

MINUTE ITEM 49

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APPROVE PROPOSED SALE OF ROYALTY CRUDE OIL,  
STATE OIL AND GAS LEASES,  
ORANGE, VENTURA AND  
SANTA BARBARA COUNTIES

Calendar Item C49, attached, was pulled from the agenda prior to the meeting.

Attachment: Calendar Item C49

A 35, 57, 58, 59, 69

S 18, 29, 37

CALENDAR ITEM

C49

A 35, 57, 58, 59, 69

S 18, 29, 37

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APPROVE PROPOSED SALE OF ROYALTY CRUDE OIL,  
STATE OIL AND GAS LEASES,  
ORANGE, VENTURA AND  
SANTA BARBARA COUNTIES

**BACKGROUND:**

At the present time, the State is being paid in money for its share of crude oil (approximately 2,350 B/D) from two oil and gas leases in Orange County and three oil and gas leases in Santa Barbara County. This oil was being sold under Royalty Oil Sales Contracts which expired earlier this year. The State is selling its share of crude oil (approximately 1,430 B/D) from seven State Oil and Gas leases in Orange County and four State Oil and Gas leases in Ventura County. The royalty oil sales contracts for these leases will expire between May 1, 1993 and December 1, 1993. The notice period which the State must give its lessees in order either to continue to receive its share of oil from these leases in kind or to return it to the lessees varies from "on demand" (48 hours notice) to 180 days. Staff proposes to re-offer for sale the State's share of crude oil from these leases under new royalty oil sales contracts.

Because of the long lead time needed to offer the oil for competitive bid, it is necessary to begin the process now. The royalty crude oil will be offered in three separate sales contracts with leases geographically close to one another being offered under one sales contract.

(REVISED 12/16/92)

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CALENDAR ITEM NO. C49 (CONT'D)

Section 6815.1 of the P.R.C. governs the sell-off of royalty oil and provides 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 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 the leases listed on Exhibit "A" and adopt the specifications for the sell-offs which are listed on Exhibit "B" to this calendar item. Staff also recommends that the Commission adopt the forms prepared by the staff for use in the sell-offs, which are the notice inviting bids, bid proposal 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 are determined, staff will return to the Commission with a recommendation regarding the award of the sales contracts.

The oil will be delivered without any change in the existing oil producing and transportation facilities.

AB 884:  
N/A.

**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.

**EXHIBITS:**

- A. Tentative Sell-off Schedule for 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 THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.

CALENDAR ITEM NO. C49 (CONT'D)

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)

	Leases	Vol (B/D)	Notice Period (Days)	Notice Published	Bid Opening	Award of Contracts	Effective Date	Expiration Date	Contract Length (Months)
1	E-392 (Huntington Beach)	516 (20.5°)	30	01/25/93	02/08/93	3/93	05/01/93	11/01/94	18
2	PRC 426  PRC 425  PRC 91 NU  PRC 91 MZU (Huntington Beach)	101 (20.1°)  105 (20.6°)  44 (20.6°)  80 (20.6°)	O.D.	01/26/93	02/09/93	4/93	05/01/93	11/01/94	18
3	PRC 145  PRC 410  PRC 427  PRC 429  PRC 1466 (Rincon)	250 (34.7°)  17 (26.4°)  20 (26.3°)  0  44 (28.0°)	60	01/27/93	02/20/93	3/93	06/01/93	12/01/94	18

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EXHIBIT "A"

SELL-OFF SCHEDULE (TENTATIVE)

	Leases	Vol (B/D)	Notice Period (Days)	Notice Published	Bid Opening	Award of Contracts	Effective Date	Expiration Date	Contract Length (Months)
4	PRC 3033 PRC 3413 (Huntington Beach)	255 (20.6°)	180	01/28/93	02/11/93	4/93	12/01/93	6/01/95	18
5	PRC 186  PRC 3095 (Belmont)	760 (20.9°)  180 (25.6°)	180	12/16/92	01/05/93	2/93	09/1/93	02/01/95	18
6	PRC 208  PRC 3120  PRC 3242 (Ellwood So. Ellwood)	40 (34.6°)  440 (21.6°)  904 (21.6°)	180	12/17/92	01/06/93	2/93	09/01/93	02/01/95	18

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EXHIBIT "B"

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

1. Amount

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

2. Price

The price will be the highest of the posted prices in the 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 the closest tenth of a cent per barrel. A minimum bonus bid of \$0.25 per barrel above the posted price will be required. In addition, the purchaser will be invoiced monthly. Furthermore, a staggered late penalty of between one percent (1%) and five percent (5%) will be used for late payments. Interest will continue to be assessed at the rate of one and one-half percent (1 1/2%) per month.

3. Term

The contracts will be for a term of eighteen months. There are no provisions 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 between \$25,000 and \$50,000 (based on volume of oil sold). 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 60 days of State royalty oil production. An alternate form of security will be accepted as a substitute for the letter of credit, subject to conditions prescribed by State Lands Commission 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 to establish the bidder's ability to take the royalty oil at the point 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.