

MINUTE ITEM
This Calendar Item No. 135
was approved as Minute Item
No. 35 by the State Lands
Commission by a vote of 2
to 0 at its 3-2-88
meeting.

CALENDAR ITEM

A 26

35

03/02/88

W 10539

PRC 7176

Hamilton

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NEGOTIATED SUBSURFACE STATE OIL AND GAS LEASE,
SAN JOAQUIN COUNTY

APPLICANT: NGC Energy Company
Attn.: Jack R. Maccoun
2320 Courage Drive, Suite 110
Fairfield, California 94533

AREA, TYPE LAND AND LOCATION:
The State parcel contains approximately 231
acres of California State tide, submerged
and proprietary lands in the vicinity of the
San Joaquin River and lying within projected
Sections 28 and 29, T2N, R5E, MDM, San Joaquin
County, California.

LAND USE:
Drill sites for oil and gas operations are not
available or obtainable on the surface of the
State parcel. However, subsurface development
of oil and gas resources that may underlie the
State parcel may be accomplished by slant
drilling from drill sites located on adjacent
or other nearby lands.

PROPOSED LEASE TERMS AND CONDITIONS:

1. Primary term of 20 years;
2. The lease will provide for the drilling of
at least one well into the leased lands
within three years. In lieu of drilling
into the leased lands, such lands may be
included in a pooled or unitized area
approved by the State. Wells drilled on
private lands within specified distances
must be offset by wells on the leased lands
unless included in a proved pool or unit
agreement;

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3. Flat rate royalty of 20 percent on all gas substances produced from the leased lands;
4. Sliding scale royalty commencing at 16-2/3 percent up to a maximum of 50 percent on all oil produced from the leased lands;
5. Performance bond in the sum of \$25,000; and
6. Expressed conditions that lessee has no right to drill any well from the surface area overlying the leased lands or to use any portion of the subsurface area within 500 feet of the surface for any purpose and that all drilling into or development of the leased lands be accomplished by slant drilling from drill sites located on adjacent or other nearby lands.

PREREQUISITE CONSIDERATIONS:

Filing fee, processing costs, first year's rental, performance bond and duly executed State Oil and Gas Lease have been received.

STATUTORY AUTHORITY:

P.R.C. 6515 authorizes the Commission to enter into negotiated oil and gas leases on State-owned lands if any of the following circumstances exist: wells drilled upon private or public lands are draining or may drain oil or gas from State-owned lands, the Commission determines the lands to be unsuitable for competitive bidding because of such factors as their small size or irregular configuration or their inaccessibility from surface drill sites reasonably available or obtainable, the State owns a fractional interest in the lands, or the Commission determines a negotiated oil and gas lease to be in the best interests of the State.

Staff has reviewed information supplied by the applicant and other data in the files of the Commission and concludes that a negotiated subsurface State oil and gas lease is the best instrument to protect the State from possible

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drainage from wells drilled on adjacent lands and to develop any oil and gas resources that may underlie the State parcel as the applicant has leased lands adjacent to the State parcel and had received approval to drill a well on these lands near the State parcel.

AB 884: 04/20/88.

APPROVALS REQUIRED AND OBTAINED:

The San Joaquin County Department of Planning and Building Inspection approves applications to drill for gas and/or oil on private property located within the County. Development plans are processed as ministerial projects by San Joaquin County. The County has approved the applicant's application to drill for gas and/or oil on property located near the State parcel. Copies of the approved application are on file in the Long Beach and Sacramento offices of the Commission.

OTHER INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA as a categorically exempt project. The project is exempt under Class 4, Minor Alterations to Land, 14 Cal. Adm. Code 15304.

Authority: P.R.C. 21084 and 14 Cal. Adm. Code 15300.

2. The proposed project is situated on lands identified as Class B (P.R.C. 6370), limited use, possessing environmental values. However, this project has been determined to be compatible with the provisions of 2 Cal. Adm. Code Div. 3, Chapter 1, Article II.

CALENDAR ITEM NO. 35 (CONT'D)

EXHIBITS:

- A. Land Description.
- B. Site Map.
- C. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THIS ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 AS A CATEGORICALLY EXEMPT PROJECT, CLASS 4, MINOR ALTERATIONS TO LAND, 14 CAL. ADM. CODE 15304.
2. FIND THAT GRANTING OF THE LEASE WILL HAVE NO SIGNIFICANT EFFECT UPON THE ENVIRONMENTAL CHARACTERISTICS IDENTIFIED PURSUANT TO P.R.C. 6370.
3. DETERMINE THE STATE LANDS TO BE UNSUITABLE FOR COMPETITIVE BIDDING BECAUSE OF THEIR INACCESSIBILITY FROM SURFACE DRILL SITES REASONABLY AVAILABLE OR OBTAINABLE AND DETERMINE THAT A NEGOTIATED SUBSURFACE STATE OIL AND GAS LEASE IS IN THE BEST INTERESTS OF THE STATE.
4. AUTHORIZE THE ISSUANCE TO NGC ENERGY COMPANY OF A NEGOTIATED SUBSURFACE STATE OIL AND GAS LEASE OF THE LANDS DESCRIBED IN EXHIBIT "A" WHICH CONTAIN APPROXIMATELY 231 ACRES OF STATE LANDS LOCATED IN SAN JOAQUIN COUNTY, CALIFORNIA. THE LEASE SHALL CONTAIN A PRIMARY TERM OF TWENTY (20) YEARS, A DRILLING TERM OF THREE (3) YEARS, AN ANNUAL RENTAL OF TWENTY-FIVE DOLLARS (\$25) PER ACRE OR FRACTION OF AN ACRE FOR A TOTAL OF FIVE THOUSAND SEVEN HUNDRED SEVENTY-FIVE DOLLARS (\$5775) FOR APPROXIMATELY 231 ACRES, A ROYALTY PERCENTAGE ON GAS SUBSTANCES FIXED AT TWENTY PERCENT (20%), A ROYALTY ON OIL BASED ON A SLIDING SCALE FORMULA COMMENCING AT SIXTEEN AND TWO-THIRDS PERCENT (16-2/3%) UP TO A MAXIMUM OF FIFTY PERCENT (50%), AND A PERFORMANCE BOND REQUIREMENT IN THE SUM OF TWENTY-FIVE THOUSAND DOLLARS (\$25,000).

EXHIBIT "A"

LAND DESCRIPTION

W 40539

All those California State tide, submerged, and proprietary lands in the vicinity of the San Joaquin River and lying within projected Sections 28 and 29, T2N, R5E, MDM, San Joaquin County, California.

END OF DESCRIPTION

PREPARED OCTOBER 21, 1987 BY BIU 1.

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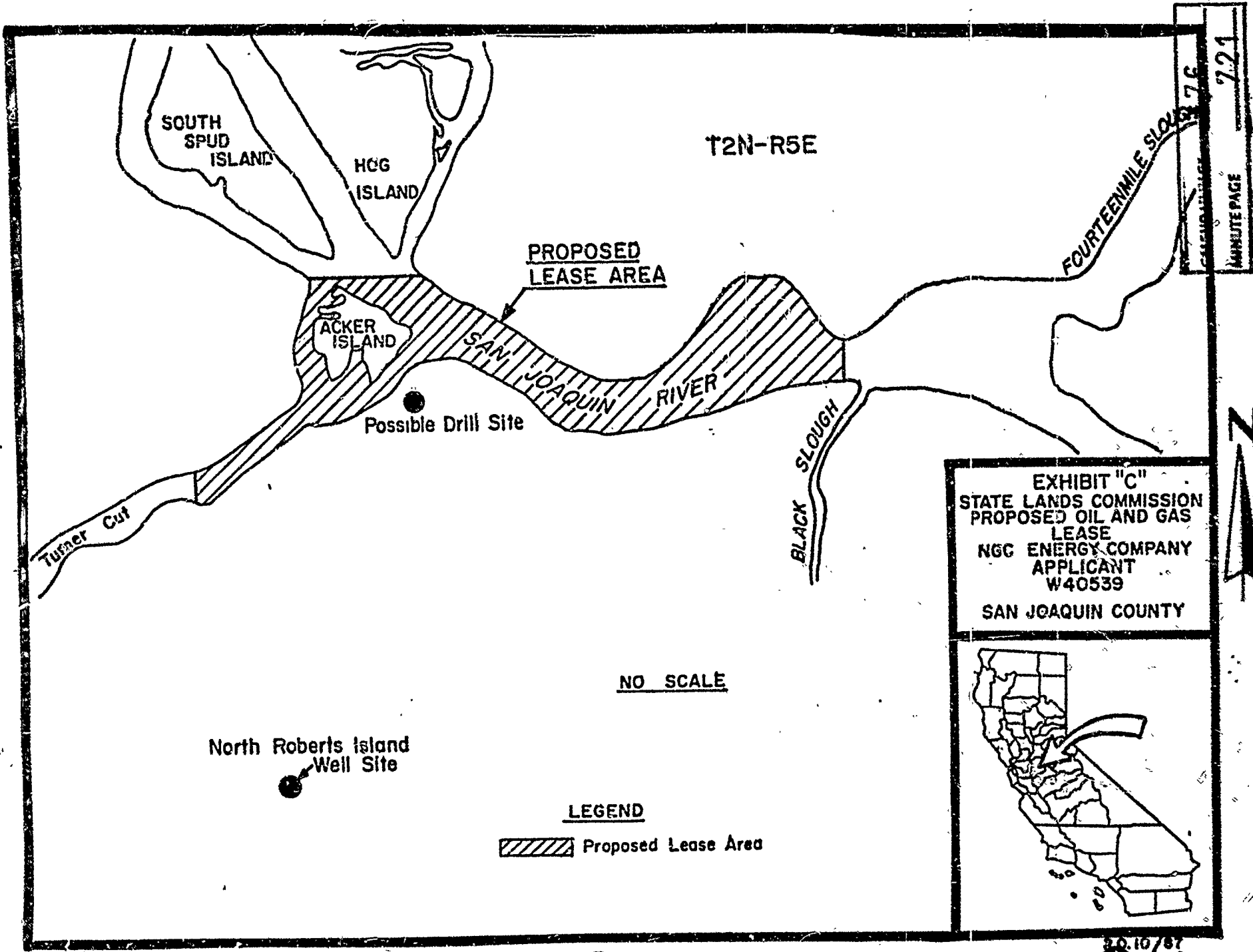


EXHIBIT "C"
STATE LANDS COMMISSION
PROPOSED OIL AND GAS
LEASE
NGC ENERGY COMPANY
APPLICANT
W40539
SAN JOAQUIN COUNTY

NO SCALE

LEGEND

 Proposed Lease Area

721
MINUTE PAGE

8.6.10/87