

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 5/22/86
meeting.

CALENDAR ITEM

A 58

31

05/22/86
PRC 6897
Tanner

S 37

REDUCTION OF LETTER OF CREDIT REQUIRED UNDER
ROYALTY OIL SALES CONTRACT PRC 6897,
(STATE OIL AND GAS LEASE PRC 186)
BELMONT OFFSHORE FIELD, ORANGE COUNTY

On September 26, 1985 the State Lands Commission awarded the Royalty Oil Sales Contract for State Oil and Gas Lease PRC 186, Belmont Offshore Field, Orange County, to Anchor Refining Company. Anchor Refining Company was the highest responsible bidder for this contract offering to pay the State a bonus of \$0.39 per barrel above the Base Price defined as the highest price posted in the Belmont Offshore Field for oil of like gravity and quality on the day of delivery by a company purchasing or paying royalties on oil in that field. The State's royalty share of production from this lease is approximately 8,900 barrels per month of 19° API gravity crude oil. The contract is for a term of 18 months having begun on November 1, 1985 and terminating on May 1, 1987.

On March 31, 1986 Anchor Refining Company advised the State that effective May 1, 1986 Anchor would stop taking delivery of the State's royalty oil. Exxon Company, USA, the State's lessee, was notified that effective May 1, 1986, royalty payable under the lease would no longer be taken in kind, but rather payment should be made in money. The lease provides that such change in the method of royalty payment may be made on demand. Anchor has agreed to pay the State the difference between what Exxon pays the State for its royalty oil and the contract price which will be at least the bonus Anchor bid for this oil which is \$0.39 per barrel.

As a result of the State's reduced financial exposure Anchor has requested a reduced letter of credit in favor of the State in the amount of \$42,000 (formerly \$485,000) until 45 days after the expiration date of the contract (June 15, 1987). The new letter of credit represents the estimated amount of bonus to be paid over the remaining term of the contract (May 1, 1986 to May 1, 1987).

CALENDAR ITEM NO. 31 (CONT'D)

OTHER PERTINENT INFORMATION:

1. 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.

AB 884: N/A.

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.
2. AUTHORIZE REDUCTION OF THE LETTER OF CREDIT REQUIRED UNDER ROYALTY OIL SALES CONTRACT PRC 6897 FROM \$485,000 TO \$42,000 FOR THE PERIOD FROM JUNE 15, 1986 UNTIL JUNE 15, 1987, WHICH IS 45 DAYS BEYOND THE CONTRACT PERIOD.