

MINUTE ITEM

This Calendar Item No. C66 was approved as Minute Item No. 66 by the California State Lands Commission by a vote of 3 to 0 at its 4-17-06 meeting.

CALENDAR ITEM

C66

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04/17/06

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W 40921

J. L. Smith

CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE, SACRAMENTO RIVER, SACRAMENTO COUNTY

APPLICANT:

Towne Exploration Company  
Attn.: Mr. Clifford L. Conkle, Agent  
P. O. Box 520  
San Francisco, CA 94104-0520

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease incorporates about 30.24 acres in the Sacramento River, Sacramento County, California.

BACKGROUND:

Towne Exploration Company (Towne) has submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease on about 30.24 acres in the Sacramento River, Sacramento County (Exhibit A, attached hereto). Because the State land is a waterway, surface locations for oil and gas operations (drill sites) are not available. However, oil and gas resources that may underlie the State land can be developed and protected pursuant to the California State Lands Commission's (Commission) negotiated subsurface (no surface use) Oil and Gas Lease, which would permit Commission-approved directional drilling from a County-approved drill site and would permit inclusion of the leased lands in a Commission-approved pooled area or unit.

Under the terms of the proposed negotiated subsurface (no surface use) Oil and Gas Lease, the Lessee is required to pay an annual rental of \$35.00 per net acre (\$1,085.00 for 30.24 acres) and to commence drilling operations on the leased lands within three years.

Public Resources Code section 6815(a) authorizes the Commission to negotiate

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and enter into oil and gas leases on State lands if any of the following exists: wells drilled on private or public lands are draining or may drain oil and gas from the State lands; the Commission determines the State 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 mineral interest in the lands; or the Commission determines the lease to be in the best interests of the State.

Because Towne controls, by lease and agreement, the readily leasable private property adjacent to the State land described in Exhibit B, attached hereto, and because Towne intends to drill a well into or adjacent to State land, that is bounded by upland leases controlled by Towne, Commission staff has concluded that the criteria of Public Resources Code section 6815(a) have been satisfied. Commission staff also has determined that it will be economically advantageous to the State to issue a negotiated subsurface (no surface use) Oil and Gas Lease with Towne because it will protect oil and gas resources that may underlie the State land.

**OTHER PERTINENT INFORMATION:**

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 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; Title 14, California Code of Regulations, section 15304.

Authority: Public Resources Code section 21084 and Title 14, California Code of Regulations, section 15300.

2. This activity affects the subsurface only, but the surface lands have been identified as possessing significant environmental values pursuant to Public Resources Code section 6370, et seq. Based upon the staff's consultation with the persons nominating such lands and through the CEQA review process, it is the staff's opinion that the project, as proposed, is consistent with its use classification.
3. Drilling term of three (3) years; however, if all or part of the leased lands are included in a Commission-approved pooled area or unit, then drilling operations on and production from lands pooled or unitized with the leased lands shall be deemed to be drilling operations on and production

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from the leased lands that are included in the Commission-approved pooled area or unit.

4. Annual rental of \$35 per acre (\$1,085 for approximately 30.24 acres).
5. Royalty of 20 percent on gas and oil.
6. Performance bond or other security in the sum of \$10,000.

**EXHIBITS:**

- A. Site Map
- B. Land Description

**RECOMMENDED ACTION:**

IT IS RECOMMENDED THAT THE COMMISSION:

**CEQA FINDING:**

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 AS A CATEGORICALLY EXEMPT PROJECT, CLASS 4, MINOR ALTERATIONS TO LAND; TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15304.
2. FIND THAT THIS ACTIVITY IS CONSISTANT WITH THE USE CLASSIFICATION DESIGNATED BY THE COMMISSION FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

**OTHER FINDINGS:**

DETERMINE THAT THE CRITERIA OF PUBLIC RESOURCES CODE SECTION 6815(a) HAVE BEEN MET, THAT A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE IS THE BEST INSTRUMENT TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LAND DESCRIBED IN EXHIBIT B, ATTACHED HERETO, AND THAT THE STATE LAND IS UNSUITABLE FOR COMPETITIVE BIDDING BECAUSE WELLS DRILLED ON ALTERNATE DRILLSITES ON THE ADJACENT PRIVATE PROPERTY MAY DRAIN STATE OIL AND GAS RESOURCES.

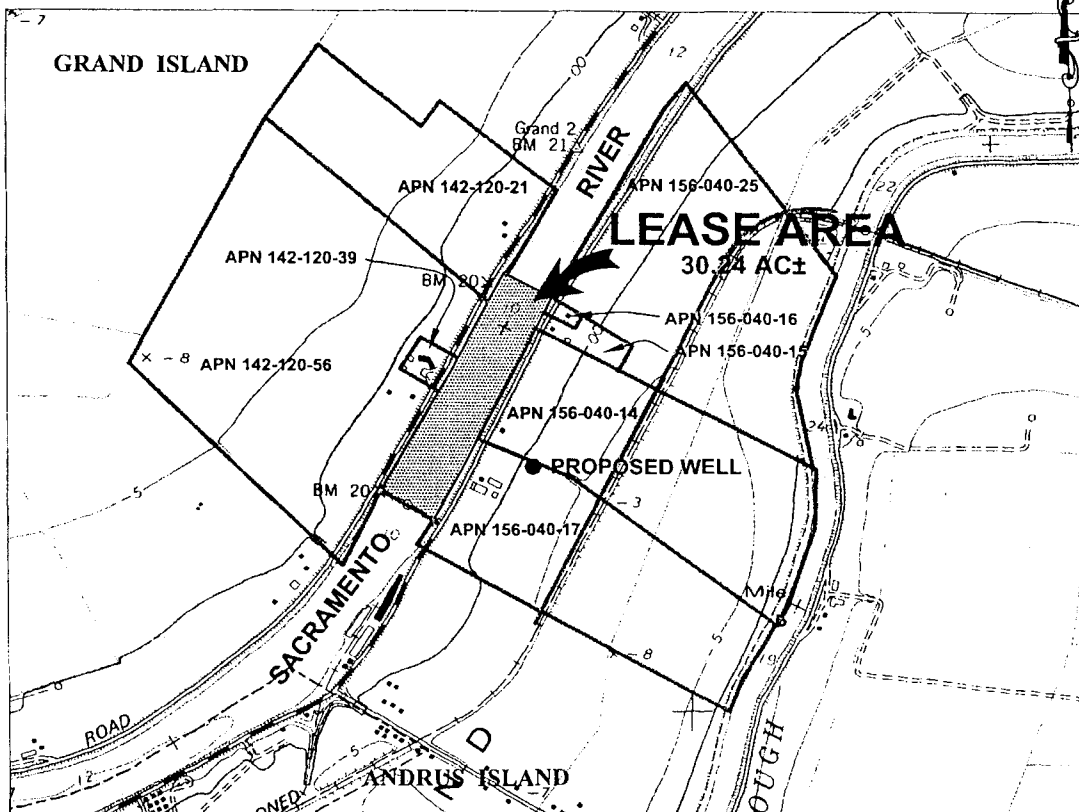
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**AUTHORIZATION**

1. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE WITH TOWNE EXPLORATION COMPANY. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT B, ATTACHED HERETO, (APPROXIMATELY 30.24 ACRES), A DRILLING TERM OF THREE (3) YEARS, ANNUAL RENTAL OF \$35 PER ACRE (\$1,085 FOR APPROXIMATELY 30.24 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$10,000.
  
2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

NO SCALE

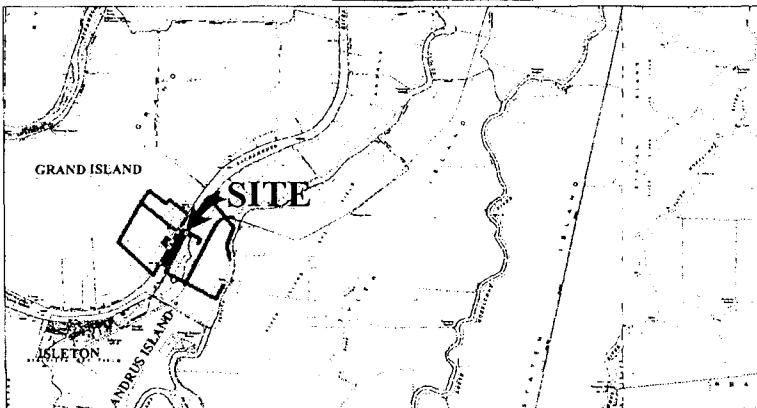
### SITE



GRAND AND ANDRUS ISLAND  
SACRAMENTO RIVER

NO SCALE

### LOCATION



MAP SOURCE: USGS QUAD

### Exhibit A

W 40921  
OIL AND GAS LEASE  
TOWNE EXPLORATION  
SACRAMENTO RIVER  
SACRAMENTO CO



SCL 3-14-06

This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

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**EXHIBIT B**

**W40921**

**LAND DESCRIPTION**

A Parcel of tide and submerged land in the bed of the Sacramento River situated in Sacramento County, California and more particular described as follows:

Beginning at a point at the centerline of State Route 160 Highway Bridge and the left bank of the Sacramento River, thence along said left bank North 29°41'23" East, 512.76 feet; thence North 27°36'41" East, 1925.95 feet; thence leaving said left bank North 62°23'19" West, 518.68 feet to a point on the right bank of said River; thence along said bank South 28°17'15" West, 1072.40 feet; thence South 30°03'18" West, 1344.75 feet to the centerline of said bridge; thence along said centerline South 60°07'35" East, 570.51 feet to the point of Beginning.

EXCEPTING THEREFROM any portion lying landward of the ordinary high water mark

END OF DESCRIPTION



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