

MINUTE ITEM

This Calendar Item No. C66 was approved as Minute Item No. 66 by the California State Lands Commission by a vote of 3 to 0 at its 12-3-99 meeting.

CALENDAR ITEM

C66

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S 29

12/03/99
W 9603.108
W 9603.109
J. Tanner
M. Voskanian

**CONSIDER APPROVAL OF PROPOSED SALE
OF ROYALTY CRUDE OIL, OIL AND GAS LEASES,
ORANGE COUNTY**

PARTY:

California State Lands Commission
100 Howe Avenue, Suite 100-South
Sacramento, CA 95825-8202

BACKGROUND:

At this present time, the State is taking in kind and selling its royalty share of crude oil (approximately 1,017 B/D) from five Oil and Gas leases in Orange County. The royalty oil sales contract is scheduled to expire on June 1, 2000. Because of the long lead needed to re-offer the oil by competitive bidding, it is necessary to begin the process now.

Public Resources Code section 6815.1 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 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 contract, copies of which are on file in the Commission's office in Long Beach.

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After the bids are solicited and the highest responsible bidders are determined, the staff will return to the Commission with a recommendation(s) regarding the award of the sales contract. The oil will be delivered without any 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 (Title 14, California Code of Regulations, section 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 the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15378.

EXHIBITS:

- A. Oil and Gas Leases
- B. Specifications for Sales

PERMIT STREAMLINING ACT DEADLINE:

N/A.

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

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.

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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

**LIST OF OIL AND GAS LEASES
 AND SELL-OFF SCHEDULE**

| | Lease Nos. | Production (B.D) | Notice Period to take in-Kind (Days) | Notice Published | Bid Opening | Award of Contracts | Notice to Lessees | Effective Date | Expiration Date | Contract Length (Months) |
|---|--|------------------|--------------------------------------|------------------|-------------|--------------------|-------------------|----------------|-----------------|--------------------------|
| 1 | PRC 91 PRC 1653 E-392 PRC 425 PRC426 | 1,017 | 90 | 12/20/1999 | 1/6/2000 | 2/2000 | 3/1/2000 | 6/1/2000 | 6/1/2001 | 12 |

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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 field 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 will continue to be assessed at the rate of one and one-half percent (1 ½%) per month.

3. Term

The contract will be for a term of between 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 (approximate) amount of \$1,300,000 equivalent to 60 days of State royalty oil production. An alternate

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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

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 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.

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