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REPORT ON STATE CRUDE OIL ROYALTIES

DECEMBER 1973

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December 5, 1973

The Honorable President of the Senate
The Honorable Speaker of the Assembly
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members:

Transmitted herewith is information regarding the royalty share of crude oil accruing to the State of California from oil drilling operations on state-owned lands.

The state's royalty share of oil produced from the state's offshore leases was 9,990 barrels per day in September 1973. On November 29, 1973, the State Lands Commission authorized the state to award contracts for the purpose of selling its royalty share of oil from eight Orange County leases which together account for approximately 71 percent of the state's royalty oil.

The high bids on these contracts range from \$.73 to \$1.26 plus posted prices. However, Cost of Living Council regulations announced October 25, 1973 may limit the state's selling prices for oil and therefore may preclude the state from accepting the high bids.

The Department of General Services at a recent bid opening was unable to obtain a firm price from any oil companies for the state's gasoline and oil requirements for the coming year.

It would be in the state's best interest not to execute the contracts approved by the commission at its November 29 meeting until the possibility of contracting directly with a refinery to refine the state's crude oil into gasoline and other products is explored.

Respectfully submitted,

Vincent Thomas

VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

REPORT ON ROYALTY OIL
AVAILABLE TO THE STATE OF CALIFORNIA

In response to specific questions listed below, we obtained the information which follows from records of the State Lands Division.

QUESTIONS 1, 2 AND 3

- What is the current quantity (barrels per day) of crude oil accruing to the State of California as its royalty share from operations on state controlled lands both onshore and offshore?
- Where are these oil drilling fields located?
- What is the specific gravity of the crude oil accruing to the state?

The following schedule contains the location, gravity and quantity of royalty oil available to the State of California per day during the month of September 1973 from offshore leases.

Oil Field	API Gravity Range	Barrels Per Day
Santa Barbara County		
Carpinteria	23-25	800
Alegria	30-38	80
Summerland	35-36	80
Elwood	34-41	40
South Elwood	27-33	920
		1,920
Ventura County		
Montebello West	15-16	40
Rincon	24-30	400
		440
Orange County		
Belmont	20-27	1,230
Huntington Beach	17-23	6,400
		7,630
Total Barrels Per Day		9,990

Excluded from the above schedule is less than 100 barrels per day of onshore royalty oil.

QUESTION 4

- What is the current price received by the state in lieu of its royalty share of crude oil?

The contracts between the State Lands Division and oil companies holding offshore leases provide that the state has the option of receiving its royalty share of production either in cash or in oil.

Prior to the selloff of royalty oil to third parties, authorized at the November 29, 1973 State Lands Commission meeting, the commission had always chosen to receive payment for its royalty share of oil in cash from the lessee rather than take the oil in kind.

Cash payments by the lessee generally have been based on the posted prices reported by major oil companies at state oil fields. Typical posted prices received by the state are as follows:

County	Range of Gravity	Range of Posted Dollar Price Per Barrel
Santa Barbara	23 to 33.9	$3.41 to $3.49
Ventura	15 to 30.9	$2.60 to $3.92
Orange	17 to 27.9	$3.12 to $3.79

QUESTION 5

- How are these funds presently expended by the state?

For 1972-73, the state's revenues from oil and gas royalties amounted to $18,237,998. These revenues are commingled with $87,857,305 from the state's share of revenues from the Long Beach tidelands and other revenues making a total of $106,095,303. The $106,095,303 was allocated without regard to source in accordance with statutes as follows:

Allocation of Receipts:

General Fund	$ 2,331,131
California Water Fund	25,000,000
Central Valley Water Project Construction Fund	5,000,000
Capital Outlay for Public Higher Education Fund	73,764,172
Total Allocation	$106,095,303

Allocation of receipts during the 1973-74 fiscal year are estimated to be as follows:

- To the General Fund for administration costs and certain allocations to local governments (which are $2,331,131 for the 1972-73 fiscal year)
- To the California Water Fund, $25 million
- To the Central Valley Water Project Construction Fund, $5 million
- To the Capital Outlay Fund for Higher Education, all remaining receipts.

THE STATE HAS BEEN UNABLE TO OBTAIN A FIRM CONTRACT FOR ITS GASOLINE REQUIREMENTS

The State Lands Commission at its November 29, 1973 meeting authorized the award of contracts for selling its royalty share of oil from eight Orange County leases which in total account for approximately 71 percent of the 9,990 barrels per day of royalty oil accruing to the state from its offshore leases. The high bids were as follows:

Lease	Royalty Oil September 1973 (Barrels Per Day)	Bid Per Barrel
#392	2,950	$1.118 Plus Posted Price
#3033 and #3413	1,008	1.118 Plus Posted Price
#186 and #3095	1,234	1.1171 Plus Posted Price
#425	1,492	1.2671 Plus Posted Price
#163 and #426	441	.77 Plus Posted Price
Total Barrels Per Day	7,125	

Also approved at this meeting was the selloff of 12-1/2 percent of the tract 2 share of Long Beach unit production which is currently about 230 barrels per day.

The Cost of Living Council on October 25, 1973 announced regulations effective in 30 days, but retroactive to October 25, 1973, which proposed to limit the price at which the state may sell its oil.

The council held a hearing for comments on the new regulations and has not yet issued a ruling on whether to enforce its price limitation proposal or whether to exempt the state from such price limitations. If the state is not exempt, it can selloff the royalty oil at posted prices plus whatever the Cost of Living Council allows above posted price. If the state is exempt, then the high bids may be accepted and the state will receive 73 cents to $1.26 above the posted prices for its royalty oil.

The state is in the process of writing contracts with a hold harmless clause to allow the state to rescind the contracts if the Cost of Living Council limits the state's selling prices.

On October 11, 1973 the Department of General Services sent out bid invitations for a state procurement of 38 million gallons of gasoline for calendar year 1974. No bids were received. However, Standard Oil Company of California, which holds the contract for 1973 offered to sell gasoline to the state in 1974 at its prevailing market prices when, during 1974, gas is pumped from Standard Stations into state vehicles.

The state's current contract with Standard, which expires on December 31, 1973, provides for delivery of regular gasoline at 26 cents per gallon and premium gasoline at 30 cents per gallon.

On November 2, 1973 the Department of General Services sent out bid invitations for a state procurement of 25 million gallons of bulk gasoline for calendar year 1974. No bids were received. Union Oil of California, the 1973 contractor, offered to sell bulk fuel to the state to the extent available at prices to be established by Union during 1974.

Therefore, with regard to 1974 gasoline procurement, the state is uncertain as to the price and availability.

In our judgment, since the state has no firm commitment for its necessary 1974 gasoline procurements and since the state has its own potential gasoline sources from its royalty share of offshore oil production, such oil should not be sold at this time.

RECOMMENDATION

Determine the feasibility of contracting directly with a refinery for converting the state crude oil into gasoline and other products needed by the state and local governmental agencies.

Harvey M. Rose

Harvey M. Rose
Auditor General

Staff: John McConnell
Peter Barbosa