

MINUTE ITEM

This Calendar Item No. 20
was approved as Minute Item
No. 20 by the State Lands
Commission by a vote of 3-0
to 9/30/76
at its meeting.

MINUTE ITEM

9/30/76
ADW

20. REQUEST FOR SIX MONTH APPROVAL OF GAS SALES AGREEMENT
STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC
SACRAMENTO, SOLANO, CONTRA COSTA, AND SAN JOAQUIN COUNTIES -
W. 9738, E 415, PRC 3238, E 415, E 415, PRC 714, PRC 729, PRC 3743,
PRC 3896, PRC 2966.

During consideration of Calendar Item 20, attached, Commission-
alternate Sid McCausland stated that he understood the Commission's
desire to keep pace with the market on a timely basis, and the
staff's efforts to arrive at the best price. However he
questioned whether it was worth the staff's time to return
with this item again in six months. He suggested the agree-
ment should be for 12 months.

Chairman Cory asked how many mcf's a month the State is receiving
on this agreement. Mr. Al Willard, Supervising Mineral Resources
Engineer, stated that Standard's annual production is around
41 million mcf and the State's share amounts to 8.5 million mcf.
Based on these figures, Mr. Cory said the Commission is looking
at an additional 4.25 million mcf which could be subject to the
\$1.35 arbitration decision if approval of the agreement is
extended from six to twelve months. Mr. McCausland asked if that
included compression charges. Mr. Cory stated it did not and
that that was the distinction. Since that price was already
accepted by the Superior Court, Mr. Cory had reluctance to
extend the agreement. However, since it is still pending
Mr. McCausland stated he is satisfied.

Upon motion duly made and carried, the resolution as presented
in Calendar Item 20 was adopted by a vote of 3-0.

Attachment:

Calendar Item 20 (3 pages)

A 5, 9, 10, 12
S 4, 6, 7

CALENDAR ITEM

9/76
W 9738
ADW

20

REQUEST FOR SIX MONTH APPROVAL OF GAS
SALES AGREEMENT STANDARD OIL COMPANY OF CALIFORNIA
AND PACIFIC GAS AND ELECTRIC, SACRAMENTO,
SOLANO, CONTRA COSTA, AND SAN JOAQUIN COUNTIES

Standard Oil Company of California has negotiated price increases with Pacific Gas and Electric Company for gas sold to it under contracts with Standard. Some of the contracts cover gas produced from State leases and gas allocated to State land under compensatory agreements. Standard Oil Company has submitted for approval, proposed Letter Agreements, dated June 22, 1976, between Standard and PG&E that will modify the price provisions of the Gas Sales Agreements covering the State leases and agreements. These and corresponding price changes are listed below:

| <u>LEASE</u> | <u>FIELD</u> | <u>PG&E CONTRACT DATE</u> | <u>CURRENT PRICE/ MCF</u> | <u>NEW PRICE/ MCF</u> |
|---------------------|-----------------------|---------------------------------------|-----------------------------------|-------------------------------|
| E 415 | Decker Island | 6/30/67 | 77.0¢ | \$1.235 |
| PRC 3238 | Liberty Island | 9/4/68 | 62.0¢ | \$1.005 |
| E 415 | Rio Vista and Isleton | 1/1/56 | 78.5¢ | \$1.25 |
| E 415 | Rio Vista Deep | 9/22/67 | 80.5¢ | \$1.285 |
| PRC 714 & PRC 729 | River Island | 1/1/61 | 71.0¢ | \$1.15 |
| PRC 3743 & PRC 3896 | Ryer Island | 11/26/68 | 78.5¢ | \$1.255 |
| PRC 2966 | West Thornton | 7/18/57 | 72.0¢ | \$1.145 |

The new prices have been adjusted as provided for in the agreement listed above, based on the average heating value of the gas in BTU's per cubic foot and the respective agreement load factors (average daily requirement divided by the maximum daily requirement, as provided for in the contract). The basic price is \$1.20 per Mcf for 33-1/3 percent load factors and gas having a heating value of 1000 Btu. Estimated increase in income to the State attributable to the price increase will amount to approximately one and one-half million dollars per year.

The State leases subject to the sales agreement have been reviewed by the Office of the Attorney General with the following comments:

A 5, 9, 10, 12
S 4, 6, 7

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1. State Lease E 415, which produces in excess of 75% of the gas to be sold pursuant to the subject agreements, does not provide for the State to take its royalty share of the gas in kind,
2. Whatever power the State may have to defer production in anticipation of future rises pursuant to Section 6830 of the Public Resources Code is abridged by the provision of the unit agreement governing E 415 as provided in Section 6832 of the Public Resources Code. Amendment to all leases would be required to defer production of the State's royalty share of the gas.
3. The Commission's approval of the subject sales agreements would not prevent the State from requiring the payment of royalties based upon a higher price, if it were determined that such higher price was the reasonable market value of the gas. The reasonable market value of the gas can be determined by the Commission at any time during the lease.

At its July 22, 1976 meeting, the State Lands Commission approved a contract with Standard at 1.31 per Mcf minus an 11¢ compression charge.

This offer, having not been accepted by Standard by the August 26, 1976 meeting, the Commission revoked its July 22, 1976 offer, and deferred further action until the September 30, 1976 meeting.

During the time between the August and September meeting, the staff of the Division has endeavored to reach an amicable solution of this matter with Standard. These discussions have resulted in the following proposed solution;

IT IS RECOMMENDED THAT THE STATE LANDS COMMISSION APPROVE AN INTERIM PRICE FOR ITS ROYALTY GAS OF \$1.20 PER MCF FOR A PERIOD OF SIX MONTHS COMMENCING JULY 1, 1976, AND APPROVE THE LETTER MODIFICATIONS DATED JUNE 22, 1976, TO THE GAS SALES AGREEMENTS BETWEEN STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC COMPANY FOR THE SALE AND DELIVERY OF GAS PRODUCED FROM THE LANDS COVERED BY THE GAS LEASES AND COMPENSATORY AGREEMENTS LISTED ON PAGE 1 ABOVE BY REFERENCE MADE A PART HEREOF, PROVIDED THAT SUCH AGREEMENT AND APPROVAL SHALL NOT BE DEEMED A DETERMINATION BY THE STATE OF THE CURRENT REASONABLE MARKET VALUE OF THE ROYALTY GAS. THE AGREEMENT AND APPROVAL SHALL BE SUBJECT TO THE RIGHT OF THE STATE AT THE END OF THE SIX-MONTH PERIOD COMMENCING JULY 1, 1976, OR AT ANY TIME THEREAFTER, TO MAKE A DETERMINATION OF THE REASONABLE MARKET VALUE OF THE ROYALTY GAS FOR THE PURPOSE OF ESTABLISHING THE PRICE TO BE PAID THE STATE FOR THE ROYALTY GAS BEGINNING JANUARY 1, 1977, USING AS EVIDENCE OF SUCH REASONABLE MARKET VALUE RELEVANT FACTS AND CIRCUMSTANCES

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IN EXISTENCE AT THE TIME INCLUDING BUT NOT LIMITED TO THE ARBITRATION AWARD IN THE MATTER OF THE ARBITRATION BETWEEN OCCIDENTAL PETROLEUM CORPORATION, ET AL., AND PACIFIC GAS AND ELECTRIC COMPANY AND THE SUSTAINING OF SUCH AWARD BY THE SAN DIEGO SUPERIOR COURT. THIS AGREEMENT AND APPROVAL SHALL BE FURTHER SUBJECT TO THE EXPRESS CONDITION THAT THE APPROVAL SHALL NOT BE CONSTRUED TO MODIFY OR AFFECT IN ANY MANNER ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH THE TERMS AND CONDITIONS OF THE LEASES AND AGREEMENTS AND THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION.