

MINUTE ITEM

This Calendar Item No. C58
was approved as Minute Item
No. 58 by the State Lands
Commission by a vote of 3
to 0 at its 10-28-96
meeting.

CALENDAR ITEM
C58

A 69
S 37

10/28/96
W 9603.99
J. Tanner

**APPROVE PROPOSED SALE OF ROYALTY CRUDE OIL,
OIL AND GAS LEASE NOS. PRC 3120 AND PRC 3242,
SOUTH ELLWOOD OFFSHORE FIELD,
SANTA BARBARA COUNTY**

BACKGROUND:

At this present time, the State is taking in money, its royalty share of crude oil from Oil and Gas Lease Nos. PRC 3120 and PRC 3242 in Santa Barbara County. The leases require that the lessee be notified 180 days in advance of the State exercising its right to take the oil royalty share in kind rather than in money. Staff proposes that the royalty crude oil offered be under one sales contract for competitive bidding. If there is a responsible bidder at a price acceptable to the Commission, the State will elect to receive its royalty share in kind.

STAFF RECOMMENDATIONS:

Section 6815.1 of the Public Resources Code 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. Commission staff recommends that the Commission, at this time, authorize the sale of royalty crude oil from these leases and adopt the specifications for the sell-offs which are listed on Exhibit "A" to this calendar item. Commission 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 contract, 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, Commission staff will return to the Commission with a recommendation regarding the award of the sales contract.

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

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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: Public Resources Code Section 21065 and 14 Cal. Code Regs. 15378.

AB 884:

N/A

EXHIBIT:

- A. Specifications for Sales

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND 14 CAL. CODE REGS. 15378.
2. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR SALE BY COMPETITIVE BIDDING THE ROYALTY OIL FROM OIL AND GAS LEASE NOS. PRC 3120 AND PRC 3242, SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY.
3. ADOPT THE SPECIFICATIONS LISTED IN EXHIBIT "A" AND THE REFERENCED FORMS FOR USE IN THE SALE OF THE ROYALTY OIL FROM OIL AND GAS LEASE NOS. PRC 3120 AND 3242, SOUTH ELLWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY.

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EXHIBIT "A"

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 South Ellwood offshore field among major oil companies for oil of like gravity on the day of delivery, plus a bonus per barrel that is the bid factor. The prices 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 monthly. Furthermore, a staggered late penalty of between one percent (1%) and five percent (5%) will be used for late payments. Interest to be assessed at the rate of one and one-half percent (1 1/2%) per month.

3. Term

The contract will be for a term of 12 months. There are no provisions 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 the amount of \$570,000 equivalent to 60 days of royalty oil production. An alternate form of security may be accepted as a substitute for the letter of credit, subject to conditions prescribed by State Lands Commission staff and the Office of the Attorney General.

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 to establish 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 and all of the bids.