MINUTE ITEM
This Calendar Item No. 70
was approved as Minute Item
No. 70 by the State Lands
Commission by a vote of 3
to 0 at its 6/11/90
meeting.

CALENDAR ITEM

A 57, 58

S 29

70

06/11/90
W 17098
Pace
Hager

APPROVE ASSIGNMENT TO GOLDEN WEST REFINING COMPANY
OF THE NONOPERATING CONTRACTORS' INTEREST
IN THE TRACT NO. 2 AGREEMENT, LONG BEACH UNIT
LOS ANGELES COUNTY

APPLICANT: Century Resources Development, Inc.
14711 Bentley Circle
Tustin, California 92680

Century Resources Development, Inc. holds the entire contractor's interest, which is a nonoperating interest, in the Tract No. 2 Agreement for the Long Beach Unit. Tract 2 is the tidelands parcel in the Long Beach Unit in which the State owns the mineral interest. Golden West Refining Company proposes to acquire this entire undivided interest.

The two most important considerations in assessing a company's qualification to hold a nonoperating contractor interest are its ability to meet the financial obligations of the nonoperating contractor and its ability to take the oil allocated to its interest.

The Commission's staff has reviewed Golden West's financial records and has concluded that Golden West is financially sound and fully capable of meeting the financial obligations of this nonoperating contractor interest as well as the nonoperating contractor interests in Tract 1 that it proposes to acquire. Golden West Refining is a wholly owned subsidiary of Thrifty Oil Company and operates a 45,000 barrels per day refinery in Santa Fe Springs which, among other things, helps to ensure a gasoline supply for Thrifty's retail outlets. As a Los Angeles

Basin refiner, Golden West Refining has the ability to take the oil allocated to this and the other nonoperating interests it proposes to acquire either to use directly or to trade for other crude to run in its refinery. Therefore, Golden West Refining qualifies in both cases.

The Tract 2 interest held by Century Resources Development, Inc. are burdened with the obligation that the contractor pay a ten-cent-per-barrel bonus on all oil allocated to the interest. This obligation made this interest unsalable, and the Commission has for some time, looked to have Century consummate a sale to a company with greater financial resources. Accordingly, the Commission, at its meeting in October 1989, agreed to remove the ten-cent bonus obligation if and when Century consummates a sale of the interest to a responsible buyer acceptable to the Commission. Since Century has made a sale to a responsible buyer, the consent to the assignment would remove the ten-cent bonus obligation.

In view of the high costs for bonds and the difficulty in obtaining them faced by even the most financially sound companies, staff recommend that Golden West be permitted to submit a $500,000 letter of credit in lieu of the bond required by the Tract No. 2 Agreement. A letter of credit is a more efficient and effective form of security than a bond because of the comparative ease in collection. Consistent with the contract provisions regarding bonds, Golden West would be permitted to charge to its net profits account the cost of the letter of credit up to one percent of its face amount. The State would waive the letter of credit after one year if there has been no need to levy on it.

Under Article 19 of the Tract No. 2 Agreement, an assignment of the interest, in order to be effective, must receive the prior written consent of the State.

AB 884: N/A.

OTHER PERTINENT INFORMATION:

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.

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. BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.

2. CONSENT TO THE ASSIGNMENT BY CENTURY RESOURCES DEVELOPMENT, INC. TO GOLDEN WEST REFINING COMPANY OF THE ENTIRE UNDIVIDED NONOPERATING CONTRACTOR INTEREST UNDER THE TRACT NO. 2 AGREEMENT, LONG BEACH UNIT AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE AN ASSIGNMENT CONSENT AGREEMENT INDICATING THE COMMISSION'S CONSENT.

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