MINUTE ITEM
This Calendar Item No. 35
was submitted for information
only, no action thereon
being necessary.

INFORMATIVE
CALENDAR ITEM
35

A 57, 58

S 29

05/22/86
W 15060
Pace

REPORT ON REDUCTION IN RATE OF
RETROACTIVE EQUITY ADJUSTMENTS
LONG BEACH UNIT

At its meeting on November 21, 1985, the State Lands Commission took the following action on a recently enacted amendment to Chapter 138, Statutes of 1964, 1st E.S., AB 2568 (Chapter 1464, Statutes of 1985):

1. Agreed to consider approval of a reduction in the rate of retroactive equity adjustments, provided that all statutory prerequisites are met and that any reduction shall apply to all royalty interest owners and working interest owners other than producing oil companies.

2. Authorized the Executive Officer to contact, through the Long Beach Unit Operator, the appropriate Long Beach Unit Participants for the purpose of attempting to obtain from them the agreements required for the implementation of any reduction in the rate of equity paybacks.

3. Directed the Executive Officer to report back to the Commission on progress toward obtaining all of the agreements and information from which the Commission can make the required statutory finding. At that time, the Commission can consider a specific payback rate that is consistent with the best interests of the State and the purpose of AB 2568.

Pursuant to paragraph 2, above, the Commission staff requested the Long Beach Unit Operator to take the following actions:

1. Inquire as to whether the principal working interest oil companies of the Townlot area, ARCO, Chevron, Phillips and Armstrong, would be willing to agree to an implementation

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of Assembly Bill 2568. This inquiry should point out that in the case of producing oil companies such as these, AB 2568 requires that all of the benefits of any reduction in rate of payback be passed on to their royalty interest owners. It should also be noted that any expenses incurred by these companies such as cost in altering their royalty payments would be expected to be borne by such companies.

2. Inquire as to whether the Field Contractor companies, the Tract 1 non-operating contractors, and the working interest owners in the Townlot area who are "overage parties" as a result of the Seventh Interim Tract Assignments would be willing to agree to an implementation of AB 2568. It should be noted that any such implementation would temporarily reduce the hydrocarbon allocations to these companies and working interest owners.

3. Request each of the above parties to offer any further comments relative to implementation of the statute, such as any suggestion as to the amount and duration of the payback reduction. The State has tentatively interpreted the implementation to be applicable to a single retroactive change in Tract Assignments, in this case the Seventh Interim Tract Assignments.

On December 26, 1985, the City of Long Beach, as Long Beach Unit Operator, transmitted the above request to the Long Beach Unit Field Contractor, non-operating Contractors and the "overage" Townlot working interest owners, and requested they return their comments to enable the Executive Officer of the State Lands Commission to report back to the Commission.

In all, 17 letters were sent, but only six responses have been received. Of the six responses, ARCO Oil and Gas Company, Armstrong Petroleum Corporation, and Chevron U.S.A., Inc. have stated that, if AB 2568 were to be implemented, they do not want to bear any of the costs associated with implementation. In fact, ARCO has suggested that these costs be passed on to the royalty interest owners.

The City of Long Beach recently inquired whether the State Lands Commission would be willing to reimburse the oil companies for their implementation expenses. It is the opinion of staff, after consultation with the Attorney General's Office, that such reimbursement would require additional legislative authorization.