MINUTE ITEM

This Calendar Item No. 25
was approved as Minute Item
No. 25 by the State Lands
Commission by a vote of 3
to 0 at its 3-19-80
meeting.

MINUTE ITEM

3/19/80
Willard
W 9603.1
PRC 5810

25. AWARD OF ROYALTY OIL SALES CONTRACT.

During consideration of Calendar Item 25 attached, Mr. Jan Stevens, Assistant Attorney General, read into the record a letter from Marlex Oil and Refining Company to Kenneth Cory, dated March 18, 1980. In the letter, Marlex 1) objected to the sale of the uncontrolled portion of the royalty oil; 2) asserted that it is lawfully entitled to continued deliveries of the entire amount of the royalty oil which is the subject of this contract; 3) demanded that the Commission cease its efforts to sell and divert this crude oil; and 4) further demanded that the Commission provide it with adequate assurances that Marlex will continue to receive the entire portion of the subject royalty oil. Mr. William F. Northrop, Executive Officer, pointed out that Marlex has the right to match the bid.

Upon motion duly made and carried, the resolution as presented in Calendar Item 25 was approved by a vote of 3-0.

Attachment: Calendar Item 25.

A 73

S 36

CALENDAR ITEM

25.

3/80
W 9603.1
Willard

AWARD OF ROYALTY OIL SALES CONTRACT

On January 24, 1980, the Commission authorized the sale by competitive public bid of the uncontrolled portion of royalty oil from State Agreement for Easement No. 392, Huntington Beach Field, Orange County.

On February 19, 1980, five (5) bids were received pursuant to a published "Notice of Intention" to offer for bid the uncontrolled portion of royalty oil from Easement No. 392. The highest bid received was from Kern County Refinery, Inc., in the amount of $3.56 per barrel plus the Base Price. The sales contract defines the Base Price as the highest price posted for uncontrolled oil of like gravity and quality in the Huntington Beach Field on the day of delivery by a company purchasing in the field at its posted price or at a price using as one of its components its posted price.

Section 211.63(d) (iii) of the Mandatory Petroleum Allocation Regulations issued by the Department of Energy provides, in part, that any supplier/purchaser relationship may be terminated by a producer if the present purchaser refuses within a fifteen (15) day period, after receipt of written notice, to meet any bona fide written offer made by another purchaser to purchase such crude oil at a lawful price above the price paid by the present purchaser. The present purchaser of the State's royalty oil under this Easement is Marlex Oil & Refining, Inc., and they have declined to match the offer made by Kern County Refinery, Inc.

The bid submitted by Kern County Refinery, Inc., has been reviewed by the Staff as to the technical sufficiency and economic factors. Staff Counsel has reviewed the bid and determined:

1. That the Commission has compiled with the procedural requirements of the law;

2. That the bid submitted conforms with:

   A. The bid requirements specified in the proposal of the Commission.
   B. The applicable provision of law, and
   C. The rules and regulations of the Commission.

A 73

S 36

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MINUTE PAGE 601

CALENDAR ITEM NO. 25. (CONTD)

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 facility for which no adverse comments have been received.

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.

EXHIBIT: "A" (List of Bids)

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 ISSUANCE OF THE ROYALTY OIL SALES CONTRACT WILL HAVE NO SIGNIFICANT EFFECT UPON ENVIRONMENTAL CHARACTERISTICS IDENTIFIED PURSUANT TO P.R.C. 6370.1.

3. AUTHORIZE THE EXECUTIVE OFFICER TO NOTIFY MARLEX OIL AND REFINING, INC., THE PRESENT PURCHASER OF THE STATE'S SHARE OF UNCONTROLLED ROYALTY OIL PRODUCED UNDER STATE AGREEMENT FOR EASEMENT NO. 392 THAT PURSUANT TO 10 CFR PART 211.63(d) (iii) OF THE MANDATORY PETROLEUM ALLOCATION REGULATIONS THE SUPPLIER/PURCHASER RELATIONSHIP IS BEING TERMINATED AS A RESULT OF THEIR FAILURE TO MEET THE OFFER OF KERN COUNTY REFINERY, INC. TO PURCHASE SUCH OIL AT A LAWFUL PRICE ABOVE THE CURRENT PRICE BEING PAID.

4. ACCEPT THE SUCCESSFUL BID AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE AND ISSUE ROYALTY OIL SALES CONTRACT (STATE AGREEMENT FOR EASEMENT NO. 392) (HUNTINGTON BEACH FIELD) (100% OF UNCONTROLLED PORTION OF ROYALTY OIL) TO KERN COUNTY REFINERY, INC., EFFECTIVE APRIL 1, 1980.

EXHIBIT "A"

List of Bids
(Uncontrolled Royalty Oil Sale - State Agreement for Easement No. 392)

Bidders	Bonus Bid Offered
Kern County Refinery, Inc.	$3.56
Lunday-Thagard Oil Company	$1.551
DeMenno/Kerdoon	$1.311
Alliance Oil and Refining Company	$0.077
USA Petrochem Corporation	$0.010