MINUTE ITEM
This Calendar Item No. C25
was approved as Minute Item
No. 25 by the State Lands
Commission by a vote of 3
to 0 at its 2/6/89
meeting.

CALENDAR ITEM

A 35, 57, 58

C25

02/06/89
PRC 7143
PRC 7194
Tanner

S 18, 29

REQUEST FOR APPROVAL OF
ASSIGNMENT OF STATE ROYALTY OIL SALES CONTRACTS,
LOS ANGELES AND SANTA BARBARA COUNTIES

ASSIGNOR: Petro Source Corporation
Attn.: Harvey H. Cody, III
Vice President and General Counsel
P. O. Box 1396
Houston, Texas 77251

ASSIGNEE: Petro Source Partners, Lts.
Attn.: Harvey H. Cody, III
Vice President and General Counsel
P. O. Box 1396
Houston, Texas 77251

BACKGROUND: At its meeting on August 10, 1988, the State Lands Commission approved the assignment of State Royalty oil sales' contracts, PRC 7143 and PRC 7194, from Caljet, Inc. to Petro Source Corporation, a subsidiary of Transco Energy Company.

State Royalty Oil Sales Contract PRC 7143 covers the State's share of crude oil which may be taken in kind from Tract No. 2, Long Beach Unit, Wilmington Oil Field, Los Angeles County. Caljet, Inc., the former Purchaser, was the highest responsible bidder in the competitively bid contract offering to pay the State a bonus of $0.3653 per barrel above the Base Price defined as the highest price posted for like crude oil on the day of delivery in

the Wilmington, Long Beach (Signal Hill), Huntington Beach and Inglewood Oil Fields. The State's share of production from this lease is approximately 8,325 barrels per month of 17.7° API gravity crude oil. This is an 18-month contract having begun on February 1, 1988 and is scheduled to terminate on August 1, 1989.

State Royalty Oil Sales Contract PRC 7194 covers the State's share of royalty crude oil produced from State Oil and Gas Leases PRC 3133, PRC 3150, PRC 4000 and PRC 1824, Carpinteria-Summerland Offshore Fields, Santa Barbara County. Caljet, Inc., the former Purchaser, was the highest responsible bidder for this competitively bid contract offering to pay the State a bonus per barrel of $0.27 above the Base Price defined as the highest price posted for oil of like gravity and quality on the day of delivery in the Carpinteria - Summerland Offshore Fields. The State's share of production from these leases is approximately 14,000 barrels a month of between 25° - 37.5°API gravity crude oil. This contract is for an 18-month term having commenced on December 1, 1988 and will terminate on June 1, 1990.

PERTINENT INFORMATION:

On September 19, 1988, Petro Source Corporation, advised the State that it was in the process of transferring all of its rights, title and interest in its crude oil operations and assets to Petro Source Partners, Ltd., a Texas limited partnership in which Petro Source Corporation is the sole and managing partner. As part of this transaction, Petro Source Corporation has agreed to assign all its rights and priviledges, and Petro Source Partners, Ltd., has agreed to assume all of the obligations related to, State Royalty Oil Sales Contracts PRC 7143 and PRC 7194. Petro Source Corporation will remain contingently liable for the performance of the contracts as general partner of Petro Source Partners, Ltd. and thereby guarantees performance of Petro Source Partners, Ltd. On advice of staff counsel, Petro Source Corporation was requested to

complete contract assignment forms from Petro Source Corporation to Petro Source Partners, Ltd.

Petro Source Partners, Ltd. has submitted riders for the insurance certificates and letters of credit as required under the royalty oil sales contracts. Executed assignment forms have also been filed with the Commission.

Staff recommends that the Commission approve the assignment of these contracts on the conditions that the assignor shall not be released from any obligations arising before the effective date of the assignment, including the obligation to pay for any oil delivered to assignor, and that the assignee shall be bound by the terms of the contracts to the same extent as the assignor, any conditions in the assignment agreement to the contrary notwithstanding.

STATUTORY AND OTHER REFERENCES:

1. 14 Cal. Code Regs. Section 6815.1.

2. Section 10 of the Royalty Oil Sales Contracts.

AB 88: N/A.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 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. Code Regs. 15378.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.

2. APPROVE THE ASSIGNMENT OF STATE ROYALTY OIL SALES CONTRACTS PRC 7143 AND PRC 7194 FROM PETRO SOURCE CORPORATION TO PETRO SOURCE PARTNERS, LTD. PROVIDED THAT THE ASSIGNOR SHALL NOT BE RELEASED FROM OBLIGATIONS ARISING BEFORE THE EFFECTIVE DATE OF THE ASSIGNMENT, INCLUDING PAYMENT FOR OIL DELIVERED, AND THAT THE ASSIGNEE SHALL BE BOUND BY THE TERMS OF THE CONTRACTS TO THE SAME EXTENT AS THE ASSIGNOR, ANY CONDITIONS IN THE ASSIGNMENT AGREEMENT TO THE CONTRARY NOTWITHSTANDING.