

MINUTE ITEM

This Calendar Item No. 26  
was approved as Minute Item  
No. 26 by the State Lands  
Commission by a vote of 3  
0 at its 10/26/89  
meeting.

CALENDAR ITEM

26

A 57, 58

S 29

10/26/89

W 17095

Pace

Hager

REMOVAL OF TEN-CENT BONUS REQUIREMENT  
TO FACILITATE SALE BY CENTURY RESOURCES DEVELOPMENT, INC.  
OF ITS NONOPERATING INTERESTS IN TRACTS 1 AND 2,  
LONG BEACH UNIT, LOS ANGELES COUNTY

In 1978, the Commission gave approval to Atlantic Richfield Company (ARCO) to assign its nonoperating interests in Tract 1, which total five percent, and its nonoperating interest comprising 100 percent of Tract 2 in the Long Beach Unit to Partnership Properties (PP Co.), an investment partnership of Petro-Lewis Corporation. As a condition to the consent to the assignment of these interests, the Commission required that PP Co. pay a bonus of ten cents per barrel over the final net profits value for all oil allocated to its Tract 1 and Tract 2 interests. The ten-cent-per-barrel bonus was not to be credited to the net profits accounts of PP Co. so that 100 percent of it would flow to the City of Long Beach and the State. In 1978, when this additional burden was assumed by PP Co., most domestically produced oil was still subject to federal price controls and a substantial market existed for uncontrolled oil at bonus prices. In other words, the ten-cent-per-barrel bonus was not a burden in 1978 for a company that intended to sell its allocated share of Long Beach Unit oil.

At the time of the 1978 assignment to PP Co., there was in place an oil sales contract between PP Co. and Century Resources Development, Inc. (CRD) under which CRD would purchase all of the oil allocate PP Co.'s Tract 1 and Tract 2 interests and pay PP Co. the full net profits value, plus the ten-cent-per-barrel bonus. It was CRD's desire to gain access

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to this oil, coupled with ARCO's desire to dispose of its Long Beach tidelands interests, that was the impetus for the assignment transaction. ARCO's initial proposal was to assign its interest to CRD, but when the Commission expressed its concern over the financial strength of the CRD, ARCO brought in Petro-Lewis to be the assignee of the interest. Ironically, it was Petro-Lewis which was first to later experience severe financial difficulties. These financial difficulties coincided with the collapse of the world oil market in 1986.

In order to prevent any losses to the State, and especially to prevent a repudiation by PP Co. of its Tract 1 and Tract 2 interests resulting in a return of them to the City and the State, the Commission approved an assignment of them to CRD. Although the Commission still had serious reservations about CRD's financial resources, it believed that preserving the high net profit percentages payable to the City and the State (over 99 percent for Tract 1 and over 96 percent for Tract 2) was worth the risk. A bankruptcy filing by Petro-Lewis appeared imminent and CRD was the only interested buyer at the time. As part of the assignment transaction, CRD agreed to place one million dollars and all receipts from its sales of the crude oil allocated to its Tract 1 and Tract 2 interests in a lock-box account that could be used only for making net-profit payments to the City and State and cash advances for its unit participation share of operating costs.

When CRD took the assignment of the these interests in 1986, it claims it did so in the hope and on the condition that it soon would find a buyer for them. So far, a sale has not been made. CRD claims that if the ten-cent-per-barrel bonus was no longer in effect, it could successfully negotiate a sale.

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It is in the State's best interests that CRD promptly consummate a sale of these interests to a financially responsible party. The one million dollars put in the lock-box by CRD in 1986 has been reduced by drawings on it for net-profit payments and cash advances for unit expenses to \$200,000. When this is exhausted, CRD will have no resources upon which to draw for net-profit payments and cash advances for unit expenses except for the money it receives from future oil sales. The draw-down of the lock-box account is evidence that the money received from the sale of oil has been inadequate to meet these obligations, since all receipts from the oil sales should have been deposited directly in the lock-box account as required by the terms under which the account was created. In other words, CRD should have received no gain from the sale of the oil, not even its small net profit percentage share, and appears to have lost \$800,000 of its own money.

The need to replace CRD with a company with greater financial resources, as quickly as possible in order to avoid a default by CRD, is patent. The staff, while not accepting at face value CRD's claims, recommends that the Commission agree to remove the ten-cent-per-barrel bonus requirement, which it attached as a condition to the assignment to PP Co. in 1978, and which was assumed by CRD when it received the interest on assignment from PP Co. in 1986, if and when CRD consummates a sale of its Tract 1 and Tract 2 interests to a responsible buyer acceptable to the Commission. This recommendation is based on the need to have a financially stronger company acquire CRD's interests.

AB 884: 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 the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Code Regs. 15378.

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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. AGREE TO REMOVE THE TEN-CENT-PER-BARREL BONUS REQUIREMENT FROM THE CONDITIONS IT ATTACHED TO THE NONOPERATING INTERESTS OF CENTURY RESOURCES DEVELOPMENT, INC. IN TRACT 1 AND TRACT 2 OF THE LONG BEACH UNIT, IF AND WHEN CRI CONSUMMATES A SALE OF THESE INTERESTS TO A RESPONSIBLE BUYER ACCEPTABLE TO THE COMMISSION.