

**CALENDAR ITEM
C83**

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03/25/08

PRC 8395.1

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J. Smith

**CONSIDER APPROVAL OF AN ASSIGNMENT OF
SUNSET EXPLORATION, INC.'S 100 PERCENT INTEREST IN
OIL AND GAS LEASE NO. PRC 8395.1 TO STREAM ENERGY, INC.;
CONSIDER APPROVAL OF AN AMENDMENT OF OIL AND GAS LEASE NO.
PRC 8395.1 TO PROVIDE FOR THE LEASING OF ADDITIONAL LANDS,
AND CONSENT TO THE POOLING OF APPROXIMATELY 26.71 ACRES
OF LEASED LANDS UNDER PRC 8395.1,
SACRAMENTO COUNTY**

ASSIGNOR:

Sunset Exploration, Inc.
Attn.: Mr. Robert E. Nunn
1050 Brentwood Blvd.
Brentwood, CA 94513

ASSIGNEE:

Stream Energy, Inc.
Attn.: Mr. Guy L. Burge
5330 Office Center Court, #65
Bakersfield, CA 93309

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease of approximately 30.3 acres in the bed of Snodgrass Slough, Sacramento County, California.

BACKGROUND:

Oil and Gas Lease No. PRC 8395.1 (Lease) was issued to Sunset Exploration, Inc. (Sunset) on June 18, 2002. The Lease contains 30.3 acres of tide and submerged land in the bed of Snodgrass Slough in Sacramento County.

In December 2006, Stream Energy, Inc. (Stream) acquired 100 percent (100%) interest in the Lease from Sunset. In January 2007, Stream drilled the "Walnut Grove Farms" 36-1 gas well (API# 0406720459) from a location on private

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property upland and west of Snodgrass Slough. The well was drilled by Stream through the Lease without the approval of the California State Lands Commission (Commission), and completed as a natural gas well. Staff has reviewed the drilling history documentation and determined that the "Walnut Grove Farms" 36-1 gas well was drilled and completed in compliance with the Commission's regulations. Until and unless the Commission approves of the assignment, the well remains the responsibility of Sunset. The well is capable of economic gas production but currently is shut-in pending market hook-up and Commission approval of assignment and unitization.

Sunset is requesting that the Commission approve the assignment of their 100 percent (100%) interest in the Lease to Stream. Stream possesses the statutory qualifications to hold a State oil and gas lease and is currently a lessee and operator of another nearby State oil and gas lease.

Under the terms of the Lease, the Lessee is required to pay an annual rental of \$30.00 per net acre (\$909.00 for 30.3 acres) and pay 20 percent (20%) royalty on gas and other hydrocarbon substances produced. No default exists on the Lease. The Lessee has complied with all applicable laws and other lease provisions and has paid all rentals pursuant to the lease terms.

Upon approval of the assignment, Stream requests that the Commission amend the lease to include additional acreage and approve a proposed pooling unit. Section 22 of the Lease allows the Lessee, with the consent of, and under terms and conditions approved by, the State to pool or unitize all or part of the leased lands with lands held by the Lessee or others. Stream has formed a pooling unit that contains 226.94 acres of State tide and submerged and private leased lands (Exhibit F). The unit, called the "WGF-McCormack Unit," was created for the development and production of natural gas. In addition to 30.3 acres of State tide and submerged land already included in Lease PRC 8395.1, the proposed unit includes an additional 14.02 acres of unleased State tide and submerged land under Snodgrass Slough. Stream has asked the Commission to expand Lease PRC 8395.1 to include this additional acreage (shown as Parcel B on Exhibit A). Staff has reviewed the information submitted by Stream and determined that the criteria for issuing a negotiated lease under Public Resources Code section 6815 (a) have been met. A draft of the proposed amendment adds to the existing lease the acreage as shown as Parcel B on Exhibit A and described in Exhibit B. The above changes are reflected in the 'Draft Amendment' in Exhibit C and in the appended lease land description in Exhibit B. The annual rental for the entire lease shall be one thousand three

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hundred fifty dollars (\$1,350.00) for approximately 44.32 mineral acres. Lease No. PRC 8395.1 has a fixed rate of 20 percent (20%) on all gas and oil substances produced.

Stream also requests the Commission's consent to the pooling of 26.71 acres of leased State tide and submerged lands under Oil and Gas Lease No. PRC 8395.1 by approving Stream's Declaration of Pooling dated February 3, 2007 (Exhibit F), the pooling map (Exhibit D) and description of the State's 26.71 acres that represents 11.770 percent (11.770 %) of the pool (Exhibit E). The Commission staff has determined that it will be economically advantageous to the State to share in the production from the proposed unit.

STATUTORY AND OTHER REFERENCES:

- A. Sections 22 (b) and 28 of Oil and Gas Lease No. PRC. 8395.1
- B. Public Resources Code sections 6804, 6829.2, and 6832

OTHER PERTINENT INFORMATION

- 1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

- 2. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code section 6370, et seq., but such activity will not affect those significant lands.
- 3. Upon approval of the transfer, PRC 8395.1 shall be amended to incorporate the language in Exhibit C. The proposed amendments provide that: 1) the lease shall be increased in size to include an additional 14.02 acres of State tide and submerged land under Snodgrass Slough; and 2) lessee shall enter into a State Standard Reimbursable Agreement to reimburse the State for the reasonable and necessary costs incurred for the administration and implementation of the terms and conditions of this lease (including but not limited to engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews, and for staff time or expenses expended to ensure lease operations conform to

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the terms of the Lease and to the State's rules and regulations). This management fee shall commence on April 1, 2008, and shall not exceed two thousand dollars (\$2,000) for the first year, The "not to exceed" amount will increase by three percent (3%) per year, with the increase taking effect annually on April 1st of each successive year of the Lease.

4. Assignment forms and prerequisite filing fees have been paid by the Lessee and/or by Stream.

EXHIBITS:

- A. Location Map of negotiated subsurface Oil and Gas Lease No. PRC 8395.1.
- B. Land Description for Appended Parcel
- C. Draft Amendment
- D. Site Map of WGF-McCormack Pooling Unit
- E. Land Description State Lands Pooled Area
- F. Declaration of Pooling dated February 3, 2007

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

1. FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.
2. FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED BY THE COMMISSION FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

OTHER FINDING:

DETERMINE THAT THE CRITERIA FOR ISSUING A NEGOTIATED LEASE IN PUBLIC RESOURCES CODE SECTION 6815(a) HAVE

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BEEN MET, THAT AUTHORIZING THE ADDITION OF 14.02 ACRES TO EXISTING OIL AND GAS LEASE NO. PRC 8395.1 IS IN THE BEST INTERESTS OF THE STATE IN ORDER TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LANDS.

AUTHORIZATION:

1. CONSENT TO THE ASSIGNMENT OF 100 PERCENT INTEREST IN OIL AND GAS LEASE NO. PRC 8395.1 FROM SUNSET EXPLORATION, INC. TO STREAM ENERGY, INC., WITH THE ASSIGNEE TO BE BOUND BY ALL THE TERMS AND CONDITIONS OF THE LEASE.
2. APPROVE THE AMENDMENTS TO OIL AND GAS LEASE NO. PRC 8395.1 AS SET FORTH IN EXHIBIT C.
3. CONSENT TO THE POOLING OF THE LEASED LANDS (27.71 ACRES UNDER OIL AND GAS LEASE NO. PRC 8395.1) WITH OTHER PRIVATE LANDS HELD BY STREAM. CONSENT IS GIVEN BY APPROVING STREAM'S DECLARATION OF POOLING DATED FEBRUARY 3, 2007, WHICH CREATES THE WGF-MCCORMACK POOLING UNIT DESCRIBED IN EXHIBIT E, (APPROXIMATELY TOTAL 226.94 ACRES INCLUDING 26.71 ACRES OF LEASED TIDE AND SUBMERGED LANDS UNDER OIL AND GAS LEASE NO. PRC 8395.1). THE UNITIZED LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF OIL AND GAS LEASE NO. PRC 8395.1, NOTWITHSTANDING ANY CONDITIONS IN THE DECLARATION OF POOLING TO THE CONTRARY.
4. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.