MINUTE ITEM
This Calendar Item No. 26
was approved as Minute Item
No. 26 by the State Lands
Commission by a vote of 2
to 0 at its 11/20/86
meeting.

CALENDAR ITEM

26

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11/20/86
W 9603.50 PRC 7026
Tanner

REJECTION OF BID FOR THE ROYALTY OIL SALES CONTRACT,
STATE OIL AND GAS LEASE PRC 3242,
SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY

On September 25, 1986 the State Lands Commission authorized the competitive bid sale of royalty oil from State oil and gas Leases PRC 3120 and PRC 3242, South Ellwood Offshore Field, Santa Barbara County. The royalty oil from State Lease PRC 3120 is currently being purchased by Champlin Petroleum Company for $0.989 per barrel above the base price under a contract which will expire on April 1, 1987. Huntway Refining Company (Huntway) is presently purchasing the royalty oil from State Lease PRC 3242 for $1.33 per barrel above the Base Price under a contract which will expire on June 1, 1987. The State's share of crude oil produced from State Lease PRC 3120 is approximately 26,500 barrels per month of 20° API gravity crude oil and from State Lease PRC 3242 is approximately 70,000 barrels per month of 20° API gravity crude oil.

On October 14, 1986 the staff offered by competitive public bidding the royalty production from State oil and gas Lease PRC 3120. The royalty production from State oil and gas Lease PRC 3242 was offered on October 15, 1986. Huntway was the sole bidder on both contracts.

Huntway offered to pay the State a bonus of $0.285 per barrel above the Base Price for the royalty production from State oil and gas Lease PRC 3120. For the royalty production from State oil and gas Lease PRC 3242, Huntway offered to pay the State a bonus of $0.085 per barrel above the Base Price. The Base Price is the highest price posted for like crude oil in the Ellwood and South Ellwood Offshore Fields on the day of delivery.

(ADDED 11/18/86)

On October 23, 1986 the State Lands Commission considered action on both bids. The Commission accepted the bonus bid of $0.285 per barrel for the royalty production from State oil and gas Lease PRC 3120 and awarded the contract to Huntway. However, the Commission deferred action on Huntway's other bonus bid of $0.085 per barrel for the royalty production from State oil and gas Lease PRC 3242.

Staff recommends that the Commission reject Huntway's bid of $0.085 per barrel for the royalty production from State oil and gas Lease PRC 3242. Staff does not believe that it would be in the State's best interest to enter into an 18-month contract commencing on June 1, 1987 at such a low bonus bid. However, along with rejecting Huntway's bid, the Commission may adopt any of three alternative courses of action:

A. The Commission may authorize staff to return the royalty oil to the State's lessee, ARCO, and consider soliciting new bids at a later date;

B. The Commission may authorize staff to resubmit the oil immediately for competitive bid; or

C. The Commission may accept a negotiated price, pursuant to California P.R.C. Section 6815.1.

Staff has had several discussions with Huntway concerning an appropriate price for the royalty oil from State oil and gas Lease PRC 3242. As a result of these discussions, Huntway has offered to pay $0.22 per barrel above the base price. In view of limited interest from other companies in purchasing this oil, staff recommends that the Commission accept Huntway's offer as a negotiated price.

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.

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. 21056 AND 14 CAL. ADM. CODE 15378.

2. REJECT THE BID OF HUNTWAY REFINING COMPANY FOR ROYALTY OIL PRODUCTION FROM STATE OIL AND GAS LEASE PRC 3242, SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY ON THE GROUNDS THAT IT IS INSUFFICIENT.

3. ACCEPT A NEGOTIATED PRICE FROM HUNTWAY REFINING COMPANY OF $0.22 PER BARREL ABOVE THE BASE PRICE FOR THE ROYALTY PRODUCTION FROM STATE OIL AND GAS LEASE PRC 3242 FOR THE PERIOD COMMENCING JUNE 1, 1987 AND RUNNING FOR 18 MONTHS THEREAFTER.