

MINUTE ITEM

This Calendar Item No. 30  
was approved as Minute Item  
No. 30 by the State Lands  
Commission by a vote of 3  
to 0 at its 11/15/91  
meeting.

CALENDAR ITEM

30

A 35, 36, 58, 69

S 18, 37

07/15/91  
W 9603.88  
W 9603.89  
Tanner

APPROVE PROPOSED SALE OF ROYALTY CRUDE OIL  
STATE OIL AND GAS LEASES  
ORANGE AND SANTA BARBARA COUNTIES

PARTY:

State Lands Commission  
1807 - 13th Street  
Sacramento, California 95418

BACKGROUND

At the present time, the State is taking in kind and selling its royalty share of crude oil (approximately 3,290 B/D) from three State Oil and Gas Leases in Santa Barbara County and two State Oil and Gas Leases in Orange County. The contracts for these royalty oil sales are scheduled to expire between June 1, 1992 and October 1, 1992. Because of the long lead time needed to re-offer for competitive bidding the royalty crude oil presently being purchased, it is necessary to begin the process now. The royalty crude oil will be sold under two separate contracts. Royalty oil from several leases located close to each other will be sold under a single contract.

STAFF RECOMMENDATIONS:

Section 6815.1 of the P.R.C. governs the sell-off of royalty oil and provides 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 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 the staff for use in the sell-offs, which are the notice inviting bids, bid proposal and the 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 bidders are determined, staff will return to the Commission with a recommendation regarding the award of the sales contracts.

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

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 it 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. Tentative Sell off schedule for State Oil and Gas Leases.
- B. Specifications for Sales.

**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 OIL AND GAS LEASES LISTED ON 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".

W 9600 88  
 W 9603.89  
 Tanner

EXHIBIT "A"

BELL-OFF SCHEDULE (TENTATIVE)

Leases	Vol (B/D)	Notice Period (Days)	Notice Published	Bid Opening	Award of Contracts	Effective Date	Expiration Date	Contract Length (Months)
1. PRC 208	155 (34.7°)	180	1/17/92	2/4/92	3/15/92	10/1/92	4/1/94	18
PRC 3120	1,248 (21.6°)							
PRC 3242 (So. Ellwood)	1,556 (21.4°)							
2. PRC 3033 PRC 3413 (H.B.)	330 (20.9°)	180	9/17/91	10/3/91	11/15/91	6/1/92	12/1/93	18

EXHIBIT "B"

The significant specifications set forth in the sell-off 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 field for oil of like gravity 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 each degree of API gravity and the closest tenth of a cent per barrel. A minimum bonus bid of \$0.25 per barrel above the posted price will be required. In addition, the purchaser will be invoiced semi-monthly. A staggered penalty schedule of between one percent - five percent will be used for late payments. Interest will be assessed at the rate of one and one-half percent per month.

3. TERM

The contracts will be for a term of eighteen months. There are no provisions for renewal or extensions.

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 for sales contracts with production of 1,000 barrels per day or less, and \$50,000 for sales contracts with production in excess of 1,000 barrels per day. 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 45 days of State royalty oil production. An alternate form of security may be accepted as a substitute for the letter of credit.

6. 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.

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