

MINUTE ITEM

This Calendar Item No. 27
was approved as Minute Item
No. 27 by the State Lands
Commission by a vote of 2
to 0 at its 9/25/86
meeting.

CALENDAR ITEM

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A 35

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09/25/86
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PROPOSED SALE OF ROYALTY CRUDE OIL,
STATE OIL AND GAS LEASES PRC 3120 AND PRC 3242,
SOUTH ELWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY

At the present time, the royalty crude oil from State Oil and Gas Leases PRC 3120 and PRC 3242, South Elwood Offshore Field, Santa Barbara County is being sold off under contracts which will expire on April 1, 1987 and June 1, 1987 respectively. Since the State must give its lessees 180 days notice in order to continue to receive the oil in kind, it is recommended that the Commission at this time re-authorize the sale of the royalty crude oil from these leases.

Since mid-August, crude oil prices have firmed and all of the companies that post have raised the posted price by about a \$1.75 per barrel. The current price for 200 API gravity in the South Elwood field is \$6.95 per barrel. The City of Long Beach recently (September 3, 1986) called for bids on approximately 255 B/D of crude oil (Long Beach Unit, City Townlot Area). Three bids were received ranging from a low of -\$0.645 to +\$0.316 (bids based on bonus above the highest posted price in the Wilmington, Long Beach, Huntington Beach and Inglewood Oil Fields).

Because of the long notice period in the leases, the State must offer its royalty oil for bid many months prior to the commencement of deliveries. Although the current purchasers of the State's royalty oil from these leases are concerned over the substantial time lag between bidding and delivery, they have expressed an interest in the State proceeding with the sale of the royalty oil.

Champlin Petroleum Company is presently purchasing the oil from State Oil and Gas Lease PRC 3120 at a bonus of \$0.989 per barrel above the Base Price. The Base Price is defined as the highest

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price posted in the South Elwood Offshore Field for oil of like quality and gravity on the day of delivery. The State's share of crude oil from this lease is approximately 25,000 barrels per month of 200 API gravity crude oil.

Huntway Refining Company is presently purchasing the oil from State Oil and Gas Lease PRC 3242 at a bonus of \$1.33 per barrel above the Base Price, as defined above. The State's share of crude oil from this lease is approximately 65,000 barrels per month of 200 API gravity crude oil.

Section 6815.1 of the P.R.C. governs the sell-off of this oil and provides, in pertinent part, 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 that 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 at this time authorize the sale of royalty crude oil from these leases and adopt the specifications for the sell-offs which are listed on Exhibit "A" to this calendar item. Staff also recommends that the Commission adopt the forms prepared by staff for use in the sell-offs, which are the notices inviting bids, bid proposals, and the crude oil sales contracts, copies of which are on file in the Commission's office in Long Beach.

After the bids are solicited and the highest responsible bidders determined, the staff will return to the Commission with recommendations regarding the award of the sales contracts.

The oil will be delivered without any physical 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 (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C 21065 and 14 Cal. Adm. Code 15378.

AB 884: N/A.

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EXHIBIT: A. Specifications of Sales.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
2. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR SALE BY COMPETITIVE PUBLIC BIDDING 100 PERCENT OF THE ROYALTY CRUDE OIL FROM STATE OIL AND GAS LEASES PRC 3120 AND PRC 3242, SOUTH ELWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY.
3. ADOPT THE SPECIFICATIONS LISTED IN EXHIBIT "A" AND THE REFERENCED FORMS FOR USE IN THE SALE OF THE ROYALTY CRUDE OIL FROM STATE OIL AND GAS LEASES PRC 3120 AND PRC 3242, SOUTH ELWOOD OFFSHORE FIELD, SANTA BARBARA COUNTY.

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EXHIBIT "A"

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

1. Amount

The sell-offs will offer 100 percent of the State's monthly royalty share of crude oil that is made available for sale.

2. Price

The price will be the highest price posted for oil of like gravity on the day of delivery in the Elwood Field and South Elwood Offshore Fields among the postings of Chevron, USA, Inc and Mobil Oil Corporation, plus a bonus per barrel which 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.

3. Term

The contracts will be for a term of eighteen months without provision 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 \$50,000. 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 for each contract in an amount equivalent to 60 days production. Alternate security will be accepted as a substitute for the letter of credit with the approval of and subject to terms and conditions prescribed by the State.

6. Insurance

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

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7. Delivery

An agreement providing for the exchange or other disposition of the oil subject to the sales contracts must be submitted as evidence establishing the bidder's ability to take the royalty oil at the points of delivery.

8. Selection of Successful Bidders

The successful bidder for each contract shall be the responsible bidder making the highest per barrel bonus bid. 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.

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