MINUTE ITEM
Calendar Item No. C40
[A]pproved as Minute Item
[C]40 by the State Lands
[Comm]ission by a vote of 3
[to 0] at its 6/11/90
[meeti]ng.

CALENDAR ITEM

A 35, 59, 69

C 40

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APPROVE PROPOSED SALE OF APPROXIMATELY 1,100 B/D
OF ROYALTY CRUDE OIL, STATE OIL AND GAS LEASES,
ORANGE AND SANTA BARBARA COUNTIES

BACKGROUND:
At present, the State is taking in kind and selling its royalty share of crude oil (approximately 1,100 B/D) from five State oil and gas leases in Orange County and one State oil and gas lease in Santa Barbara County. These royalty oil sales contracts are scheduled to expire on November 1, 1990 and December 1, 1990. Because of the long lead time needed to re-offer for competitive bidding the royalty crude oil presently being purchased, it is necessary to begin the process now. The royalty crude oil would be sold under three separate contracts. In some instances, royalty oil from several leases located close together will be sold under a single contract.

STAFF RECOMMENDATIONS:
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 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 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 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, the staff will return to the Commission with a recommendation(s) regarding the award of the sales contracts.

The oil will be delivered without any physical change in the existing oil production 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 it 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. State Oil and Gas Leases.
B. Specifications for Sales.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACITIVITY 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.	Bid Opening	Award of Contracts	Eff. Date	Exp. Date	Contract Length (Mos.)
1.	E-392 (HB)	400 ([illegible]9.2°)	30	9/90	9/90	10/90	11/1/90	11/1/91	12
2.	PRC 426	111 (22.0°)	O.D.	9/90	9/90	10/90	11/1/90	11/1/91	12
	PRC 425	315 (19.6°)							
	PRC 91NU	59 (20.4°)							
	PRC 91HZU (HB)	28 (20.4°)							
3.	PRC 208 (Ellwood)	213 (34.8°)	O.D.	10/90	10/90	10/90	12/1/90	10/1/91	10

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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~~ semi-monthly instead ~~of~~ monthly as is being done presently. Further, a staggered penalty schedule of between 1 percent - 5 percent will be used for late payments. Interest will continue to be assessed at the rate of 1 1/2 percent per month.

3. Term

Two contracts will be for a term of twelve months and the third will be for ten months to allow for its combination with another lease for sell-off. There are no provisions for renewal or extensions.

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 $25,000. Except in the case of the successful bidder, the bid deposit will be returned to each bidder.

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5. Surety

An irrevocable letter of credit will be required in an amount equivalent to 45 days of State royalty oil production. An alternate form of security may 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 establishing 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.

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