

MINUTE ITEM

11/29/73
CPP

25. SALE OF ROYALTY OIL FROM STATE OIL AND GAS LEASES PRC 163.1, PRC 186.1, E 392.1, PRC 425.1, PRC 426.1, PRC 3033.1, PRC 3095.1, PRC 3413.1, AND PRC 3455.1 (TRACT 2), LOS ANGELES AND ORANGE COUNTIES - W 9603, W 9662, W 9663, W 9664, W 9665, W 9666, W 9667, W 9676, PRC 163.1, PRC 186.1, E 392.1, PRC 425.1, PRC 426.1, PRC 3033.1, PRC 3095.1, PRC 3413.1, PRC 3455.1; PRC 4832.1 (Gustafson Oil Co. of California).

During consideration of Supplemental Calendar Item 23 attached, the Executive Officer summarized the current status relative to the proposed sale of royalty oil for which bids were received on August 23, September 26, and September 28, 1973. This item was deferred at the Commission's October meeting for two principal reasons; one, the announcement by the Cost of Living Council of a pending regulation, and two, a temporary restraining order by the Federal courts. At that time, the Commission also requested the staff, where needed, to obtain extensions from the lease holders of the notice of intent to take royalty oil.

The Executive Officer reported that, since the last meeting, the Cost of Living Council has not acted on the proposed regulation which would remove the current State exemption status. He also reported that the needed extensions from the lease holders were obtained, but emphasized that we are near the deadline on one or two of those extensions.

Mr. George Bond, Vice President-General Counsel of Union Oil Company of California, appeared before the Commission and stated that the State would lose money if the contracts were awarded at the bid prices. He suggested that the Commission reject all bids and permit the Executive Officer to continue the practice which he started this month of notifying lessees of the market price to be paid to the State whenever that market price increases.

Mr. Robert Roth, General Counsel for World Oil Company, a high bidder on three leases, stated that he could not accept the argument that the State would be hurt in any way by accepting these offers. He indicated that the State would receive approximately \$3 million extra revenue a year in awarding the contracts. Mr. Roth also agreed that since we were exempt we could obtain a higher posted price and that the higher price was the starting point for the payment of the bonus they had bid. Thus, if the maximum allowed under Phase IV was \$3.25 per barrel and because we were exempt we could obtain \$1.65 more than that, the amount that World Oil Company would pay would be \$1.11 per barrel over the \$4.90 (\$3.25 + \$1.65) posted price.

During a lengthy discussion, Deputy Attorney General Warren J. Abbott assured the Commission that, as of this time, they were under no legal restraint either from the court or from the Cost of Living Council to award these bids. He indicated there may be risks inasmuch as the case is still pending, or the Cost of Living Council may act tomorrow.

The matter of obtaining a hold-harmless clause from the bidders was discussed. In the event the contracts were awarded and the lessees proceeded to make arrangements, incurring costs and expenditures, and the Cost of Living Council rules the contracts to be invalid, the State would be protected in having the hold-harmless clause in the contracts. Chairman Flournoy asked Mr. Roth if World Oil Company would have any problem with this clause. Mr. Roth indicated there would be no problem, as they realized that right now with all the Federal government actions it is conceivable a contract could be awarded and it could be taken away by some governmental program.

The matter of rejecting the bids due to uncertainty was discussed. At this point, Mr. Bond again suggested that the bids should be rejected because of the circumstances which have taken place since September, when the bids were received.

Mr. Orr asked if the concept that the price for new oil becomes the posted price had been accepted by the lessees, and if we have received payment. The Executive Officer stated that Mr. Bond acknowledged for Union Oil Company in his testimony a short while ago, but that responses had not been received yet inasmuch as the letters did not go out until very, very recently. Mr. Orr asked Mr. Bond if he had acknowledged that. Mr. Bond stated that he did.

Upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION:

1. DETERMINES THAT AN ENVIRONMENTAL IMPACT REPORT HAS NOT BEEN PREPARED FOR THIS PROJECT BUT THAT A NEGATIVE DECLARATION HAS BEEN PREPARED BY THE DIVISION.
2. CONSIDERS AND ADOPTS NEGATIVE DECLARATION EIR NO. 129.
3. DETERMINES THAT THE PROJECT WILL HAVE NO SIGNIFICANT EFFECT ON THE ENVIRONMENT.
4. ACCEPTS THE HIGH BIDS WITH THE CONTINGENCY THAT THE CONTRACTS CONTAIN A HOLD-HARMLESS CLAUSE, AND AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE AND ISSUE ROYALTY OIL SALES CONTRACT PRC 3455.1 (TRACT 2) TO U. S. OIL & REFINING CO., ROYALTY OIL SALES CONTRACT PRC 163.1 AND PRC 426.1 TO GUSTAFSON OIL COMPANY OF CALIFORNIA, ROYALTY OIL SALES CONTRACT PRC 425.1 TO U SAVE AUTOMATIC CORPORATION, ROYALTY OIL SALES CONTRACT PRC 186.1 AND PRC 3095.1 TO U SAVE AUTOMATIC CORPORATION, ROYALTY OIL SALES CONTRACT E 392.1 TO WORLD OIL COMPANY, AND ROYALTY OIL SALES CONTRACT PRC 3033.1 AND PRC 3413.1 TO WORLD OIL COMPANY.
5. AUTHORIZES THE EXECUTIVE OFFICER TO NOTIFY THE LESSEES UNDER EACH RESPECTIVE LEASE THAT THE STATE, IN ACCORDANCE WITH THE LEASE TERMS, IS EXERCISING ITS RIGHT TO TAKE IN KIND ITS ROYALTY SHARE OF OIL PRODUCED UNDER THE LEASE; THE EFFECTIVE DATE FOR COMMENCEMENT OF TAKING ROYALTY OIL IN KIND WILL BE DECEMBER 1, 1973, FOR LEASES PRC 163.1 AND PRC 426.1; AND MAY 1, 1974, FOR LEASES PRC 186.1, PRC 3095.1, PRC 425.1, E 392.1, PRC 3033.1, PRC 3413.1, AND PRC 3455.1.

Attachment:

Supplemental Calendar Item 23 (2 pages)

SUPPLEMENTAL
CALENDAR ITEM

11/73
CPP
W 9603

23.

PROPOSED SALE OF ROYALTY OIL FROM STATE OIL AND GAS LEASES
PRC 163.1, PRC 186.1, E 392.1, PRC 425.1, PRC 426.1, PRC 3033.1
PRC 3095.1, PRC 3413.1, AND PRC 3455.1 (TRACT 2)

On August 23, September 26 and September 28, 1973, bids were received in response to published Notice of Intentions of offer for sale by competitive public bid royalty oil from State Oil and Gas Leases PRC 163.1, PRC 186.1, E 392.1, PRC 425.1, PRC 426.1, PRC 3033.1, PRC 3095.1, PRC 3413.1, and PRC 3455.1 (Tract 2). The offers were authorized by the Commission on July 26, 1973.

The sales contracts, high bidders and bid factors are tabulated below:

<u>Sales Contract</u>	<u>High Bidder</u>	<u>Bid Factor</u>
PRC 3455.1 (Tract 2)	U. S. Oil & Refining Co.	\$0.7368
PRC 163.1 and PRC 426.1	Gustafson Oil Company of California	0.77
PRC 425.1	U Save Automatic Corporation	1.2671
PRC 186.1 and PRC 3095.1	U Save Automatic Corporation	1.1171
E 392.1	World Oil Company	1.118
PRC 3033.1 and PRC 3413.1	World Oil Company	1.118

All bids submitted were reviewed by the staff as to technical sufficiency and economic factors. The Office of the Attorney General reviewed the high bids and determined:

1. That the Commission has complied with the procedural requirements of the law;
2. That the bids submitted conform with:
 - A. The bid requirements specified in the proposals of the Commission;
 - B. The applicable provisions of law; and
 - C. The rules and regulations of the Commission.

A summary tabulation of the bid offers received pursuant to the proposals is attached as Exhibit "A".

SUPPLEMENTAL
CALENDAR ITEM NO. 23. (CONTD)

Pursuant to the California Environmental Quality Act (CEQA), and the subsequent guidelines prepared for implementation of CEQA, Negative Declaration EIR 129 has been prepared and is on file in the office of the Commission, available for public review, and by reference made a part hereof. The declaration, covering the proposed sale of royalty oil, concludes that the proposed sales will not have a significant detrimental effect on the environment.

EXHIBIT: A. Bid Offers.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN ENVIRONMENTAL IMPACT REPORT HAS NOT BEEN PREPARED FOR THIS PROJECT BUT THAT A NEGATIVE DECLARATION HAS BEEN PREPARED BY THE DIVISION.
2. CONSIDER AND ADOPT NEGATIVE DECLARATION EIR NO. 129.
3. DETERMINE THAT THE PROJECT WILL HAVE NO SIGNIFICANT EFFECT ON THE ENVIRONMENT.
4. ACCEPT THE HIGH BIDS AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE AND ISSUE ROYALTY OIL SALES CONTRACT PRC 3455.1 (TRACT 2) TO U. S. OIL & REFINING CO., ROYALTY OIL SALES CONTRACT PRC 163.1 AND PRC 426.1 TO GUSTAFSON OIL COMPANY OF CALIFORNIA, ROYALTY OIL SALES CONTRACT PRC 425.1 TO U SAVE AUTOMATIC CORPORATION, ROYALTY OIL SALES CONTRACT PRC 186.1 AND PRC 3095.1 TO U SAVE AUTOMATIC CORPORATION, ROYALTY OIL SALES CONTRACT E 392.1 TO WORLD OIL COMPANY, AND ROYALTY OIL SALES CONTRACT PRC 3033.1 AND PRC 3413.1 TO WORLD OIL COMPANY.
5. AUTHORIZE THE EXECUTIVE OFFICER TO NOTIFY THE LESSEES UNDER EACH RESPECTIVE LEASE THAT THE STATE, IN ACCORDANCE WITH THE LEASE TERMS, IS EXERCISING ITS RIGHT TO TAKE IN KIND ITS ROYALTY SHARE OF OIL PRODUCED UNDER THE LEASE; THE EFFECTIVE DATE FOR COMMENCEMENT OF TAKING ROYALTY OIL IN KIND WILL BE DECEMBER 1, 1973, FOR LEASES PRC 163.1 AND PRC 426.1; AND MAY 1, 1974, FOR LEASES PRC 186.1, PRC 3095.1, PRC 425.1, E 392.1, PRC 3033.1, PRC 3413.1, AND PRC 3455.1.