

MINUTE ITEM

22. GAS STORAGE AGREEMENT, EASEMENT 412.1, SAN JOAQUIN COUNTY, PACIFIC GAS AND ELECTRIC COMPANY - W.O. 3250, P.R.C. 2839.1.

After consideration of Calendar Item 29 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE EXECUTIVE OFFICER IS AUTHORIZED TO ISSUE A GAS-STORAGE LEASE TO PACIFIC GAS AND ELECTRIC COMPANY COVERING THE STATE'S INTEREST IN THE McDONALD ISLAND SAND UNDERLYING THAT PORTION OF THE BED OF WHISKEY SLOUGH, SAN JOAQUIN COUNTY, TO BE SHOWN ON EXHIBIT "A" TO BE ATTACHED TO THE GAS-STORAGE LEASE AND BY REFERENCE MADE A PART HEREOF, SUBJECT TO DEPOSIT BY THE LESSEE OF A BOND IN THE AMOUNT OF \$50,000. THE EFFECTIVE DATE OF THE LEASE IS TO BE MARCH 1, 1962. THE ORIGINAL COMPENSATORY AGREEMENT, EASEMENT 412.1, ENTERED INTO ON MARCH 1, 1940, IS TO REMAIN IN EFFECT FOR ALL ZONES EXCEPT THE McDONALD ISLAND SAND.

Attachment

Calendar Item 29 (2 pages)

CALENDAR ITEM

29.

GAS STORAGE AGREEMENT, EASEMENT 412.1, SAN JOAQUIN COUNTY, PACIFIC GAS AND ELECTRIC COMPANY - W.O. 3250.

Compensatory Agreement 412.1 was entered into on March 1, 1940, with Standard Oil Company of California to compensate the State for drainage of gas from land underlying Whiskey Slough, San Joaquin County, through wells drilled on adjoining lands. As modified on June 1, 1950, the State's participating percentage within the 1,783-acre productive limits of the McDonald Island sand (see Exhibits 1 and 2), the producing zone, was 8.77. Accumulated royalty received by the State through March 16, 1958, when the reservoir was shut in, was \$233,034.39.

On January 29, 1959 (Minute Item 12, pages 4438-39), Standard Oil Company, with the approval of the State Lands Commission, assigned Agreement 412.1 to Pacific Gas and Electric Company. P.G. & E. acquired the McDonald Gas Field in order to use the partially depleted McDonald Island sand as a gas-storage reservoir. The gas field is favorably located relative to the San Francisco Bay area and will provide gas storage for use in meeting peak gas loads. In order to prevent damage to the partially depleted reservoir by further water encroachment, P.G. & E. commenced the injection of gas in 1958, and since that time has increased the reservoir pressure from 459 p.s.i.g. (pounds per square-inch gauge), at the time the injection began, to approximately 700 p.s.i.g. through the injection of approximately 23,847,000 M.c.f. of gas. While this injection was taking place, it was determined that, due to barrier faults, the storage area is smaller than the area included in the compensatory agreement (see Exhibit 1). Data obtained in drilling well "McDonald Island" 13 required an adjustment of the west productive limit line with an increase in the State's participating percentage to 12.193 percent of 1,205 acres.

P.G. & E. has requested that the compensatory agreement remain in effect for the area included in the original agreement for all zones other than the McDonald Island sand. The latter will be included in a storage agreement.

The proposed storage agreement provides that P.G. & E. will pay the State: (1) at the rate of 32 cents per M.c.f. for State's percentage of the remaining recoverable native gas in the McDonald Island sand (one of the zones in the area included under the compensatory agreement), which will amount to approximately \$127,500; (2) an annual rental of \$20,000 per year; (3) a storage payment of one cent per injected M.c.f. of gas, which storage payment will be allowed as a credit, as accrued against the rental paid for each lease year.

After the first five-year period of the lease, the rent and the storage rate will each escalate two percent each year for the initial 15-year term of the lease. P.G. & E. will be given the right to renew this agreement for two successive periods of 15 years each upon such reasonable terms and conditions as may be prescribed by the State unless otherwise provided by law at the time of the expiration of any such period.

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P.G. & E. proposes to operate the reservoir at pressures ranging from 900 to 1,500 p.s.i.g. There will be no charge for gas injected until the 900 p.s.i.g. reservoir cushion minimum is reached. However, if gas is withdrawn before the pressure reaches 900 p.s.i.g. or is withdrawn below that pressure, and on termination of this agreement, P.G. & E. will pay the then prevailing rate for gas withdrawn until the pressure reaches 459 p.s.i.g., below which pressure payment for gas will already have been received.

The applicant has paid the \$5 statutory filing fee and will deposit a bond in the amount of \$50,000.

The proposed form of lease is the result of joint conferences between the staff, P.G. & E., and the office of the Attorney General, and has been approved as to legality by the office of the Attorney General.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO ISSUE A GAS-STORAGE LEASE TO PACIFIC GAS AND ELECTRIC COMPANY COVERING THE STATE'S INTEREST IN THE McDONALD ISLAND SAND UNDERLYING THAT PORTION OF THE BED OF WHISKEY SLOUGH, SAN JOAQUIN COUNTY, TO BE SHOWN ON EXHIBIT "A" TO BE ATTACHED TO THE GAS-STORAGE LEASE AND BY REFERENCE MADE A PART HEREOF, SUBJECT TO DEPOSIT BY THE LESSEE OF A BOND IN THE AMOUNT OF \$50,000. THE EFFECTIVE DATE OF THE LEASE IS TO BE MARCH 1, 1962. THE ORIGINAL COMPENSATORY AGREEMENT, EASEMENT 412.1, ENTERED INTO ON MARCH 1, 1940, IS TO REMAIN IN EFFECT FOR ALL ZONES EXCEPT THE McDONALD ISLAND SAND.