MINUTE ITEM
This Calendar Item No. C12
was approved as Minute Item
No. 12 by the State Lands
Commission by a vote of 2
to 0 at its 12/23/86
meeting.

CALENDAR ITEM

C12

A 35

S 18

12/23/86
PRC 6535
Tanner

REDUCTION IN THE AMOUNT OF A LETTER OF CREDIT REQUIRED BY THE ROYALTY OIL SALES CONTRACT FOR STATE OIL AND GAS LEASES PRC 145, PRC 410, PRC 429, PRC 427 AND PRC 1466, RINCON OIL FIELD, VENTURA COUNTY

On May 23, 1985 the State Lands Commission awarded the Royalty Oil Sales Contract for State oil and gas Leases PRC 145, PRC 410, PRC 429, PRC 427, and PRC 1466, Rincon Oil Field, Ventura County to Caljet, Inc. Caljet, Inc. was the highest responsible bidder for this contract offering to pay the State a bonus of $0.35 per barrel above the Base Price defined as the highest price posted in the Rincon Oil Field, for oil of like gravity and quality on the day of delivery by a company purchasing or paying royalties on oil in that field.

The State's royalty share of production from these leases is approximately 1,600 barrels per month of between 24° - 29° API gravity crude oil. The contract is for a term of 18 months having begun on July 1, 1985 and terminating on January 1, 1987.

Due to the world-wide over-supply of crude oil, posted prices for crude oil in California have dropped dramatically in the past ten months. In the Rincon Oil Field, in January, posted prices ranged from between $22 and $24 per barrel for crude oil between 24° and 28° API gravity. At the present time, that same oil is posted at between $10 and $11 per barrel.

On July 11, 1986 the State Lands Commission amended three of the five leases for which Norris Oil Company is the State's lessee. The royalty provisions for State oil and gas Leases PRC 410, PRC 429 and PRC 1466, Rincon Oil Field, Ventura County, were modified to reduce the State's royalty from 12.5 percent for PRC 410 and PRC 429, and 32.28 percent for PRC 1466, to one percent of the gross daily revenues up to and including $4,500 of the leases taken in aggregate. Between $4,500 and $10,000 per day, the royalty would be five percent and amounts

CALENDAR PAGE 93
MINUTE PAGE 3990

in excess of $10,000 would be burdened with a ten percent royalty. The current royalty rate applicable to these leases is one percent.

As a result of the reduced deliveries of royalty oil to Caljet, Inc. because of the Norris lease amendments and the sharp decline in posted prices, the State's financial exposure under this contract has been reduced. Therefore Caljet, Inc. has requested a reduction in the amount of the letter of credit from $165,000 to $33,000. This amount represents the present value of 60 days royalty production from the five leases. The new Letter of Credit would be required to be maintained for 45 days beyond the contract expiration date of January 1, 1987, until February 15, 1987. Staff has reviewed Caljet Inc.'s proposal and concurs with it.

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.

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. APPROVE THE REDUCTION OF THE LETTER OF CREDIT REQUIRED UNDER ROYALTY OIL SALES CONTRACT PRC 6535, FROM $165,000 TO $33,000 FROM DECEMBER 24, 1986 UNTIL FEBRUARY 15, 1987.