

MINUTE ITEM

5/79
W 40150

36. AWARD OF ROYALTY OIL SALES CONTRACT - PRC 91.1, PRC 426.1.

During consideration of Calendar Item 36 attached, the effective date for commencing of taking the royalty oil in kind was amended from May 1, 1979, to June 1, 1979.

Upon motion duly made and carried, the Commission adopted the following resolution, as amended, by a vote of 2-0.

THE COMMISSION:

1. DETERMINES THAT AN EIR HAS NOT BEEN PREPARED FOR THIS ACTIVITY AS SUCH REPORT IS NOT REQUIRED UNDER THE PROVISIONS OF PRC 21085; 14 CAL. ADM. CODE 15100, ET SEQ., AND 2 CAL ADM. CODE 2907.
2. FINDS THAT ISSUANCE OF THE ROYALTY OIL SALES CONTRACT WILL HAVE NO SIGNIFICANT EFFECT UPON ENVIRONMENTAL CHARACTERISTICS IDENTIFIED PURSUANT TO PRC 6370.1.
3. ACKNOWLEDGES THE NOTIFICATION OF AMINOIL USA, INC. TO MEET THE OFFER MADE BY LUNDAY-THAGARD OIL COMPANY TO PURCHASE THE STATE'S ROYALTY OIL UNDER STATE OIL AND GAS LEASES PRC 91.1, PRC 426.1 AND THOSE LEASES INCLUDED IN THE 91 MZU WHICH ARE UNDER LEASE TO AND OPERATED BY AMINOIL USA, INC.
4. ACCEPTS THE SUCCESSFUL BID AND AUTHORIZED THE EXECUTIVE OFFER TO EXECUTE AND ISSUE A ROYALTY OIL SALES CONTRACT TO LUNDAY-THAGARD OIL COMPANY FOR ROYALTY OIL PRODUCED UNDER THOSE LEASES INCLUDED IN THE 91 MZU AND FOR WHICH THE LESSEES HAVE DECLINED TO MEET THE OFFER OF LUNDAY-THAGARD.
5. AUTHORIZES THE THE EXECUTIVE OFFICER TO NOTIFY THE LESSEES UNDER STATE OIL AND GAS LEASES IDENTIFIED IN EXHIBIT "B" 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 COMMENCING OF TAKING THE ROYALTY OIL IN KIND WILL BE JUNE 1, 1979.
6. ACCEPTS AS ALTERNATIVE SECURITY, PURSUANT TO SECTION 19 OF THE ROYALTY OIL SALES CONTRACT, THE LETTER OF CREDIT IN THE AMOUNT OF \$70,000.

Attachment: Calendar Item 36

CALENDAR ITEM

36.

4/79
Willard
W 40150

AWARD OF ROYALTY OIL SALES CONTRACT

On March 21, 1979, bids were received in response to a published Notice of Intention to offer for sale by competitive public bid royalty oil from State Oil and Gas Leases PRC 91.1, PRC 429.1 and those leases included in the 91 Main Zone Unit (approximately 700 B/D), Huntington Beach field, Orange County. The offer was authorized by the Commission on September 27, 1978.

The successful bidder, Lunday-Thagard Oil Company, was determined by lot from 19 responsible bidders (Exhibit "A"). The bid provides 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 at 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 211.63(d) 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.

Aminoil USA, Inc. currently purchases approximately 93 percent (1022 B/D) of the State's royalty oil under these leases and they have properly notified the State of their intention to meet the offer of Lunday-Thagard Oil Company. The purchasers of the remaining 7 percent (73 B/D) have declined to meet such offer. Lunday-Thagard has advised that they will accept the reduced volume of royalty oil.

The bid submitted by Lunday-Thagard Oil Company has been reviewed by the staff as to the technical sufficiency and economic factors. Staff Counsel has reviewed the bid and determined:

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CALENDAR ITEM NO. 36. (CONTD)

1. That the Commission has complied with the procedural requirements of the law.
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.

Section 19 of the proposed contract requires the purchaser to furnish a good and sufficient bond to the State in the amount of \$70,000. Section 19 also provides that the purchaser may, with prior written approval of the State, provide alternate security. The successful bidder, Lunday-Thagard Company, has submitted a letter of credit in the amount of \$70,000 as alternate security if the contract is awarded to them. The letter of credit has been reviewed by the staff and found to be adequate.

EXHIBITS: A. List of Bids B. List of Lessees.

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.

CALENDAR ITEM NO. 36. (CONTD)

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. ACKNOWLEDGE THE NOTIFICATION OF AMINOIL USA, INC. TO MEET THE OFFER MADE BY LUNDAY-THAGARD OIL COMPANY TO PURCHASE THE STATE'S ROYALTY OIL UNDER STATE OIL AND GAS LEASES PRC 91.1, PRC 426.1, AND THOSE LEASES INCLUDED IN THE 91 MZU WHICH ARE UNDER LEASE TO AND OPERATED BY AMINOIL USA, INC.
4. ACCEPT THE SUCCESSFUL BID AND AUTHORIZED THE EXECUTIVE OFFICER TO EXECUTE AND ISSUE A ROYALTY OIL SALES CONTRACT TO LUNDAY-THAGARD OIL COMPANY FOR ROYALTY OIL PRODUCED UNDER THOSE LEASES INCLUDED IN THE 91 MZU AND FOR WHICH THE LESSEES HAVE DECLINED TO MEET THE OFFER OF LUNDAY-THAGARD.
5. AUTHORIZE THE EXECUTIVE OFFICER TO NOTIFY THE LESSEES UNDER STATE OIL AND GAS LEASES IDENTIFIED IN EXHIBIT "B" 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 MAY 1, 1979.
6. ACCEPT AS ALTERNATE SECURITY, PURSUANT TO SECTION 19 OF THE ROYALTY OIL SALES CONTRACT, THE LETTER OF CREDIT IN THE AMOUNT OF \$70,000.

EXHIBIT "A"

Bids Received on Royalty Oil Sales Contract for PRC 91.1, PRC 426.1
and 91 MZU.

Lunday-Thagard Oil Co.
USA Petroleum Corp.
Gasco, Inc.
Crescent Refining & Oil Co.
Energy Production & Sales Co.
Sunland Refining Corp.
Energy Exchange Co., Inc.
La Jet, Inc.
ECO Petroleum, Inc.
De Menno Resources
Alliance Oil & Refining
Kennedy Industries, Inc.
Beacon Oil Co.
Edgington Oil Co.
B & B Trading Co.
Kern County Refinery, Inc.
Powerine Oil Co.
Basin Petroleum, Inc.
Sabre Refining, Inc.

EXHIBIT "B"

OIL AND
GAS LEASE

LESSEE (OPERATOR)
(MAJORITY WORKING INTEREST OWNER)

PRC 976.1	The Termo Company *
PRC 988.2	Mar Rico Oil Co.
PRC 991.1	Benito Huntington Oil Co.
PRC 992.1	A. C. Marion
PRC 993.1	Bee Oil Company
PRC 998.1	The Termo Company *
PRC 1335.1	Bee Oil Company
PRC 1338.1	H. B. Oil Company
PRC 1341.1	The W. K. Co.
PRC 1342.1	The Termo Company *
PRC 1343.1	Chevron USA Inc.
PRC 1345.1	The Termo Company *
PRC 1346.1	Tower Petroleum Co.
PRC 2515.1	The Termo Company *
PRC 2516.1	The Termo Company *
PRC 2517.1	The Termo Company *
PRC 1339.1	Western States Drilling Co.

* Except 998 and 1345, which are owned by Termo, all the rest (976, 1342, 2515, 2516, and 2517) of Termo's leases are owned by Oakes Petroleum Corp., F. W. Combs, Eldridge E. Combs, Ernest F. Combs, and Trust Estate of Thelma M. Bryant (formerly Combs).