

9/25/67

40. APPROVAL OF GAS SALES AGREEMENT; DECKER ISLAND UNIT OF GAS LEASE ISSUED IN EXCHANGE FOR GAS LEASE EASEMENT NO. 415.1, SACRAMENTO AND SOLANO COUNTIES - W.O. 6240.

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

THE COMMISSION AUTHORIZES THE APPROVAL OF THE GAS SALES AGREEMENT DATED JUNE 30, 1967, AND THE LETTER OF UNDERSTANDING DATED JUNE 30, 1967, BETWEEN STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC COMPANY, AS A BASIS FOR THE SALE AND DELIVERY BY STANDARD OIL COMPANY OF CALIFORNIA OF ITS SHARE OF GAS PRODUCED UNDER THE DECKER ISLAND UNIT OF GAS LEASE 415.1, SUBJECT TO THE EXPRESS CONDITION THAT THE APPROVAL OF THE SALES AGREEMENT SHALL NOT BE CONSTRUED TO MODIFY OR TO AFFECT IN ANY MANNER ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL THE TERMS AND CONDITIONS OF THE LEASE AND THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION.

Attachment

Calendar Item 29 (1 page)

APPROVAL OF GAS SALES AGREEMENT; DECKER ISLAND UNIT OF GAS LEASE ISSUED IN EXCHANGE FOR GAS LEASE EASEMENT NO. 415.1, SACRAMENTO AND SOLANO COUNTIES - W.O. 6240.

Standard Oil Company of California, Western Operations, Inc., has submitted for approval a gas sales agreement dated June 30, 1967, and a letter of understanding dated June 30, 1967, between Standard Oil Company of California and Pacific Gas and Electric Company, which provide for the sale of gas produced from State land within the Decker Island Unit (Minute Item 21, page 12,995, meeting of August 8, 1966) (shown on Exhibit "A"). The Decker Island Unit is a portion of the lands included within Gas Lease Issued in Exchange for Gas Lease Easement No. 415.1.

Gas currently produced by Standard under Lease E. 415.1 is sold to Pacific Gas and Electric Company under a blanket contract dated May 16, 1940, under which the State receives a proportionate share of the total gas purchased by Pacific Gas and Electric Company in the Rio Vista area; however, the total gas being purchased by Pacific Gas and Electric Company is essentially the total of its obligated purchase requirements under each of its sales contracts with the various producers in the area. Pacific Gas and Electric has refused to increase its purchase obligation with Standard under the existing contract. Therefore, in order to avoid the possible shifting of a portion of the total gas sales from Rio Vista to the Decker Island Unit, a new sales agreement was negotiated by Standard.

The new agreement provides for a sales price of 31 cents per m.c.f. through December 31, 1971, and a price mutually agreed upon for each succeeding four-year period. This price is less than the 33 cents per m.c.f. currently received under the Rio Vista contract. However, in view of the obligated purchase requirement under the Rio Vista contract, the new sales outlet at 31 cents per m.c.f. will provide a current net increase in royalties to the State. Further, this price is higher than the 30 cents per m.c.f. paid by the gas company in newly negotiated contracts in other Northern California gas fields.

The letter of understanding guarantees that Pacific Gas and Electric Company will take or will pay for Standard's full share of the gas produced from the Decker Island Unit. The letter was required because one of the Unit participants is not selling its Unit gas to Pacific Gas and Electric Company and, in order to protect Standard's position because of possible different delivery-rate requirements, the supplemental agreement was entered into.

The effective date of the agreement is June 30, 1967, and it ends with the termination of Standard's right to produce and take gas from State lands within the Decker Island Unit area.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE APPROVAL OF THE GAS SALES AGREEMENT DATED JUNE 30, 1967, AND THE LETTER OF UNDERSTANDING DATED JUNE 30, 1967, BETWEEN STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC COMPANY, AS A BASIS FOR THE SALE AND DELIVERY BY STANDARD OIL COMPANY OF CALIFORNIA OF ITS SHARE OF GAS PRODUCED UNDER THE DECKER ISLAND UNIT OF GAS LEASE 415.1, SUBJECT TO THE EXPRESS CONDITION THAT THE APPROVAL OF THE SALES AGREEMENT SHALL NOT BE CONSTRUED TO MODIFY OR TO AFFECT IN ANY MANNER ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL THE TERMS AND CONDITIONS OF THE LEASE AND THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION.