MINUTE ITEM

This Calendar Item No. 30.
was approved as Minute Item
No. 30 by the State Lands
Commission by a vote of 3
to 2 at its 1-24-80
meeting.

CALENDAR ITEM

30.

W 9603.1
Willard

PROPOSED SALE OF ROYALTY OIL

The President has adopted a crude oil price decontrol program for domestic crude oil production. The program was devised to provide additional incentives to optimize domestic crude production. The following summarizes those programs which have been implemented by the Department of Energy and apply to State oil and gas leases:

(1) Effective January 1, 1980, market prices will be permitted for first sales of a specified percentage of the crude oil produced from a property that would otherwise be subject to the upper tier ceiling price. This percentage will increase at a rate such that by October 1, 1981, market prices will be permitted for all crude oil.

For January 1980 the specified percentage would be 4.6 percent and in each succeeding month the specified percentage would be increased by an additional 4.6 percent. This action is intended to ease the transition to an unregulated market.

(2) Prices charged in the first sale of heavy crude oil are exempted from price controls. The term "heavy crude oil" means all crude oil produced from a property, but only if, during the last month prior to July 1979 in which crude oil was produced and sold from that property, such crude oil had a weighted average gravity of 20.0° API or less.

(3) Effective September 1, 1978, incremental crude oil produced from a qualified and certified tertiary enhanced recovery project may be sold at market prices without regard to the ceiling price rules generally applicable to domestic crude oil.

A 35, 36, 73

S 17, 36

The State's lessees are presently paying the State for its share of royalty oil produced under the leases based on the terms of the respective leases and the federal price controls. In those instances where the State has sold-off its share of royalty oil, the purchaser is paying the State pursuant to the sales contract and the federal price controls. However, in most cases the sales contract term has expired and purchases have continued because of the Department of Energy's domestic crude oil supplier/purchaser rule, which requires the continuation of all supplier/purchaser relationships in existence on December 1, 1973, or validly established thereafter. 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 the present purchaser and if such purchaser declines to meet the higher offer.

The State's lessees are presently paying ceiling prices for all price controlled royalty oil. Under the DOE price controls, the State may not offer price controlled royalty oil for sale if the present sales are at ceiling prices. However, a higher lawful price may be obtained from the uncontrolled/deregulated portion of such royalty oil. Starting January 1980, the percentage of uncontrolled royalty oil will be approximately 35 percent of the State's total royalty oil (excluding Long Beach Operations) or 71,922 barrels (see Exhibit "A"). During the next 22 months, the percentage of uncontrolled royalty oil will increase under the President's domestic crude oil price phased deregulation program until October 1981, at which time all domestic production will be decontrolled.

The uncontrolled royalty oil would be sold under separate contracts based on geographic locations. If the bids received pursuant to the proposed offers to sell royalty oil constitute a higher lawful price than that being paid by the present purchaser of State royalty oil, the purchaser will be asked to meet that higher price offer. If the purchaser declines to meet the price terms of the offer, the State may accept the higher offer and sell to the successful bidder whatever amount of uncontrolled oil that may be severed from the supplier/purchaser relationship under the DOE's supplier/purchaser rule.

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

1) Amount

The sell-off will offer 100% of the uncontrolled portion of the State's monthly share of royalty oil that is made available for sale under the DOE's crude oil supplier/-purchaser rule.

2) Price

The price will be the highest of the posted prices in the nearest field 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 closest tenth of a cent per barrel.

3) Term

The initial term of the sell-off contracts shall be for six month periods. The contract will be renewable for up to 2 additional 6-month terms upon the purchaser giving notice to the State and obtaining the written consent of the State at least 30 days prior to the expiration of the then current term. With respect to those leases requiring the State to give an excess of 30 days notice to return this oil to the lessee, the sell-off contract for such leases shall be for a term of 6 months with no option to renew. Even though the requirement of mutual assent for extension may not be satisfied, the rebid of the uncontrolled royalty oil will be subject to the supplier/purchaser rule.

4) Cash Deposit

Each bidder shall submit with their bid as evidence of good faith a certified or cashier's check in the amount of $25,000.00, which, except in the case of the successful bidder, will be returned to the respective bidders.

5) Surety

The bonding requirement will be equivalent to the value of 60 days of royalty oil provided that the Commission may in its discretion accept alternate security (such as cash deposit, letter of credit or similar security) in a form and amount determined to be adequate.

6) Insurance

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

7) Delivery

Evidence satisfactory to the State Lands Commission, of the present ability of such bidder to take oil at the point of delivery, an agreement providing for the exchange of the oil subject to the sales contract for other oil or hydrocarbons may 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. The present purchaser will be given 15 days in which to meet the offer of the successful bidder. If the present purchaser elects to meet this offer by agreeing to pay the bid price under the initial contract terms, the crude oil will continue to be delivered to the present purchaser by virtue of the DOE's crude oil supplier/purchaser rule. In the event that two or more responsible bidders make identical bids, the successful bidder will be determined by lot among all those responsible bidders making such identical 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 or all of the bids.

This project is situated on State land identified as possessing significant environmental values pursuant to P.R.C. 6370.1 and is classified in a use category, Class C, which authorizes Multiple Use. Staff review indicates that there will be no significant effect upon the identified environmental values. This is an existing facilitity for which no adverse comments have been received.

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One of the properties included in this project is State Lease 3455. This property is also known as Tract No. 2 of the Long Beach Unit in the Wilmington oil field. In order to maintain consistency with other sell-off contracts in the Long Beach Unit, the price specification to be set forth in the bid forms for State Lease 3455 (Tract No. 2, Long Beach Unit) is modified from that shown on Page 3 to the following:

2. Price

The price to be provided in the contract will be the average of the prices posted for uncontrolled crude oil in the Wilmington Field by Chevron, USA, Inc., Mobil Oil Corporation, Union Oil Company of California and Arco Petroleum Products 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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(Added, 1/22/80)

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The proposed royalty oil sale is exempt from CEQA under Cal. Adm. Code 2907, Class 1, and State EIR guidelines Section 15104, Class 1, which categorically exempts existing facilities wherein there will be no expansion of the use of such facility. The disposition of crude oil sold pursuant to this contract will be accomplished by exchange agreement without any physical change in the existing oil production and transport facilities.

EXHIBITS: A. List of State Oil and Gas Leases.

B. Site Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN EIR HAS NOT BEEN PREPARED FOR THIS ACTIVITY AS SUCH REPORT IS NOT REQUIRED UNDER THE PROVISIONS OF P.R.C. 21085, 14 CAL. ADM. CODE 15100 ET. SEQ., AND 2 CAL. ADM. CODE 2907.

2. FIND THAT THE PROPOSED SALE OF ROYALTY OIL WILL HAVE NO SIGNIFICANT EFFECT UPON ENVIRONMENTAL CHARACTERISTICS IDENTIFIED PURSUANT TO P.R.C. 6370.1.

3. AUTHORIZE THE EXECUTIVE OFFICER TO NOTIFY THE LESSEES UNDER THE STATE OIL AND GAS LEASES IDENTIFIED IN EXHIBIT "A" THAT THE STATE, IN ACCORDANCE WITH THE LEASE TERMS, IS EXERCISING ITS RIGHTS TO TAKE IN KIND ITS ROYALTY SHARE OF OIL PRODUCED UNDER THE LEASES

4. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR SALE BY COMPETITIVE BID THE UNCONTROLLED ROYALTY OIL PRODUCED UNDER THOSE STATE OIL AND GAS LEASES AND ROYALTY OIL SALES CONTRACTS IDENTIFIED IN EXHIBIT "A" ATTACHED HERETO AND BY REFERENCE MADE A PART HEREOF.

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EXHIBIT "A"

STATE LEASE	LESSEE/PURCHASER	UNCONTROLLED ROYALTY BBLS. - JANUARY 1980
Huntington Beach		
91	Lunday-Thagard & Aminoil	3,718
163	Aminoil	630
426	Aminoil	1,732
E392	Marlex Oil & Refining, Inc.	32,536
425	U.S.A. Petroleum	4,498
3033	Union	127
3413	Union	539
4736	Aminoil	245
Belmont		
186	U.S.A. Petroleum	14,179
3095	U.S.A. Petroleum	224
3455	Petro Lewis	7,700
Montalvo		
735	Chevron	305
Rincon		
410	Cabot	795
145	Energy Development	766
427	Mobil	62
429	Cabot	276
1466	Arco	2,485
Carpinteria-Summerland		
3133	Exxon	-0-
3150	Chevron	414
4000	Chevron	13
1824	Chevron	104
Elwood		
129	Aminoil	57
208	Aminoil	498
421	Aminoil	1
3120	Arco	0*
3242	Arco	0*
Pt. Conception		
2793	Arco	17
2879	Union	1
	GRAND TOTAL	71,922

* State Leases PRC 3120 and 3242 will be shut in January and February 1980 for maintenance work.

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EXHIBIT "B"
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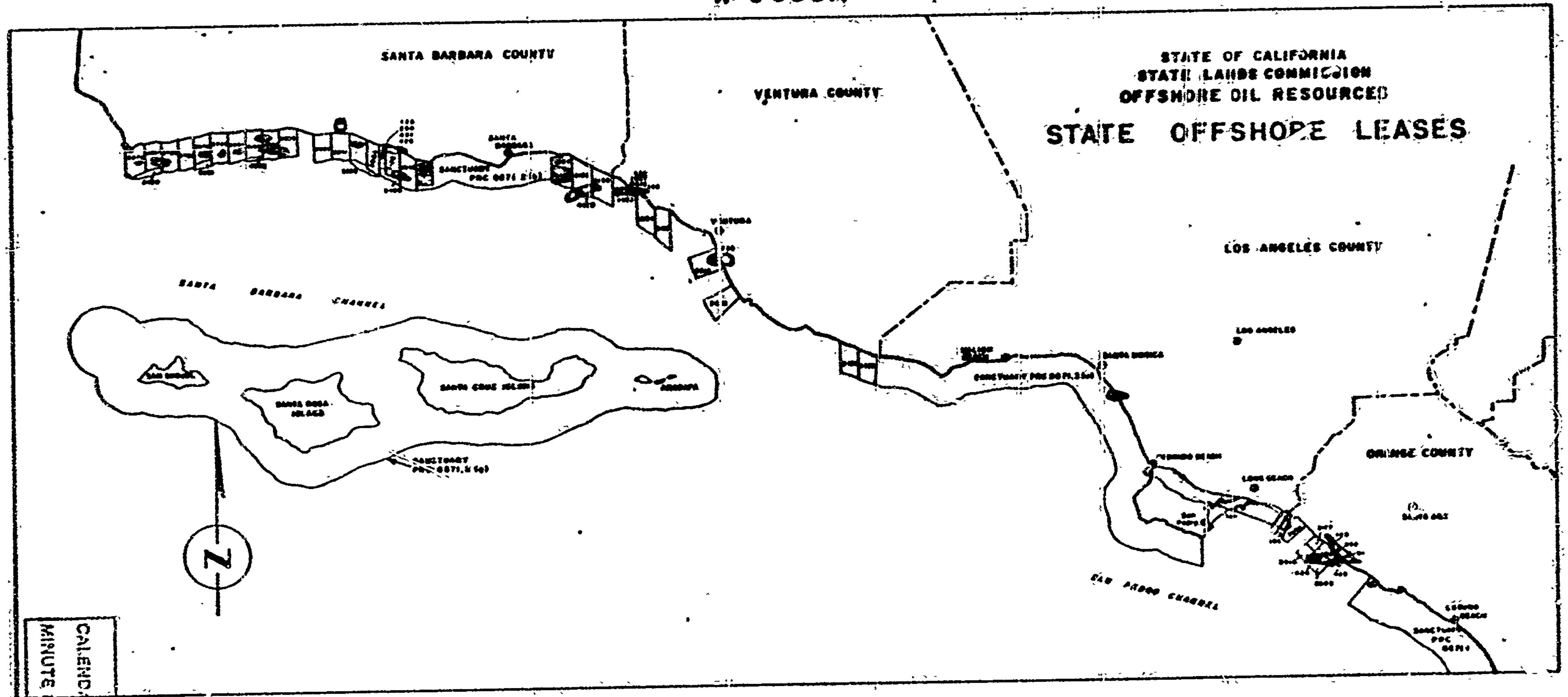

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