

MINUTE ITEM

This Calendar Item No. 31
was approved as Minute Item
No. 31 by the State Lands
Commission by a vote of 2
to 0 at its 4/28/83
meeting.

CALENDAR ITEM

31

4/28/83
PRC 6332.1
Tanner

REDUCTION IN THE AMOUNT OF
A LETTER OF CREDIT FOR ROYALTY OIL
SALES CONTRACT, STATE OIL AND GAS LEASES
PRC 186 AND PRC 3095, BELMONT OFFSHORE FIELD

On October 28, 1982 the State Lands Commission awarded to Sunland Refining Corporation, Royalty Oil Sales Contract, State Oil and Gas Leases PRC 186 and PRC 3095, Belmont Offshore Field. Sunland offered the highest bonus bid for this oil, offering to pay \$1.037 per barrel above the posted price. The contract is scheduled to begin on May 1, 1983. As a condition of this contract, Sunland is required to submit to the State a letter of credit for \$2,500,000 which is equivalent to the value of 90 days' production from these leases. The purpose of the letter of credit is to ensure faithful performance by the purchaser of all the obligations under this contract.

In March 1983, Southern California experienced severe rain storms. As a result of one of these storms, Island Esther, from which the oil from State Oil and Gas Lease PRC 3095 is produced, suffered extensive damage. Oil production from State Oil and Gas Lease PRC 3095 had been shut-in prior to the destructive storm. As a result of the extensive damage to Island Esther, oil production from State Oil and Gas Lease PRC 3095 will remain shut-in for an extended period. Therefore, when the royalty oil sales contract for these leases begins on May 1, 1983, Sunland will be receiving royalty oil only from State Oil and Gas Lease PRC 186. This is about half the amount of oil that had

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originally been expected to be delivered to Sunland. In addition, the posted price for this oil has declined considerably since the contract was offered for bid and the amount of the letter of credit was established.

For the above reasons, Sunland Refining Corporation has requested a reduction in the amount of the letter of credit. Staff has reviewed the request and recommends that the letter of credit be reduced from \$2,500,000 to \$800,000 which is equivalent to the value of 90 days' production from State Oil and Gas Lease PRC 186. Should the island be restored and production resumed from lease PRC 3095 before the expiration of the sales contract (April 30, 1984) the letter-of-credit will be increased to cover the delivery of royalty oil from PRC 3095.

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. APPROVE THE REDUCTION IN THE AMOUNT OF THE LETTER OF CREDIT FOR ROYALTY OIL SALES CONTRACT PRC 6332.1, SUNLAND REFINING CORPORATION, FROM \$2,500,000 to \$800,000, WITH A CONDITION THAT IF PRODUCTION IS RESTORED AND RECEIVED FROM ISLAND ESTHER, THE AMOUNT OF THE LETTER OF CREDIT MUST BE INCREASED TO COVER THE DELIVERY OF ROYALTY OIL FROM PRC 3095.

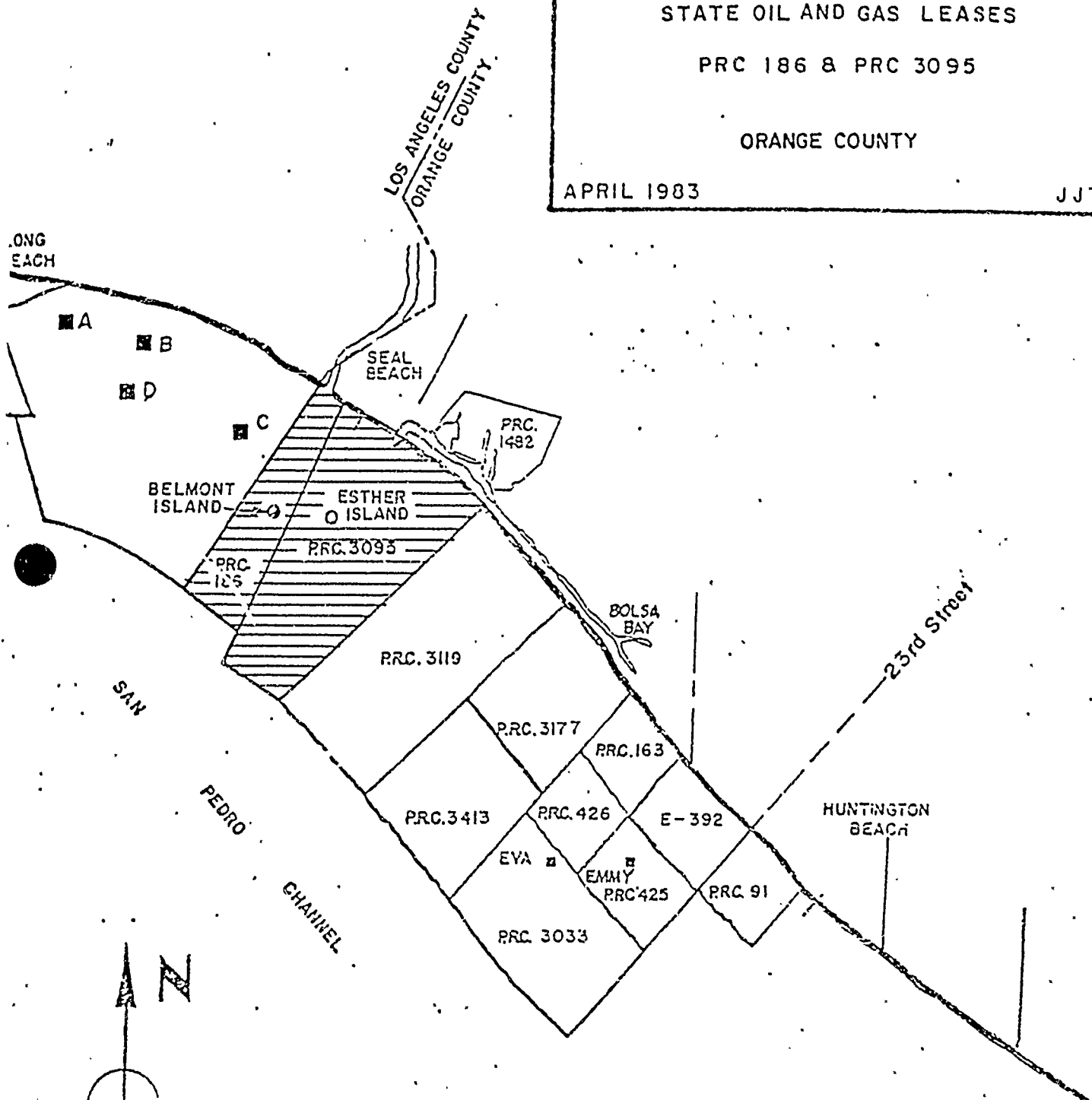
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EXHIBIT "A"
 LOCATION MAP
 STATE LANDS COMMISSION
 STATE OIL AND GAS LEASES
 PRC 186 & PRC 3095

ORANGE COUNTY

APRIL 1983

JJT



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Added 4/20/83