MINUTE ITEM
This Calendar Item No. 26
was approved as Minute Item
No. 26 by the State Lands
Commission by a vote of 3
to 0 at its 5-9-88
meeting.

CALENDAR ITEM

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ASSIGNMENT OF INTERESTS OF PHILLIPS PETROLEUM COMPANY AND CHEVRON U.S.A., INC. IN DRILLING AND OPERATING CONTRACT (LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL) TO AMERICAN ENERGY OPERATIONS, INC.

The drilling and operating contract (Long Beach Harbor Department Tidelands Parcel) is a net profits contract governing oil production operations on unitized and nonunitized tidelands parcels in the Long Beach Harbor District. The State is the recipient of the revenues from these operations, consisting of 91% of the net profits, under the formula in Chapter 138, Statutes of 1964, First Extraordinary Session for sharing Long Beach tidelands oil revenues. The contract, which is commonly referred to as the LBOD Contract, was entered into in March 1964 between the City of Long Beach and six oil companies, which together comprise the LBOD Contractor. These companies or their successors in interest are Phillips Petroleum Company, Chevron U.S.A., Inc., Exxon Corporation, Conoco Inc., CM Oil Company and Long Beach Oil Development Company. They are jointly and severally liable under the contract. The LBOD Contract will expire on February 28, 1989. The City is preparing a new contract to begin when the current one terminates. The new contract will be offered for competitive bidding in late summer or early fall.

Phillips owns a 57% interest in the LBOD Contract, and Chevron's interest is 28.5%. Phillips and Chevron have entered into separate agreements with American Energy Operations, Inc. by which they would assign to American Energy their interests in the LBOD Contract. The assignments by Phillips and Chevron would be effective December 1, 1987. If these assignments are consummated, American Energy would hold an 85.5% interest in the LBOD Contract. Phillips and Chevron have for some months publicly stated their desire to terminate their interests in the LBOD Contract and have stated that they do not intend to bid on the new contract. American Energy, which was formed for the specific purpose of acquiring Phillips' and Chevron's

(ADDED 05/06/88)

interests in the LBOD Contract, wishes to acquire the interests at this late date in the contract's term in order to retain the LBOD field operations staff and to give it what it perceives to be an advantage in the competitive bidding on the new contract. American Energy has stated its intention to bid on the new contract and its belief that its knowledge of the operations gained from a few months of involvement and its retention of the current LBOD operational staff will make it a more astute and attractive bidder.

American Energy is not an oil company. It conducts no exploration, producing, transporting, refining or marketing operations. It is simply a corporation formed for purposes of investment. All of the stock is owned by Lee Ross and his wife. The corporation's financial position is set forth in the financial statement attached as Exhibit "A". While American Energy, as the majority shareholder in LBOD, need not be concerned about providing an operational staff because it will have the present LBOD staff available, it must be concerned about paying monthly its share of the expenses, which are initially made by the Contractor subject to reimbursement in part from the revenues for the sale of the oil, and about disposing of its share of the oil. In order to provide assurance that it can meet its obligation to pay its share of the expenses, which would amount to about $2,250,000 per month, American Energy is in the process of obtaining a line of credit in the amount of $3,500,000 from First Interstate Bank. Assurance that American Energy will be able to dispose of the oil is in the form of a contract that it has entered into for the sale of the oil to Edgington Oil Company, which operates a refinery in Long Beach. Nevertheless, in the event American Energy would default in these or any of the other obligations under the LBOD Contract, the holders of the remaining interests, i.e., Exxon, Conoco and CM, would be obligated to perform them due to their joint and several liability.

Of particular concern to the State and the City is that Phillips and Chevron not be released from liability for any activities occurring or obligations arising prior to the closing of the assignment, which, if approved by the City and the Commission, will occur by June 1, 1988. To that end, the assignment agreements between American Energy and Phillips and American Energy and Chevron provide that Phillips and Chevron, respectively, will remain responsible for all activities occurring before the closing of the assignment. This would include, but not be limited to, the responsibilities arising

from the dumping of oil field wastes from the LBOD operations at sites in Carson and in Monterey Park and under the pending litigation concerning whether or not windfall profit taxes are reimbursable expenses under the contract. Phillips and Chevron will provide the City and the State with written guarantees setting forth their responsibilities for such activities, which are consistent with the terms of the assignment agreements. However, under the terms of the assignments, Phillips and Chevron shall not be responsible for activities of the LBOD Contractor occurring after the closing of the assignment.

Section 33 of the LBOD Contract provides, in pertinent part, that any assignment of an interest in the contract shall have no effect without the prior written consent of and subject to terms and conditions prescribed by the City, acting with the approval of the State Lands Commission. Therefore, the Commission must act on any proposed assignment before the City. If the Commission gives it approval, the matter will be presented to the City Council.

Staff has had several meetings with the parties involved in the assignment transactions for purposes of gathering information about American Energy and understanding the reasons for the assignment and has examined the financial statement, the proposal for a line of credit, the guarantees and the oil sales contract and finds them to be in order.

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.

EXHIBIT: A. Financial Statement.

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.

(ADDED 05/06/88)

2. APPROVE THE CONSENT BY THE CITY OF LONG BEACH TO THE ASSIGNMENTS BY PHILLIPS PETROLEUM COMPANY AND CHEVRON U.S.A., INC. OF THEIR INTERESTS IN THE DRILLING AND OPERATING CONTRACT (LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL) TO AMERICAN ENERGY OPERATIONS, INC.

3. AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE ON BEHALF OF THE COMMISSION WHATEVER DOCUMENTATION IS NECESSARY TO CONVEY THE COMMISSION'S APPROVAL TO THE CITY OF LONG BEACH.

(ADDED 05/06/88)

AMERICAN ENERGY OPERATIONS INC.

BALANCE SHEET

April 20, 1988

ASSETS

Current Assets		
Cash		$ 850,000
Deposit on Acquisition Contract		50,000
Corporate Bonds, (Note B)		375,000
Notes Receivable (Note C)		1,300,000
		$2,575,000
Investments (Note D)		2,550,000
		$5,125,000

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities		
Accounts Payable		$ 15,000
Stockholder's Equity (Note A)		
Capital Stock	$ 100,000	
Additional Contributed Capital	5,010,000	5,110,000
		$5,125,000

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AMERICAN ENERGY OPERATIONS INC.
NOTES TO BALANCE SHEET
April 20, 1988

NOTE A - Organization

The accompanying balance sheet relects the initial capitalization of the company, (American Energy Operations Inc., a California Corporation) as of April 20, 1988.

The company was formed to acquire the majority interest in Long Beach Oil Development Company (LBOD) and the related Drilling and Operation Contract (Long Beach Harbor Department Tidelands).

Mr. and Mrs. S. Lee Ross are the incorporaters and sole shareholders of the company and have contributed all company assets. The assets were contributed at fair market value.

NOTE B - Corporate Bonds

Corporate bonds include 100 of Owens Corning, Inc. and 250 of FMC, Inc. with a face value of $350,000 plus accrued interest at approximately 12%.

NOTE C - Notes Receivable

Notes receivable consist of the following:

Corporate note due May 13, 1988, collateralized by real estate, interest payable monthly at 10%	$ 125,000
Corporate note due April 4, 1989 collateralized by bank letter of credit including 8% interest	1,175,000
	$1,300,000

NOTE D - Investments

The company owns various investments as follows:

American Energy Marketing, Inc. - Marketer of crude oil Present value of crude oil marketing agreement	$ 900,000
Orbit Marketing Company - Partnership interest in oil and gas production in the Salawati Basin, Indonesia, current production approximately 26,000 BBL per day. Present value of partnership interest	1,250,000
Texas Gas Wells - 8.25% working interest in producing gas wells in Jim Hogg County, Texas including leased acreage. Estimated Value	400,000
	$2,550,000

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AMERICAN ENERGY OPERATIONS, INC.

Supplement to Notes to Balance Sheet
April 20, 1988

Supplement to Note C

Attached is a copy of a Promissory Note dated January 6, 1988 in the principal amount of $4,140,000 with interest payable at the rate of 8% for 360 day period secured by a Standby Irrevocable Letter of Credit No. 152-LCS-131,540, issued by California First Bank in the amount of $4,600,000, copy of which as amended is attached. S. Lee Ross is a limited partner and Bettingen-Orbit Development Company has a 27.77% interest therein.

Supplement to Note D

S. Lee Ross owns 100% of Orbit Marketing Company which, together with Mitsui Oil Exploration Co., Ltd., owns a 15% interest in a joint venture with the Petromer Trend Group in a concession from the Indonesian State Oil Company, Pertamina, and in a production sharing contract in the Salawati Basin Project, Irian Jaya, Indonesia. Lee Ross' interest in the Petromer Trend venture, by virtue of his participation with Mitsui, is 1.872%. The net earnings from such interest in 1987 aggregated $318,809. A Cash Flow Summary for the Petromer Trend joint venture is attached.

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