

MINUTE ITEM

10/26/67

35. APPROVAL OF GAS SALES AGREEMENT; SUB-UNIT ZONES OF GAS LEASE ISSUED IN EXCHANGE FOR GAS LEASE EASEMENT NO. 415.1, SACRAMENTO AND SOLANO COUNTIES - W.O. 6787; E. 415.1.

After consideration of Calendar Item 39 attached, and upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION AUTHORIZES THE APPROVAL OF THE GAS SALES AGREEMENT DATED SEPTEMBER 22, 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 THE GAS PRODUCED FROM THE SUB-UNIT ZONES OF A PORTION OF GAS LEASE ISSUED IN EXCHANGE FOR GAS LEASE EASEMENT NO. 415.1, SUBJECT TO THE EXPRESS CONDITIONS THAT ANY PRICE MODIFICATIONS SUBSEQUENT TO 1972 SHALL NOT BE OF ANY EFFECT UNTIL APPROVED IN WRITING BY THE COMMISSION, AND 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 39 (1 page)

APPROVAL OF GAS SALES AGREEMENT; SUB-UNIT ZONES OF GAS LEASE ISSUED IN EXCHANGE FOR GAS LEASE EASEMENT NO. 415.1, SACRAMENTO AND SOLANO COUNTIES - W.O. 6787.

Standard Oil Company of California, Western Operations, Inc., has submitted for approval a gas sales agreement dated September 22, 1967, between Standard Oil Company of California and Pacific Gas and Electric Company, which provides for the sale of gas produced from a portion of the sub-unitized State lands included within Gas Lease Issued in Exchange for Gas Lease Easement No. 415.1 (shown on Exhibit "A").

Gas currently produced by Standard within the Rio Vista Gas Unit, which includes 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. The Rio Vista Gas Unit includes only gas produced from formations between the surface of the ground and 5,450 feet below sea level. Pacific Gas and Electric Company in recent years has taken only what it is obligated to take under the May 16, 1940, contract. Therefore, in order to provide an additional sales outlet for gas produced from the sub-unit zones, a new sales agreement was negotiated by Standard.

The new agreement provides a sales price of 30 cents per m.c.f. through December 31, 1972, and a price mutually agreed upon for each succeeding four-year period. The price will be adjusted by a factor obtained by dividing the heating value of the gas in B.T.U. by 1,000 rounded to the nearest  $\frac{1}{2}$  cent. Initial sub-unit zone tests indicate the heating value to be approximately 1,060 B.T.U. Therefore, the adjusted price, using the initial test data, would be approximately 32.0 cents per m.c.f. 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 32.0 cents per m.c.f. will provide a current net increase in royalties to the State. Further, this price is consistent with the prices paid by the gas company in newly negotiated contracts in other Northern California gas fields.

The effective date of the agreement is September 22, 1967, and it ends with the termination of Standard's right to produce and take gas from the sub-unit zones of State lands.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE APPROVAL OF THE GAS SALES AGREEMENT DATED SEPTEMBER 22, 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 THE GAS PRODUCED FROM THE SUB-UNIT ZONES OF A PORTION OF GAS LEASE ISSUED IN EXCHANGE FOR GAS LEASE EASEMENT NO. 415.1, SUBJECT TO THE EXPRESS CONDITIONS THAT ANY PRICE MODIFICATIONS SUBSEQUENT TO 1972 SHALL NOT BE OF ANY EFFECT UNTIL APPROVED IN WRITING BY THE COMMISSION, AND 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.