

MINUTE ITEM

This Calendar Item No. 27
was approved as Minute Item
No. 27 by the State Lands
Commission by a vote of 2
to 0 at its 11/20/86
meeting.

CALENDAR ITEM

27

A 58

S 37

11/20/86
W 9603.51
Tanner

PROPOSED SALE OF ROYALTY CRUDE OIL,
STATE OIL AND GAS LEASES PRC 3033 AND PRC 3413,
HUNTINGTON BEACH FIELD, ORANGE COUNTY

At the present time, the royalty crude oil from State oil and gas Leases PRC 3033 and PRC 3413, Huntington Beach Field, Orange County is being sold off under a contract which will expire on July 1, 1987. The State must give its Lessee, Union Oil Company of California, 180 days notice if it desires to continue to take this oil in kind. Staff therefore recommends that the Commission act at this time to re-offer for competitive public bidding the royalty crude oil presently being purchased.

Champlin Petroleum Company is presently purchasing this oil and paying the State a bonus of \$0.733 per barrel above a base price that is the highest price posted in the field. The State's share of crude oil produced from these leases is approximately 13,000 barrels per month of 20.8° API gravity crude oil.

Section 6815.1 of the P.R.C. governs the sell-off of this oil and provides, in pertinent part, that when oil is taken in kind by the Commission it shall be sold only to the highest responsible bidder upon competitive public bidding and that the bidding shall be pursuant to specifications and forms adopted by the Commission prior to publication of the notice to bidders. The bidding will be on the basis of a bid bonus per barrel over a Base Price, with the award going to the responsible party making the highest per barrel bonus bid. The staff recommends that the Commission at this time authorize the sale of royalty crude oil from the leases and adopt the specifications for the sell-off which are listed on Exhibit "A" to this calendar item. Staff also recommends that the Commission adopt the forms prepared by staff for use in the sell-off, which are the notice inviting bids, bid proposal and

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the crude oil sales contract, copies of which are on file in the Commission's office in Long Beach.

After the bids are solicited and the highest responsible bidder determined, the staff will return to the Commission with recommendations regarding the awarding of the sales contract.

The oil will be delivered without any physical change in the existing oil production and transportation facilities.

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.

AB 884: N/A.

EXHIBIT: A. Specifications of Sale.

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. 21065 AND 14 CAL. ADM. CODE 15378.
2. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR SALE BY COMPETITIVE BIDDING 100 PERCENT OF THE ROYALTY OIL FROM STATE OIL AND GAS LEASES PRC 3033 AND PRC 3413, HUNTINGTON BEACH FIELD, ORANGE COUNTY.
3. ADOPT THE SPECIFICATIONS LISTED IN EXHIBIT "A" AND THE REFERENCED FORMS FOR USE IN THE SALE OF THE ROYALTY OIL PRODUCED FROM STATE OIL AND GAS LEASES PRC 3033 AND PRC 3413, HUNTINGTON BEACH FIELD, ORANGE COUNTY.

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EXHIBIT "A"

The significant specifications for the sell-off are as follows:

1. Amount

The sell-off will offer 100 percent of the State's monthly royalty share of crude oil that is made available for sale.

2. Base Price

The Base Price will be the highest price posted for oil of like gravity and quality in the Huntington Beach Field on the day of delivery among the postings of Chevron USA, Inc., Mobil Oil Corporation and Union Oil Company of California. The Base Price shall not include any deduction for delivery, transportation or dehydration and shall be computed to the closest tenth of each degree of A.P.I. gravity and the closest tenth of a cent per barrel. A minimum bonus bid of \$0.25 per barrel above the Base Price will be required.

3. Term

The contracts will be for a term of twelve months without provision for renewal or extension.

4. Cash Deposit

Each bidder shall submit with its bid as evidence of good faith, a certified or cashier's check in the amount of \$25,000. Except in the case of the successful bidder, the bid deposit will be returned to each bidder.

5. Surety

An irrevocable letter of credit will be required in an amount equivalent to the estimated value of 60 days production. An alternate form of security will be accepted as a substitute for the letter of credit with the approval of the State, subject to terms and conditions prescribed by the State.

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6. Insurance

The Purchaser will maintain or procure personal liability insurance of at least \$500,000 per person, \$1,000,000 for more than one person, and property damage insurance of at least \$1,000,000.

7. Delivery

An agreement providing for the exchange or other disposition of the oil subject to the sales contract must be submitted as evidence establishing the bidder's ability to take the royalty oil at the points of delivery.

8. Selection of Successful Bidders

The successful bidder for the contract shall be the responsible bidder making the highest per barrel bonus bid. In the event that two or more responsible bidders make identical bids, the successful bidder will be determined by lot among all those responsible bidders making such identical bids.

9. Rejection of bids

All or any portion of the royalty oil proposed to be sold may be withdrawn by the Commission at any time before the opening of the bids. The Commission also reserves the right to cancel this offer at any time and the right to reject any or all of the bids.