

MINUTE ITEM

This Calendar Item No. 23
was approved as Minute Item
No. 23 by the State Lands
Commission by a vote of 2
to 0 at its 7-22-76
meeting.

MINUTE ITEM

7/22/76
ADW

23. APPROVAL OF GAS SALES AGREEMENT, STANDARD OIL COMPANY
OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC, SACRAMENTO,
SOLANO, CONTRA COSTA AND SAN JOAQUIN COUNTIES - W 9738.

During consideration of Calendar Item 23, Chairman Cory asked if a representative from Pacific Gas & Electric Company was in the audience. Mr. Phil DeYoung appeared, but indicated he was at the meeting only with regard to land matters. Chairman Cory asked him to come forward to answer the following question: Would it be acceptable to Pacific Gas & Electric if the Commission approved the item at \$1.31 per Mcf, less compression charges not to exceed 11¢ per Mcf, which will net Standard \$1.20?

Mr. Colin Campbell, representing Standard Oil Company of California, stated the problem with Mr. Cory's proposal is there are changes planned in compression facilities at the Rio Vista Field, and it is his understanding the present charges there are going to increase.

Mr. Tom Finical, representing Standard Oil Company of California, appeared. He informed the Commission that the day before he talked with a Mr. John Sproul, Vice President of Gas Supply for Pacific Gas and Electric Company, at which time he posed the same question. Mr. Finical stated that after several hours of study, Mr. Sproul informed him that P.G.&E. would not be willing to sign a contract with the price of \$1.31 per Mcf mainly because Pacific Gas & Electric is conducting simultaneously negotiations with about 89 or 90 different producers. Each of these producers are endeavoring to get the highest price to which P.G.&E. will agree. If there is a variance for the Rio Vista contract, P.G.&E. feels they would have to abide by that with all their other contracts and producers.

Chairman Cory stated he is inclined to give tentative approval for a contract at \$1.31, less compression charges not to exceed eleven cents per Mcf and put the burden on P.G.&E. He questioned what happens if Standard is a month without a contract. Mr. Northrop stated the Division would make the condition retro-active without prejudice. Chairman Cory then asked Mr. Finical what it would do to SOCAL. Mr. Finical stated that they would get 75¢ until they receive a fully executed agreement with P.G.&E.; the delay would be one month. Mr. Finical indicated it is his opinion P.G.&E. will not voluntarily agree to the \$1.31. Chairman Cory stated that he believes they will. He said he would contact P.G.&E. and attempt to convince them of the propriety of the proceeding, if it does not adversely affect Standard in a major way. If not, the other alternative would be a special meeting. Commissioner-alternate Sid McCausland indicated he had no objection to Chairman Cory's proposal.

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Upon motion duly made and carried, the following resolution, as amended, was approved by a vote of 2-0.

THE COMMISSION TENTATIVELY AUTHORIZES THE APPROVAL OF THE LETTER AGREEMENT MODIFICATIONS DATED JUNE 22, 1976, TO GAS SALES AGREEMENTS BETWEEN STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC COMPANY; PROVIDED THAT THE CONTRACT SALE PRICE IS MODIFIED TO \$1.31 PER MCF LESS COMPRESSION CHARGES NOT TO EXCEED ELEVEN CENTS PER MCF, AS A BASIS FOR THE SALE AND DELIVERY BY STANDARD OIL COMPANY OF THE GAS PRODUCED FROM GAS LEASE EASEMENT 415, GAS LEASES PRC 714, AND PRC 729, OIL AND GAS LEASES PRC 3743 AND PRC 3896 AND COMPENSATORY GAS AGREEMENTS PRC 3238 AND PRC 2966; FOR THE PERIOD JULY 1, 1976, THROUGH JUNE 30, 1978, SUBJECT TO FURTHER WRITTEN APPROVAL OF ALL PRICES AGREED UPON FOR THE PERIOD COMMENCING JULY 1, 1978, AND FURTHER SUBJECT TO THE EXPRESS CONDITION THAT THIS APPROVAL SHALL NOT BE CONSTRUED TO MODIFY OR TO AFFECT IN ANY MANNER ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL THE TERMS AND CONDITIONS OF THE LEASES AND AGREEMENTS AND THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION.

Attachment: Calendar Item 23 (3 pages)

CALENDAR ITEM

23.

7/76
ADW
W 9738

REQUEST FOR APPROVAL OF GAS SALES AGREEMENT
STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC
GAS AND ELECTRIC,
SACRAMENTO, SOLANO, CONTRA COSTA AND SAN JOAQUIN COUNTIES
LSE 415.1 CH 5-1938, PRC's 714, 429, 2966, 3238, 3745 and 3896

Standard Oil Company of California has negotiated price increases with Pacific Gas and Electric Company for gas sold to it under contracts with Standard. Some of the contracts cover gas produced from State leases and gas allocated to State land under compensatory agreements. Standard Oil Company has submitted for approval, proposed Letter Agreements, dated June 22, 1976, between Standard and PG&E that will modify the price provisions of the Gas Sales Agreements covering the State leases and agreements. Those and corresponding price changes are listed below:

<u>LEASE</u>	<u>FIELD</u>	<u>PG&E CONTRACT DATE</u>	<u>CURRENT PRICE/ MCF</u>	<u>NEW PRICE/ MCF</u>
E 415	Decker Island	6/30/67	77.0¢	\$1.235
PRC 3238	Liberly Island	9/4/68	62.0¢	\$1.005
E 415	Rio Vista and Isleton	1/1/56	78.5¢	\$1.25
E 415	Rio Vista Deep	9/22/67	80.5¢	\$1.285
PRC 714 & PRC 729	River Island	1/1/61	71.0¢	\$1.15
PRC 3745 & PRC 3896	Byer Island	11/26/68	78.5¢	\$1.255
PRC 2966	West Thornton	7/18/57	72.0¢	\$1.145

The new prices have been adjusted as provided for in the agreements listed above, based on the average heating value of the gas in BTU per cubic foot and the respective agreement load factors (average daily requirement divided by the maximum daily requirement, as provided for in the contract). The basic price is \$1.20 per Mcf for 53-1/3 percent load factors and gas having a heating value of 1000 Btu. The new contract prices are, in general, considerably in excess of the "border price", i.e., the price paid by California utilities to out-of-state gas suppliers at the California-Nevada-Arizona borders, currently \$7.5¢ cents per Mcf. Estimated increase in income to the State attributable to the price increase will amount to approximately one and one-half million dollars per year.

The motivation for the significantly higher prices offered by PG&E appears to have been the result of the Occidental-PG&E

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Arbitration Award, wherein the reasonable market value for the Occidental gas purchased by PG&E was determined to be \$1.34 per MM Btu. This Arbitration Award is being appealed by PG&E to the Superior Court based on conflict of interest allegations against the arbitrators and failure to follow arbitration agreement guidelines.

The effective date of the proposed modified agreements is July 1, 1976, and covers a two-year period with a price to be mutually agreed upon for each succeeding period, commencing July 1, 1978, as specified in the agreements.

The State leases subject to the sales agreement have been reviewed by the Office of the Attorney General with the following comments:

1. State Lease E 415, which produces in excess of 75% of the gas to be sold pursuant to the subject agreements, does not provide for the State to take its royalty share of the gas in kind.
2. Whatever power the State may have to defer production in anticipation of future rises pursuant to Section 6830 of the Public Resources Code is abridged by the provision of the unit agreement governing E 415 as provided in Section 6832 of the Public Resources Code. Amendment to all leases would be required to defer production of the State's royalty share of the gas.
3. The Commission's approval of the subject sales agreements would not prevent the State from requiring the payment of royalties based upon a higher price, if it were determined that such higher price was the reasonable market value of the gas. The reasonable market value of the gas can be determined by the Commission at any time during the lease.

The staff does not have any objective data which would support a higher price, at this time, than the prices contained in the subject contracts.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE APPROVAL OF THE LETTER AGREEMENT MODIFICATIONS DATED JUNE 22, 1976, TO GAS SALES AGREEMENTS BETWEEN STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC COMPANY, AS A BASIS FOR THE SALE AND DELIVERY BY STANDARD OIL COMPANY OF THE GAS PRODUCED FROM GAS LEASE EASEMENT 415, GAS LEASES PRC 714, AND PRC 729, OIL AND GAS LEASES PRC 3743 AND PRC 3896 AND COMPENSATORY GAS AGREEMENTS PRC 3238 AND PRC 2966, FOR THE PERIOD JULY 1, 1976, THROUGH JUNE 30, 1978, SUBJECT TO FURTHER WRITTEN APPROVAL OF ALL PRICES AGREED UPON FOR THE PERIOD COMMENCING JULY 1, 1978, AND FURTHER SUBJECT TO THE EXPRESS CONDITION THAT THIS APPROVAL

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SHALL NOT BE CONSTRUED TO MODIFY OR TO AFFECT IN ANY MANNER ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL THE TERMS AND CONDITIONS OF THE LEASES AND AGREEMENTS AND THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION.