

MINUTE ITEM

This Calendar Item No. 32  
was approved as Minute Item  
32 by the State Lands  
Commission by a vote of 2  
to 0 at its 8/28/86  
meeting.

CALENDAR ITEM

A 35

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08/28/86  
PRC 6534  
Tanner

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

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

On April 24, 1986 the State Lands Commission approved a request by Huntway Refining Company for a reduction in the amount of the letter of credit required by the Royalty Oil Sales Contract for State Oil and Gas Lease PRC 3242, South Elwood Offshore Field, Santa Barbara County. The letter of credit was reduced from \$3.5 million to \$1.33 million. This action was granted because for the previous six months prior to Huntway's request for a reduction in the amount of the letter of credit, both production from this lease and 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 \$1.33 million to \$960,000. 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 \$1.33 million to \$960,000 which is equivalent to the value of 60 days production, including the bonus amount, from the lease at the present production level and posted price.

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CALENDAR ITEM NO. 32 (CONT'D)

Should the value of an estimated 60 days production of royalty oil increase by 15 percent or more above the base amount of \$960,000 as result of increases in posted price or in the production level of the lease, Huntway shall increase its letter of credit by that percent but not exceeding \$1.33 million. Such increase shall be made within 30 days of a change in production and/or price which effects the additional security. Conversely should the production and/or price decrease the value of 60 days production of royalty oil by 15 percent, Huntway may decrease the letter of credit by an equal amount. 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.
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 ELWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY, HELD BY HUNTWAY REFINING COMPANY FROM \$1.33 MILLION TO \$960,000 AS PROVIDED IN THE AGREEMENT ATTACHED AS EXHIBIT "A".

EXHIBIT "A"

PRC 6534.1  
Tanner

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

Pursuant to the action taken at the August 28, 1986 meeting of the State Lands Commission, the Royalty Oil Sales Contract for State Oil and Gas Lease PRC 3242, South Elwood 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 \$1.33 million to \$960,000.
2. When the value of 60 days of oil production purchased under the Royalty Oil Sales Contract increases by reason of an increase in the monthly production rate from the lease and/or an increase in the price of crude oil, Huntway shall submit an amendment to the letter of credit increasing its amount in the same proportion as the increase in the value of production. However, Huntway shall not be required to make any increase in the amount of the letter of credit unless the increase in the incremental value of production is at least 15 percent of the amount of the letter of credit presently available to the State.
3. 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)