

MINUTE ITEM

This Calendar Item No. 34
was approved as Minute Item
No. 34 by the State Lands
Commission by a vote of 3
to 0 at its 5/27/82
meeting.

CALENDAR ITEM

34

5/27/82
W 9603.24
Tanner

REJECTION OF BID FOR
ROYALTY OIL SALES CONTRACT

On February 25, 1982, the Commission authorized the competitive bid sale of royalty oil produced from State Leases PRC 1824, PRC 3133, PRC 3150 and PRC 4000. The royalty oil is currently being purchased by Beacon Oil Company under contract for a bonus bid of \$1.28; however, the purchaser has declined to extend the sales contract beyond its expiration of January 1, 1983 and the State must provide 180 days notice to return its royalty oil to the lessee. The State's share of royalty oil produced from State Leases PRC 1824, PRC 3133, PRC 3150 and PRC 4000, is approximately 500 barrels per day with an average gravity of 27° API.

On April 19, 1982, the staff offered by competitive public bid the royalty production from State Leases PRC 1824, PRC 3133, PRC 3150 and PRC 4000. One bid was received and opened on May 5, 1982. USA Petrochem Corporation has offered to pay, in addition to the base price, a bonus of \$0.011 per barrel for 18 months commencing on January 1, 1983. The base price is defined as the highest price posted for oil of like gravity and quality in the Summerland or Carpinteria Offshore Fields in Santa Barbara County.

Staff has reviewed this bid for compliance with applicable rules and regulations. The offer was made pursuant to a bid proposal which stated the Commission reserves the right to cancel the offer at any time and to reject all bids received. The bid will net the State only \$165 per month above the base price. The staff does not believe that the State's financial interests would be best served by entering into an 18-month contract commencing on January 1, 1983 at such a low bonus. If the demand for oil increases, the State's in-kind share of oil can again be put out for bid. A higher bid at a later time could bring to the State considerable more revenue than would acceptance of the present low bid.

AB 884: N/A.

IT IS RECOMMENDED THAT THE COMMISSION:

1. REJECT THE BID RECEIVED FROM USA PETROCHEM CORPORATION UNDER THE CURRENT OFFERING FOR SALE OF ROYALTY OIL

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2. DIRECT THE EXECUTIVE OFFICER OF P'S DESIGNEE TO NOTIFY THE LESSEES THAT THE STATE INTENDS TO TAKE PAYMENT FOR ITS ROYALTY OIL, RATHER THAN TO TAKE IT IN KIND, PURSUANT TO THE PROVISIONS OF STATE OIL AND GAS LEASES PRC 1824, PRC 3133, PRC 3150 and PRC 4000, COMMENCING JANUARY 1, 1983.
3. DETERMINE THAT AN ENVIRONMENTAL DOCUMENT IS NOT REQUIRED BECAUSE THIS BID REJECTION IS NOT A PROJECT UNDER CEQA P.R.C. 21080.