MINUTE ITEM
This Calendar Item No. 46
was approved as Minute Item
No. 46 by the State Lands
Commission by a vote of 3
to 0 at its 7/10/89
meeting.

CALENDAR ITEM
46

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Tanner

PROPOSED SALE OF ROYALTY CRUDE OIL,
STATE OIL AND GAS LEASES, SANTA BARBARA COUNTY

BACKGROUND:

The royalty crude oil from six State oil and gas leases in Santa Barbara County is presently taken in kind and sold by the State under three separate royalty oil sales contracts. These royalty oil sales contracts expire between April 1, 1990 and June 1, 1990. In conformance with the required 180 days notice to take the oil in kind or return it to the lessees, it is necessary to re-offer, for competitive public bidding, the royalty crude oil presently being purchased. The royalty crude oil would be sold under 3 separate contracts. In one instance, royalty oil from several leases located close together would be sold under a single contract.

Huntway Refining Company is presently purchasing the State's share of crude oil from State Oil and Gas Leases PRC 3120 and PRC 3242, South Ellwood Offshore Fields, Santa Barbara County. Huntway is paying the State a bonus of $0.275 per barrel and $0.253 per barrel respectively above a Base Price defined as the highest price posted for oil of like gravity and quality in the South Ellwood Offshore Field on the day of delivery by Mobil Oil Corporation. The State's share of crude oil from these leases is approximately 570 barrels per day and 1,400 barrels per day respectively of 21.2° API gravity crude oil. The royalty oil sales contract for State oil and Gas Lease PRC 3120 is scheduled to expire on April 1, 1990. The royalty oil sales contract for State Oil and Gas Lease PRC 3242 began on October 1, 1988 and is scheduled to expire on June 1, 1990.

Petro Source Partners, Ltd. is presently purchasing the State's share of crude oil from State Oil and Gas Leases PRC 3133, PRC 3150, PRC 4000 and PRC 1842, Carpinteria-Summerland Offshore Fields, Santa Barbara County. Petro Source is paying the State a bonus of $0.27 per barrel above a Base Price defined as the highest price posted for oil of like gravity and quality in the Carpinteria-Summerland Offshore Field on the day of delivery by Chevron USA, Inc. The State's share of production from these leases is approximately 410 barrels per day of between 25° - 39.5° API gravity crude oil. The royalty oil sales contract for these leases began on December 1, 1988 and is scheduled to expire on June 1, 1990.

Section 6815.1 of the P.R.C. governs the sale 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 following competitive public bidding which is conducted pursuant to specifications and forms adopted by the Commission prior to publication of the notice to bidders. The staff recommends that the Commission authorize the sale of royalty crude oil from the leases listed on Exhibit "A" and adopt the specifications listed on Exhibit "B" for the proposed sell-offs. Staff also recommends that the Commission adopt the forms, copies of which are on file in the Commission's office in Long Beach, consisting of the notice inviting bids, bid proposal, and the crude oil sales contracts.

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

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

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

AB 884: N/A.

CALENDAR ITEM NO. 46 (CONT'D)

EXHIBITS: A. State Oil and Gas Leases.
B. Specifications for Sales.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.

2. AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR SALE BY COMPETITIVE BIDDING THE ROYALTY OIL FROM THE STATE OIL AND GAS LEASES LISTED IN EXHIBIT "A".

3. ADOPT THE SPECIFICATIONS LISTED IN EXHIBIT "B" AND THE REFERENCED FORMS FOR USE IN THE SALE OF THE ROYALTY OIL FROM THE STATE OIL AND GAS LEASES LISTED IN EXHIBIT "A".

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EXHIBIT "A"

SELL-OFF SCHEDULE (Tentative)

	Lease(s)	Vol. (B/D)	Notice Pd. (Days)	Notice Publ. 89	Bid Opening 89	Award of Contracts 89	Eff. Date 90	Exp. Date 91	Contract Length (Mos.)
1.	PRC 3120 So. Ellwood	570 (21.3)	180	8/16	8/31	9/14	4/1	10/1	18
2.	PRC 3242 (So. Ellwood)	1,400 (21.20)	180	10/12	10/30	11/15	6/1	12/1	18
3.	PRC 1824	82 (39.50)	(O.D.)	10/11	10/27	11/15	6/1	12/1	18
	PRC 3133	58 (27.80)	180						
	PRC 3150	228 (25.00)	180						
	PRC 4000	38 (25.00)	180						

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EXHIBIT "B"

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

1. <u>Amount</u>

The sell-offs will offer the State's monthly royalty share of crude oil.

2. <u>Price</u>

The price will be the highest of the posted prices in the respective geographic fields for oil of like gravity and quality 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 a cent per barrel. A minimum bonus bid of 25¢ per barrel above the posted price will be required. In addition, purchaser will be invoiced semi-monthly instead of monthly as is being done presently. Furthermore, a staggered penalty schedule of between 1% - 5% will be used for late payments. Interest will continue to be assessed at the rate of 1 1/2% per month.

3. <u>Term</u>

Each contract will be for a term of eighteen months without provision for renewal or extension.

4. <u>Cash Deposit</u>

Each bidder shall submit with its bid as evidence of good faith, a certified or cashier's check in the amount of $25,000 for leases with production less than 1,000 barrels per day, and $50,000 for leases with production of more than 1,000 barrels per day. 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 in an amount equivalent to 45 days of production. An alternate form of security will be accepted as a substitute for the letter of credit, subject to conditions prescribed by SLC staff and the Office of the Attorney General.

6. Insurance

The purchaser will maintain or procure personal liability and property damage insurance of at least $2,000,000 combined single limit per occurrence or $4,000,000 aggregate.

7. Delivery

An agreement providing for the exchange or other disposition of the oil subject to the sales contract must be submitted as evidence establishing the bidder's ability to take the royalty oil at the point(s) 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 high bids, the successful bidder will be determined by lot among all those responsible bidders making such identical high 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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