

MINUTE ITEM

This Calendar Item No. C45 was approved as Minute Item No. 45 by the California State Lands Commission by a vote of 3 to 4 at its 2/3/04 meeting.

**CALENDAR ITEM
C45**

A 57, 58

02/02/04
W 9603.116
M. LeClair
D. Mercier

S 29

**CONSIDER APPROVAL OF THE
PROPOSED SALE OF ROYALTY CRUDE OIL,
OIL AND GAS LEASE NOS. PRC 91, PRC 163, E-392,
PRC 425 AND PRC 426, HUNTINGTON BEACH FIELD,
ORANGE COUNTY, TO THE HIGHEST RESPONSIBLE BIDDER**

APPLICANT:

California State Lands Commission
100 Howe Avenue, Suite 100-South
Sacramento, CA 95825-8202

BACKGROUND:

At this present time, the State is receiving payment in money from Aera Energy, its lessee, for its royalty share of the crude oil (approximately 1,088 B/D) from five State Oil and Gas Lease Nos. PRC 91, PRC 163, E 392, PRC 425, and PRC 426; Huntington Beach Field, in Orange County. Aera Energy is presently paying the State a price calculated pursuant to an agreement designed to comply with the royalty valuation provisions of the leases. Staff believes that the State would realize a higher price for its royalty crude oil if it were to take its royalty share of crude oil in kind and sell it by competitive bidding. Because of the long lead-time of 90 days as required by the lease terms, we need to initiate the process for competitive bidding as soon as possible. The royalty crude oil will be sold under one contract with a minimum required bonus bid of \$0.60 per barrel.

Public Resources Code section 6815.1 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. Staff recommends that the Commission, at this time, authorize the sale of royalty crude oil from the leases listed on Exhibit

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A and adopt the specifications for the sell-offs which are listed on Exhibit B, both of which are attached to this calendar item. Staff also recommends that the Commission adopt the forms it has prepared 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 received 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 production and transportation facilities.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

EXHIBITS:

- A. List of Oil and Gas Leases
- B. Specifications for Sales

PERMIT STREAMLINING ACT DEADLINE:

N/A.

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

CALENDAR ITEM NO. C45 (CONT'D)

AUTHORIZATION:

AUTHORIZE THE EXECUTIVE OFFICER TO OFFER FOR SALE BY COMPETITIVE BIDDING THE ROYALTY OIL FROM THE STATE OIL AND GAS LEASES LISTED ON EXHIBIT A, ATTACHED HERETO.

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

2/02/04
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EXHIBIT A

LIST OF OIL AND GAS LEASES AND TENTATIVE SELL OFF SCHEDULE

Lease Nos.	Production (BBLs/Day)	Notice Period (Days)	Publish Notice	Bid Opening	Award Contract	Notice to Lessees	Effective Date	Expiration Date	Contract Length (Months)
PRC 91 PRC 163 E 392 PRC 425 PRC 426	Approximately 1,088 (Co-mingled)	90	2/13/04	3/01/04	5/04	6/01/04	9/01/04	9/01/05	12

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EXHIBIT B

Specifications for Sales

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

1. Amount
The sell-off will consist of the State's monthly royalty share of crude oil from all five leases.
2. Price
The price will be the highest of the prices posted for oil of like gravity and quality on the day of delivery in the Huntington Beach Oil Field, among the postings of ChevronTexaco Corporation, Exxon Mobil Corporation, Union 76, and Equiva Trading Company, and any successors in interest to these companies, plus a bonus per barrel that is the bid factor. The prices 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 \$.60 per barrel above the base price will be required. The purchaser will be invoiced monthly. A staggered late penalty of between one percent (1%) and five percent (5%) will be used for late payments. Interest on late payments will be assessed at the rate of one and one-half percent (1 ½ %) per month.
3. Term
The contract will be for a term of twelve 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 \$25, 000.00. 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 the amount equivalent to the contract value of 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 Bidder
The successful bidder for the 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 and all of the bids.