which was 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 obligations under this contract.

On September 26, 1985 the State Lands Commission approved a reduction in the amount of the Letter of Credit, as requested by Huntway Refining Company, from $4 million to $3.5 million. This action was granted because for the previous six months prior to the commencement date of the contract, both production from this lease and the posted price had dropped significantly.

Huntway Refining Company is again requesting that the State Lands Commission reduce the amount of their Letter of Credit from $3.5 million to $1.33 million. This amount still reflects the present value of 60 days production from this lease since posted prices for crude oil in California have dropped significantly, as a result of the world wide oversupply of crude oil.

Staff has reviewed Huntway's request and recommends that the Letter of Credit be reduced from $3.5 million to $1.33 million, which is equivalent to the value of 60 days production including the bonus amount, from the lease at the present production level and posted prices. Should the value of an estimated 60 days' production of royalty oil increase by 15 percent or more above the base amount of $1.33 million as a result of increases in posted prices or in the production level of the lease, Huntway shall increase its Letter of Credit by that percent but not exceeding $3.5 million. Such increase shall be made within 30 days of a change in production and/or price which effects the additional security. An Agreement for Modification 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: P.R.C. 21065 and 14 Cal. Adm. Code 15378.

AB 884: N/A.

EXHIBIT: A. Agreement for Modification.

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 P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.

CALENDAR ITEM NO. 29 (CONT'D)

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 ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY, HELD BY HUNTWAY REFINING COMPANY FROM $3.5 MILLION TO $ 1.33 MILLION AS PROVIDED IN THE AGREEMENT ATTACHED AS EXHIBIT "A".

File Ref.: PRC 6534

EXHIBIT "A"

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 April 24, 1986 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 Lands Commission and Huntway Refining Company (PRC 6534) is modified as follows:

1. Section 18 of the Royalty Oil Sales Contract is amended to reduce the amount of the letter of credit required to be furnished to the State from $3.5 million to $1.33 million. This is based on March 1986 production rates and a base price, including the bonus bid, of $8.63 per barrel.

2. At such time as the value of the immediately preceeding 30-days of production purchased under the Royalty Oil Sales Contract equals an amount of 15 percent or more than an amount equal to one-half of the amount of the letter of credit at that time, whether such increase in value is caused by increased production rates from the lease, crude oil price increases, or both, Huntway shall immediately submit an amendment to the letter of credit increasing its amount in the same proportion as the increase in the value of the production. The number of increases in the amount of the letter of credit shall not be limited, but the total amount of the letter of credit after any such increase shall not be required to exceed $3.5 million.

3. Huntway shall be required to increase the amount of the letter of credit according to the terms of paragraph 2, above, regardless of whether or not it receives notice from the State Lands Commission that such increase is required. However, in the event that the State estimates that the value of future production to be purchased under the sales contract within the next 60 days will increase in an amount equal to more than 15 percent above the value of the letter of credit at that time, the State may notify Huntway that it must immediately submit an amendment to the letter of credit increasing its amount

(REVISED 04/23/86)

in the same proportion as the anticipated increase in the value of production. Huntway shall not thereafter be entitled to a reduction, should the value of production fail to increase as anticipated.

4. All other terms and conditions in the contract will remain in full force and effect.

STATE OF CALIFORNIA
STATE LANDS COMMISSION

Date: _____ By: _____
Chief, Extractive Development Program

HUNTWAY REFINING COMPANY

Date: _____ By: _____

_____
(Title)

(ADDED 04/23/86)