

This Calendar Item No. 23
was approved as Minute Item
No. 23 by the State Lands
Commission by a vote of 2 to 0
with one abstention by Commissioner
Mike Curb at its 2/22/79 meeting.

MINUTE ITEM

2/79
Willard

23. PROPOSED SALE OF ROYALTY OIL - W 40144.

On January 23, 1979, the Department of Energy issued a final decision and order denying an appeal of USA Petroleum Corporation from a Department of Energy interpretation affirming the propriety under the crude oil price regulations of bonus prices charged by the State in royalty oil sales to USA of "new" and "released" oil during the period prior to February 1, 1976. USA has not paid these bonus prices claiming that they violated the Department of Energy price regulations. Pursuant to an agreement with the State, USA was not to be declared in default for not paying the bonus provided that it kept in existence letters of credit covering the unpaid bonus amounts plus interest pending final judgment in the litigation concerning the propriety of these royalty oil sales under the Department of Energy's price and allocation regulations. That litigation is People v. Zarb in the United States District Court in Los Angeles. As of December 31, 1978, the unpaid bonus plus interest was in excess of \$1.4 million.

The recent decision of the Department of Energy has not prompted USA to dismiss the litigation and pay to the State the bonus amount plus interest. As a result, the State will have to bring the litigation to a final judgment so that it can collect the money owned to it by USA.

In reviewing these circumstances in light of the proposed award to USA of a royalty oil sales contract for royalty oil from oil and gas leases PRC 3033.1 and 3413.1, the Commission determined that the award of this new royalty oil sales contract to USA would not be in the best interests of the State, denied all bids and directed the staff to reoffer the contract.

Attachment:
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AWARD OF ROYALTY OIL SALES CONTRACT

On January 17, 1979, bids were received in response to a published notice of intention to offer for sale by competitive public auction oil from State Oil and Gas Leases PRC 30331 and PRC 34131, Huntington Beach field, Orange County, California, authorized by the Commission on September 17, 1978.

The successful bidder, USA Petrochem Corporation was determined by lot from 17 responsible bidders (Exhibit "A"). The bid provided for the payment of the maximum price permitted by law for all oil subject to federal price controls and the Base Price as defined in the sales contract for all oil not subject to price controls. The contract defines the Base Price as the highest price posted in the Huntington Beach field on the day of delivery by a company purchasing in that field or its posted price, or at a price using as one of its components its posted price, at least 300 barrels per day of oil of like gravity and quality.

Section 211.309 of the Mandatory Petroleum Allocation Regulations issued by the Department of Energy provides in part that any supplier/purchaser relationship may be terminated by a producer if the present purchaser refuses within a 15-day period, after receipt of written notice, to meet any bona fide written offer made by another purchaser to purchase such crude oil at a lawful price above the price paid by the present purchaser. The present purchaser of the State's royalty oil under these leases is Union Oil Company of California, and they declined to meet the offer by USA Petrochem Corporation. The differential between ceiling and posted prices for upper and lower tier was \$0.15/Bbl. and \$0.04/Bbl., respectively (January 1979, 20° API, Huntington Beach field). The proposed royalty oil sales contract could provide additional revenue of approximately \$700 per month.

The bid submitted by USA Petrochem Corporation has been reviewed by the staff as to the technical sufficiency and economic factors. Staff Counsel has reviewed the bid and determined

1. That the corporation has complied with the procedural requirements of the law,

A 13

B 38

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2. That the bid submitted conforms with:
- A. The bid requirements specified in the proposal of the Commission.
 - B. The applicable provision of law; and
 - C. The rules and regulations of the Commission.

This project is situated on State land identified as possessing significant environmental values pursuant to P.R.C. 6370.1 and is classified in a use category, Class C, which authorizes Multiple Use. Staff review indicates that there will be no significant effect upon the identified environmental values. This is an existing facility for which no adverse comments have been received.

The proposed royalty oil sale is exempt from CEQA under Cal. Adm. Code 2907, Class 1, and State EIR guidelines Section 15104, Class 1, which categorically exempts existing facilities wherein there will be no expansion of the use of such facility. The disposition of crude oil sold pursuant to this contract will be accomplished by exchange agreement without any physical change in the existing oil production and transport facilities.

EXHIBIT: A. List of Bids.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN EIR HAS NOT BEEN PREPARED FOR THIS ACTIVITY AS SUCH REPORT IS NOT REQUIRED UNDER THE PROVISIONS OF P.R.C. 21085, 14 CAL. ADM. CODE 15100 ET SEQ., AND 2 CAL. ADM. CODE 2907.
2. FIND THAT ISSUANCE OF THE ROYALTY OIL SALES CONTRACT WILL HAVE NO SIGNIFICANT EFFECT UPON ENVIRONMENTAL CHARACTERISTICS IDENTIFIED PURSUANT TO P.R.C. 6370.1.
3. ACCEPT THE SUCCESSFUL BID AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE AND ISSUE ROYALTY OIL SALES CONTRACT PRC 3033.1 AND PRC 3413.1 TO USA PETROCHEM CORPORATION.
4. AUTHORIZE THE EXECUTIVE OFFICER TO NOTIFY THE LESSEE UNDER STATE OIL AND GAS LEASES PRC 3033.1 AND PRC 3413.1 THAT THE STATE, IN ACCORDANCE WITH THE LEASE TERMS, IS EXERCISING ITS RIGHTS TO TAKE IN KIND ITS ROYALTY SHARE OF OIL PRODUCED UNDER THE LEASES; THE EFFECTIVE DATE FOR COMMENCEMENT OF TAKING THE ROYALTY OIL IN KIND WILL BE SEPTEMBER 1, 1979.

EXHIBIT "A"

Bids Received on Royalty Oil Sales Contract for PRC 3033.1
and PRC 3413.1

1. USA Petrochem Corporation
2. B & B Trading Company
3. Basin Petroleum, Inc.
4. Alliance Oil Trading Company of Texas
5. Kern County Refinery, Inc.
6. Kennedy Industries, Inc.
7. Sunland Refining Corporation
8. De Menno Resources
9. Lunday-Thagard Oil Company
10. Powerine Oil Company
11. Energy Production & Sales Co.
12. ECO Petroleum, Inc.

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