MINUTE ITEM
This Calendar Item No. 49
was approved as Minute Item
No. 49 by the State Lands
Commission by a vote of 3
to 0 at its 9/27/89
meeting.

CALENDAR ITEM

A 35

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49

09/27/89
W 9603.75
W 9603.76
Willard

PROPOSED SALE OF ROYALTY CRUDE OIL
STATE OIL AND GAS LEASES
ORANGE AND VENTURA COUNTIES

BACKGROUND:

At the present time, the State is being paid in money for the royalty crude oil from six State oil and gas leases in Orange and Ventura counties.

The royalty crude oil produced from State oil and gas leases PRC 145, PRC 410, PRC 427, PRC 429, and PRC 1466, Rincon Oil Field, Ventura County, has not been sold off since January 1, 1987. In August 1986, the State's royalty share of oil from State oil and gas leases PRC 410, PRC 429, and PRC 1466, Rincon Oil Field, Ventura County, was reduced from 16-2/3 percent to between one percent and ten percent based on gross daily revenues from these leases. This arrangement was part of an agreement between the State and Bush Oil Company as part of Bush Oil Company's acquisition of these leases from Norris Oil Company. Bush Oil Company was then acquired by Berry Petroleum Corporation, which is the present holder of these leases. Effective October 1, 1987, the State's royalty from these leases increased to 12-1/2 percent. On October 1, 1989, the State's royalty will increase to 16-2/3 percent. Staff feels it would be in the State's best interest to begin taking the State's share of production from these leases in-kind again and to sell it by competitive public bid. The State's share of production from these leases is approximately 2,250 barrels per month of between 25.4° and 27.2° API gravity crude oil.

(ADDED pgs. 360-360.5)

On April 10, 1987, a bid opening was held for the State's share of crude oil produced from State oil and gas lease PRC 186, Belmont Offshore Field, Orange County. No bids were received. Subsequent to this bid opening, a leak developed in Exxon's pipeline from State oil and gas lease PRC 186 and a new pipeline had to be installed. This new pipeline is now fully operational. Staff feels that it would be in the State's best interests to begin taking in-kind the State's share of production from this lease and to sell it by competitive public bid. The State's share of production from this lease is approximately 6,500 barrels per month of 19.5° API gravity crude oil.

Section 6815.1 of the P.R.C. governs the sales 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 following competitive public bidding which is conducted pursuant to the specifications and forms adopted by the Commission prior to publication of the notice to bidders. The staff recommends that the Commission authorize the sale of royalty crude oil from the leases listed on Exhibit "A" and adopt the specifications listed on Exhibit "B" for the proposed forms, copies of which are on file in the Commission's office in Long Beach, consisting of the notice inviting bids, bid proposal, and the crude oil sales contracts.

STAFF RECOMMENDATIONS:
After the bids are solicited and the highest responsible bidders are determined, the staff will return to the Commission with recommendations regarding the award of the sales contracts.

AB 884: N/A.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 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. Code Regs. 15378.

EXHIBITS:
A. State Oil and Gas Leases.
B. Specifications for Sales.

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IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.

2. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR SALE, BY COMPETITIVE BIDDING, THE ROYALTY OIL FROM THE STATE 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"

SELL-OFF SCHEDULE (TENTATIVE)

LEASES	VOL. (B/D)	NOTICE PERIOD (DAYS)	NOTICE PUBLISHED	BID OPENING	AWARD OF CONTACTS	EFFECTIVE DATE	EXPIRATION DATE	CONTRACT LENGTH (MONTHS)
PRC 145	18 (25.4°)	O.D.	11/1/89	11/17/89	12/14/89	3/1/90	9/1/91	18
PRC 410	22 (26.5°)	60						
PRC 427	39 (26.8°)	O.D.						
PRC 429	0	60						
PRC 1466 (RINCON)	16 (27.2°)	60						
P 186 (BELMONT)	216 (19.5°)	O.D.	11/2/89	11/21/89	12/14/89	1/1/90	7/1/91	18

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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 the State's monthly royalty share of crude oil.

2. Price

The price will be the highest of the posted prices in the respective geographic fields for oil of like gravity and quality on the day of delivery plus a bonus per barrel that is the bid factor. The price for the oil shall be computed to the closest tenth of a cent per barrel. A minimum bonus bid of 25¢ per barrel above the highest posted price will be required.

3. Payment

Purchaser will be invoiced semi-monthly. A staggered penalty schedule of between 1% - 5% will be used for late payments. Interest will continue to be assessed at the rate of 1 1/2% per month.

4. Term

Each contract will be for a term of eighteen months without provision for renewal or extension.

5. 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.

6. Surety

An irrevocable letter of credit will be required in an amount equivalent to the value as determined under the contract of 45 days of production. An alternate form of security will be accepted as a substitute for the letter of credit, subject to conditions prescribed by SLC Staff and the Office of the Attorney General.

7. Insurance

The purchaser will maintain or procure personal liability and property damage insurance of at least $2,000,000 combined single limit per occurrence or $4,000,000 aggregate.

8. 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(s) of delivery.

9. 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 high bids, the successful bidder will be determined by lot among all those responsible bidders making such identical high bids.

10. 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.

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