

MINUTE ITEM

This Calendar Item No. 31 was approved as Minute Item No. 31 by the State Lands Commission by a vote of 3 to 0 at its 11-20-79 CALENDAR ITEM meeting.

31.

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Thompson

APPROVAL OF SPECIFICATIONS AND FORMS FOR THE NOTICE INVITING BIDS, BID FORM AND CRUDE OIL SALES CONTRACT FOR CRUDE OIL SELL OFF

The City of Long Beach, in cooperation with the Commission's staff, has prepared the notice inviting bids, bid form and Crude Oil Sales Contract to be used for the contemplated sell-off of the uncontrolled portion of the 8% increment of the oil allocated to the Long Beach Harbor Department Tidelands Parcel in the City of Long Beach, which oil constitutes a portion of the oil which the City may take in kind pursuant to Section 18.2 of the Drilling and Operating Contract, (Long Beach Harbor Department Tidelands Parcel).

Powerine Oil Company is presently purchasing the entire 8% increment of the crude oil from the Long Beach Harbor Department Tidelands Parcel under a contract whose term ended on July 1, 1975. Powerine's purchases under that contract have continued by virtue of the Department of Energy's domestic crude oil supplier/purchaser rule, which requires the continuation throughout the crude oil allocation program of all supplier/purchaser relationships in existence on December 1, 1973. This crude oil supplier/purchaser relationship may be terminated if a bona fide offer to purchase the oil is made by another party at a higher lawful price than is currently being paid by Powerine and if Powerine declines to meet the higher offer.

Powerine is currently paying ceiling price for all price controlled sell-off crude oil. Therefore, assuming Powerine continues to pay ceiling price, it is impossible to obtain a higher lawful price for the price controlled portion of this sell-off crude oil. A higher lawful price may be obtainable for the uncontrolled portion of such sell-off crude oil. The uncontrolled oil currently makes up approximately 47% of the total. The percentage of uncontrolled oil will increase if the President's proposed crude oil price decontrol program is adopted.

If the bids received pursuant to this proposed offer to sell the oil constitute a higher lawful price than Powerine is presently paying, Powerine will be asked to meet that higher price offer. If Powerine declines to meet the price

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terms of the offer, the City may accept the higher offer and sell to the successful bidder whatever amount of uncontrolled oil may be severed from the supplier/purchaser relationship with Powerline under the DOE's supplier/purchaser rule.

The statutory authority for Commission approval of these specifications and forms is set forth in Section 10(a) of Chapter 29, Statutes of 1956, First Extraordinary Session. That section provides, in pertinent part, that all specifications and forms for the purpose of inviting bids in connection with the disposition of oil derived from the Long Beach tidelands shall be approved by the State Lands Commission prior to publication of the notice to bidders.

The significant specifications set forth in the sell-off bid forms are as follows:

1. Amount:

The sell-off will be offered in one contract for all uncontrolled oil contained in the 8% portion of the crude oil allocated each month to the Long Beach Harbor Department Tidelands Parcel which is presently being taken in kind by the City and sold to Powerline Oil Company to the extent that this uncontrolled oil is available for sale by the City under the DOE's crude oil supplier/purchaser rule. The uncontrolled oil currently constitutes approximately 47% of the total 8% portion and currently amounts to approximately 500 B/D. The percentage and amount of uncontrolled oil should increase with time. Presently, the predominant part of the uncontrolled portion is heavy crude oil as defined in the President's Executive Order of August 17, 1979.

2. Price:

The price will be the average of the prices posted in the Wilmington Field among the postings of Chevron USA, Inc., Mobil Oil Corporation, Union Oil Company of California and Arco Oil and Gas Company 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.

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3. Term:

The initial term of the sell-off contract shall be for a 6-month period commencing on January 1, 1980, or the first day of the first month following the month in which the present purchaser is offered and refuses to meet the offer of the successful bidder, whichever is later. The contract will be renewable for up to 2 additional 6-month terms upon the purchaser giving notice to the City and obtaining the written consent of the City and the Commission at least 30 days prior to the expiration of the then current term. Even though the requirement of mutual assent for extension may not be satisfied, the contract may have to remain in effect beyond its initial term if the present DOE crude oil supplier/purchaser rule remains in effect.

4. Cash Deposit:

Each bidder shall submit with his bid as evidence of good faith, a deposit in the form of a certified or cashier's check in the amount of \$25,000.

5. Surety:

A letter of credit from a California bank in the amount of \$500,000 is required of the purchaser.

6. Insurance:

The purchaser shall maintain or procure personal liability insurance of at least \$500,000 per person and \$1,000,000 for more than one person and property damage insurance of at least \$1,000,000.

7. Delivery:

All oil shall be taken from Wilmington Oil Field delivery points, as approved by the City, for the Fault Block II Unit, the Fault Block III Unit, the Fault Block IV Unit or the Fault Block V Ranger Zone Unit. The purchaser shall provide his own delivery equipment, subject to approval by the City and at no expense to the City.

8. Selection of Successful Bidders:

The successful bidder shall be the responsible bidder making the highest per barrel bonus bid. Powerine Oil Company,

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the present purchaser, will be given 15 days in which to meet the offer of the successful bidder. If Powerine elects to meet this offer by agreeing to pay the bid price for the initial contract term, the crude oil must continue to be delivered to Powerine by virtue of the DOE's crude oil supplier/purchaser rule.

9. Responsibility:

Each bidder shall submit evidence of his ability to take the crude oil and shall also file a financial statement. The findings of the City Manager of Long Beach and the State Lands Commission as to these factors will be final.

10. Rejection of Bids:

The right to reject any and all bids is reserved to the City of Long Beach and the State Lands Commission.

Copies of the forms for the notice inviting bids, the bid and the Crude Oil Sales Contract are available for inspection at the Office of the State Lands Commission.

Bids received will be analyzed by the City of Long Beach and the Commission's staff and will be presented to the Commission for approval before acceptance.

IT IS RECOMMENDED THAT THE COMMISSION, ACTING PURSUANT TO SECTION 10(a), CHAPTER 29, STATUTES OF 1956, FIRST EXTRAORDINARY SESSION, APPROVE THE SPECIFICATIONS AND FORMS FOR THE NOTICE INVITING BIDS, THE BID AND THE CRUDE OIL SALES CONTRACT FOR THE SALE OF THE UNCONTROLLED PORTION OF THE 8% INCREMENT OF THE CRUDE OIL FROM THE LONG BEACH HARBOR DEPARTMENT TIDELANDS PARCEL, CITY OF LONG BEACH, WILMINGTON OIL FIELD, LOS ANGELES COUNTY.

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