

**CALENDAR ITEM
C72**

A 35

12/05/12
PRC 28.1
N. Heda
J. Planck
M. LeClair

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**CONSIDER APPROVAL OF
2012 AMENDMENT TO AGREEMENT PRC 28.1,
GOLETA GAS FIELD,
SANTA BARBARA COUNTY**

OPERATOR:

Southern California Gas Company
Attn.: Mr. Steve Isgro
34271 Del Obispo Street
Dana Point, CA 92629

AREA, LAND TYPE, AND LOCATION:

The existing La Goleta Storage Facility is an underground natural gas storage facility located in unincorporated Santa Barbara County, adjacent to the City of Goleta and is comprised of private uplands as well as state tide and submerged lands owned by the State. Southern California Gas Company (SoCalGas) is the operator of this facility.

BACKGROUND:

On April 30, 1942, the State of California, acting by and through the State Lands Commission, (State) and Pacific Lighting Corporation, the predecessor to SoCalGas, entered into Agreement PRC 28.1, Goleta Gas Field, Santa Barbara County (the "Original Agreement") covering the production and removal of virgin gas (gas naturally occurring in the field) from, and the storage of natural gas produced from locations other than in the field in, lands held by the State in the Goleta Gas Field (the State lands).

Under the Original Agreement, the California State Lands Commission (Commission), in lieu of allowing SoCalGas to drill into the State lands in the Goleta Gas Field within the productive limits of the Vaqueros Zone, agreed to accept from SoCalGas monetary compensation for any production or removal of

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virgin gas from the State lands by drainage. In addition, the Original Agreement permitted SoCalGas to inject and store gas into and to withdraw the injected and stored gas from the State lands within the productive limits of the Vaqueros Zone and required SoCalGas to pay to the State monetary compensation of one (1) cent per thousand cubic feet (Mcf) of injected gas for the privilege of injecting and storing the gas in the State lands.

The term of the Original Agreement was 20 years with a preferential right of SoCalGas to renew the agreement for successive periods of 10 years each upon reasonable terms and conditions prescribed by the Commission. By an amendment to the Original Agreement in 1954 (the 1954 Amendment), the term was changed to 20 years and so long thereafter as virgin gas is produced in paying quantities from or natural gas is stored in "paying quantities" in the Goleta Gas Field.

SoCalGas currently plans exploration and development of natural gas resources in the Goleta Gas Field at depths below the Vaqueros Zone. The exploration and development would involve the drilling by SoCalGas of a well or wells from its upland locations into lands within the Goleta Gas Field landward of the line of ordinary high water. SoCalGas is prohibited from drilling wells into State lands seaward of the line of ordinary high water. These development activities, however, may result in the production and/or removal of virgin gas from the State lands due to drainage of the State resources. SoCalGas also contemplates injecting and storing natural gas within zones beneath the Vaqueros Zone in the Goleta Gas Field after all virgin gas is produced from these zones. The Commission staff and SoCalGas, propose to amend the Original Agreement, as amended by the 1954 Amendment, to modify a number of the terms including to provide for payment to the State by SoCalGas of monetary compensation for any virgin gas produced or removed from all zones, including the Vaqueros Zone, and to receive adequate compensation for storage of gas within the State lands.

The Commission staff maintains that the monetary compensation it receives under the Original Agreement is inadequate consideration for allowing SoCalGas to inject and store natural gas in its lands. SoCalGas has agreed to increase the compensation it pays to the State and to bring the storage fee up to current commercial rates.

The Commission staff also maintains that the term of the Original Agreement as amended in the 1954 Amendment is improper and improvident because it creates a right in SoCalGas to retain the use of the State lands for an indefinite term that would end only when SoCalGas determined not to inject or withdraw

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storage gas from the State lands. The Commission staff and SoCalGas propose to provide a definite rather than indefinite term for the agreement when production of virgin gas has ceased and SoCalGas uses the State lands only for the storage of natural gas. SoCalGas has also agreed to amend or replace several other provisions of the Agreement PRC 28.1.

OTHER PERTINENT INFORMATION:

1. The proposed amendment to Agreement PRC 28.1 provides that the limited right granted to SoCalGas in the Original Agreement to produce and remove virgin gas from and to inject and store natural gas in the Vaqueros Zone of State lands in the Goleta Gas Field would expand to include the productive limits of all zones at all depths of the State lands in the Goleta Gas Field. SoCalGas, however, would have no right whatsoever to drill any wells for any purpose into the State owned lands.

2. In lieu of the right to drill into the State lands, SoCalGas shall pay to the State compensation for the production or removal by drainage of virgin gas from the State lands pursuant to the terms of the 2012 Amendment. For the purpose of calculating the compensation due the State for virgin gas produced or removed from the Vaqueros Zone, the State's ownership share of the virgin gas produced or removed from the Vaqueros Zone shall continue to be eleven percent (11%). Currently, 4.3 billion cubic feet (Bcf) of recoverable virgin gas is estimated by SoCalGas to be in the Vaqueros Zone. SoCalGas has not drawn the field down to the point where virgin gas has been withdrawn. In lieu of paying royalty on the 4.3 Bcf of virgin gas when it is withdrawn at the end of the lease, SoCalGas has agreed to make a one-time payment for the State's share of the 4.3 Bcf of virgin gas based on the sliding scale royalty percentage provided in the 2012 Amendment and the average price of gas in effect for the month prior to December 6, 2012. SoCalGas shall make the payment within 60 days, on or before February 4, 2013.

The new sliding scale royalty provided for in the 2012 Amendment involving future production of virgin gas is 16.67 percent (16.67%) when gas is less than four dollars per Decatherm (Dth), 20 percent (20%) when gas is four dollars to eight dollars per Dth and 25 percent (25%) when gas is above eight dollars per Dth. The price paid is to be the average monthly price for sales of gas by SoCalGas for the month in which the gas is produced. SoCalGas shall make this payment to the State within sixty (60) days of the effective date of the 2012 Amendment. Any virgin gas produced or removed above 4.3 Bcf is to be paid at the price and at the

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sliding scale royalty rate that are applicable at the time of production or removal as provided in the 2012 Amendment when and if it is recovered.

In the proposed amendment, SoCalGas would pay to the State compensation for the exclusive right to inject and store natural gas within the productive limits of all zones in the Goleta Gas Field, including the Vaqueros Zone, underlying the State lands. This compensation due the State for gas injected annually (Annual Storage Fee) would be \$0.04/Mcf beginning on the effective date of the 2012 Agreement and increase \$0.01/Mcf per year each January 1, until \$0.10/Mcf is attained in January 2018. Commencing on January 1, 2019, and on every successive January 1st (Adjustment Date), the Annual Storage Fee would be subject to adjustment in accordance with the specific Producer Price Index as stipulated in the 2012 Agreement.

The annual adjustment to the Annual Storage Fee, would be calculated by reference to the Producer Price Index Industry Data for natural gas distribution delivered to ultimate consumers for the account of others (transportation only), Series ID PCU22121012, published by the United States Department of Labor, Bureau of Labor Statistics (Index). The formula is: $\text{New Index/Base Index} \times \$0.10/\text{Mcf injected} = \text{Annual Storage Fee}$.

The areal extent of the State's ownership share of the zones beneath the Vaqueros Zone appears to be smaller than it is in the Vaqueros Zone. Therefore, for the purpose of calculating the compensation due the State for virgin gas produced or removed from all zones other than the Vaqueros Zone, the State's ownership share of the virgin gas produced or removed from the other zones would initially be eight percent (8%). The State's ownership share of this virgin gas may be adjusted by agreement of the State and SoCalGas when sufficient data warranting an equitable adjustment of the areal extent of the State's share of these other zones become available.

3. The minimum annual pre-paid gas storage rental fee would be increased to a minimum \$10,000 per year and shall be credited against all natural gas injected and stored in the State lands as the compensation accrues for the calendar year.
4. The term of Agreement PRC 28.1 would be 25 years from December 6, 2012, with a preferential right of SoCalGas to renew for successive

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periods of 10 years each. The term of Agreement PRC 28.1 with regards to storage of gas would end no later than 49 years after December 6, 2012 (December 5, 2061). However, if at that time virgin gas is being produced from the Goleta Gas Field in paying quantities, the term of Agreement PRC 28.1 for purposes of virgin gas production would terminate at the end of the month of cessation of production in paying quantities.

5. The staff recommends that the Commission find that the 2012 Amendment does not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment, and is, therefore, not a project in accordance with the California Environmental Quality Act (CEQA).

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

EXHIBITS:

- A. Location
- B. Site Map

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

Find that the 2012 Amendment is not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060, subdivision (c)(3), because the activity is not a project as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

AUTHORIZATION

1. Approve the 2012 Amendment to Agreement PRC 28.1, Goleta Gas Field, Santa Barbara County in substantially the form and terms on file in the Commission's office.
2. Authorize the Executive Officer or his or her designee to execute any documents necessary to implement the Commission's action.

EXHIBIT A

PRC 28.1

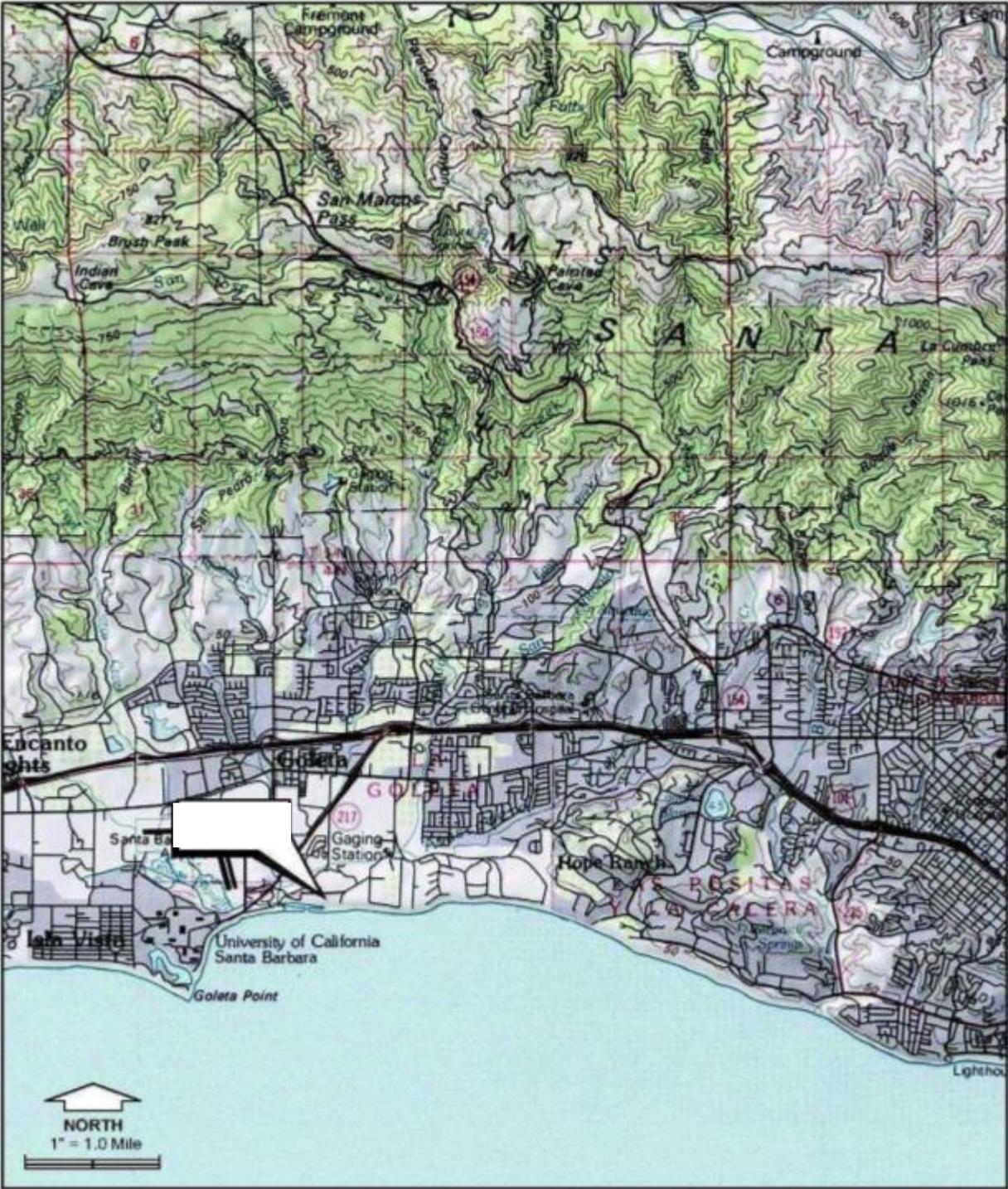


EXHIBIT B

PRC 28.1

Site Map

