

MINUTE ITEM
This Calendar Item No. C81
was approved as Minute Item
No. 81 by the State Lands
Commission by a vote of 3
to 0 at its 02/12/97
meeting.

CALENDAR ITEM
C81

A 57, 58, 59
S 29

02/12/97
W 9603.100
W 9603.101
Tanner

**CONSIDER PROPOSED SALE OF CRUDE OIL,
OIL AND GAS LEASE NOS. PRC 91, PRC 163, E-392,
PRC 425 AND PRC 426, HUNTINGTON BEACH FIELD,
ORANGE COUNTY AND LEASE NO. PRC 3455, TRACT NO. 2,
LONG BEACH UNIT, LOS ANGELES COUNTY**

BACKGROUND:

At this present time, the State is taking in kind and selling its share of crude oil (currently approximately 1,500 B/D) from six Oil and Gas leases in Orange and Los Angeles Counties in two separate contracts. These crude oil sales contracts (Huntington Beach and Tract No. 2) are scheduled to expire on June 1, 1997 and July 1, 1997, respectively. Because of the long lead time needed to re-offer for competitive bidding the crude oil presently being purchased, it is necessary to begin the process now. The crude oil will be sold under two separate contracts.

STAFF RECOMMENDATIONS:

Section 6815.1 of the Public Resources Code governs the contemplated sell-off of 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 the 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, Commission staff will return to the Commission with a recommendation(s) regarding the award of the sales contracts. The oil will be delivered without any change in the existing oil production and transportation facilities.

CALENDAR ITEM NO. **C81** (CONT'D)

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), Commission 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 21065 and 14 Cal. Code Regs. 15378.

PERMIT STREAMLINING ACT DEADLINE:

N/A.

EXHIBITS:

- A. 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 PUBLIC RESOURCES CODE SECTION 21065 AND 14 CAL. CODE REGS. 15378.
2. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR SALE BY COMPETITIVE BIDDING THE CRUDE OIL FROM OIL AND GAS LEASE NOS. LISTED ON EXHIBIT "A".
3. ADOPT THE SPECIFICATIONS LISTED IN EXHIBIT "B" AND THE REFERENCED FORMS FOR USE IN THE SALE OF THE CRUDE OIL FROM THE STATE OIL AND GAS LEASE NOS. PRC 91, PRC 163, E 392, PRC 425, PRC 426 AND PRC 3455, TRACT NO. 2 LISTED IN EXHIBIT "A".

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 from the Huntington Beach leases (Lease Nos. PRC 91, PRC 163, E 392, PRC 425, PRC 426 and PRC 3455) and 35 percent of the oil allocated monthly to Tract No. 2 (Lease No. 3455).

2. Price

For the Huntington Beach sell-offs, the price will be the highest of the prices posted in the field by Chevron, Mobil, Union and Texaco for oil of like gravity on the day of delivery, plus a bonus per barrel that is the bid factor. For Tract No. 2, the price will be the highest price posted for oil of like gravity and quality on the day of delivery in the Wilmington, Long Beach (Signal Hill), Huntington Beach and Inglewood Oil Fields among the postings of Chevron, Mobil, Union and Texaco, 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.

3. Term

The contract for the Huntington Beach crude oil will be for a term of one year. The contract for the Tract No. 2 crude oil will be for one year. 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 \$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 equivalent to 60 days of crude oil production to be sold. An alternate form of security will 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

Evidence sufficient to establish the bidder's ability to take the crude oil at the point of delivery, such as an exchange agreement, must be submitted by the bidder.

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 crude 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.