

MINUTE ITEM

This Calendar Item No. 35
was approved as Minute Item
No. 35 by the State Lands
Commission by a vote of 3
to 0 at its 5/27/82
meeting.

CALENDAR ITEM

35

5/27/82
W 9603.23
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 186 and PRC 3095. The royalty oil is currently being purchased by USA Petrochem under contract at a bonus of \$1.077; 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 186 and PRC 3095 is approximately 800 barrels per day with an average gravity of 22° API.

On April 19, 1982, the staff offered by competitive public bid the royalty production from State Leases PRC 186 and PRC 3095. One bid was received and opened on May 4, 1982. USA Petrochem Corporation has offered to pay, in addition to the base price, a bonus of \$0.026 per barrel for 18 months commencing January 1, 1983. The base price is defined as the highest price posted for oil of like gravity and quality in the Belmont Offshore Field in Orange County.

Staff has reviewed this bid for compliance with applicable rules and regulations. The offer was made pursuant to a bid proposal which stated that 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 \$624 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 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 UNDER THE CURRENT OFFERING FOR SALE OF ROYALTY OIL PRODUCED FROM STATE LEASES PRC 186 AND PRC 3095.

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2. DIRECT THE EXECUTIVE OFFICER OR HIS 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 186 AND PRC 3095, 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.

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