

MINUTE ITEM

This Calendar Item No. 36
was approved as Minute Item
No. 36 by the State Lands
Commissioner by a vote of 2
to 0 at its 4/23/87
meeting.

CALENDAR ITEM

A 35, 58
S 18, 29

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Tanner

**PROPOSED SALE OF ROYALTY CRUDE OIL,
STATE OIL AND GAS LEASES,
LOS ANGELES AND SANTA BARBARA COUNTIES**

At present the State is being paid in money for the State's royalty share of crude oil from one State oil and gas lease in Los Angeles County and six State oil and gas leases in Santa Barbara County. Several of these leases were under contract to various purchasers who elected to terminate the contracts and return the oil to the State. As a result, these purchasers were required to pay the State bonuses on these contracts until the contracts expired in late 1986 and early 1987. The royalty crude oil produced from State oil and gas Leases PRC 129 and PRC 208, Ellwood Oil Field, Santa Barbara County has not been sold off in the recent past.

Due to the increase in posted prices for crude oil in California because of a cut in production quotas by OPEC and the bonuses received in recent sales of royalty crude oil from State leases, staff recommends that it be authorized to offer for competitive public bidding the oil from the leases listed in Exhibit "A", for which the State is presently being paid in money.

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 staff recommends that the Commission at this time authorize the sale of royalty crude oil from the leases listed on Exhibit "A" and adopt the specifications for the sell-offs which are listed on Exhibit "B" to this Calendar Item. Staff also recommends that the Commission adopt the forms prepared by

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staff for use in the sell-offs, which are the notice inviting bids, bid proposal and crude oil sales contracts, 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 award of the sales contracts.

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 the activity 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.

EXHIBITS: A. List of Leases.
B. Specifications of Sales.

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 THE ACTIVITY 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 PUBLIC BIDDING 100 PERCENT OF THE ROYALTY OIL FROM THE STATE OIL AND GAS LEASES LISTED IN EXHIBIT "A".
3. ADOPT THE SPECIFICATIONS LISTED IN EXHIBIT "B" AND THE REFERENCED FORMS FOR USE IN THE SALE OF THE ROYALTY OIL FROM THE STATE OIL AND GAS LEASES LISTED IN EXHIBIT "A".

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EXHIBIT "A"

<u>Leases</u>	<u>Vol. (BELS/Day)</u>	<u>Notice Period (Days)</u>
Tract No. 2 (L. B. U.)	277 (17.60)	60
PRC 3133	4,400 (290)	180
PRC 3150	7,100 (250)	180
PRC 4000	515 (270)	180
PRC 1824 (Carp.-Summ)	2,500 (360)	180
PRC 129	365	On Demand
PRC 208 (Elwood)	(34.50)	On Demand

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EXHIBIT "B"

The significant specifications set forth in the sell off bid forms are as follows:

1. Amount

The sell-offs will offer 100 percent of the state's monthly royalty share of crude oil.

2. Price

The price will be the highest posted price in the respective oil fields on the day of delivery by specifically named posters, plus a bonus per barrel that is the bid factor. The price for the oil shall be computed to the closest tenth of each degree of API gravity and the closest tenth of a cent per barrel. A minimum bonus bid of 25¢ per barrel above the posted price will be required.

3. Term

The contracts for Tract No. 2 and PRC 129/208 will be for a term of six months. The contract for PRC 3133, PRC 3150, PRC 4000 and PRC 1824 will be for a term of one year due to a 180 day notice period. All contracts will not be able to be renewed or extended.

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 60 days production. At the staff's discretion, with approval of the Attorney General's office, an alternate form of security may be submitted.

6. Insurance

The Purchaser will maintain or procure personal liability insurance of at least \$500,000 for injury or death to one 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 point of delivery.

8. Selection of Successful Bidders

The successful bidder for each 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 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.