

MINUTE ITEM

This Calendar Item No. 21
was approved as Minute Item
No. 21 by the State Lands
Commission by a vote of 2
to 0 at its 11/30/77
meeting.

CALENDAR ITEM
21.

11/77
W 40049
Nielson
PPC 5415

SUBSURFACE OIL AND GAS LEASE

APPLICANT: McCulloch Oil Corporation.

LAND PARCEL REQUESTED: Approximately 538 acres of proprietary lands located approximately 15 miles SW of Stockton, Contra Costa County.

OWNERSHIP: Privately owned parcels which were acquired in 1969 by Department of Water Resources through condemnation procedures. Conveying instruments distribute one-half of the oil, gas and mineral rights below 500 feet to the defendants, and one-half of such rights below 500 feet and 100% of such rights above 500 feet, to the State.

SURFACE STATUS: Said parcel was condemned to the Department for State water purposes. The Department is presently maintaining an irrigation water storage reservoir on the parcel and as such will not allow drilling from the parcel surface.

PERTINENT INFORMATION:

1. Inasmuch as drill sites are not available on the State parcel and surface drill sites on the adjacent property are under the control of a single party, the leasing provisions of Public Resources Code Section 6827 (competitive bidding) are impractical.

The applicant, who has approximately 4,000 acres under lease in the area, which completely surround the State parcel, intends to drill directionally to the State parcel from a drillsite located about 1 1/2 miles south of the parcel. It is proposed to enter into negotiated lease with the applicant pursuant to Section 6815 of the Public Resources Code. Such Section 6815 provides:

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"Whenever it appears to the Commission that wells drilled upon private lands are draining or may drain oil or gas owned by the State or where the provisions of Section 6827 are deemed by the commission to be impractical in the particular case by reason of the small size or irregular configuration of the property, or its inaccessibility from surface drillsites reasonably available or obtainable, the Commission, in lieu of the following provisions of Section 6827, may negotiate and enter into agreements with the owners or operators of such wells on private lands for the payment of compensation to the State for such drainage, or may negotiate and enter into leases for the development of the State lands through drilling from adjoining lands only....."

2. Under the proposed negotiated oil and gas lease, McCulloch Oil Corporation agrees to pay in money to the State annually in advance, as rental, the sum of \$10 per acre (present rental received on adjacent private leases is \$5 per acre), and as royalty on the State's share (50%) of natural gas produced, 25% of its value, and on oil a percentage determined in accordance with the sliding scale schedule (16-2/3% minimum to 50% maximum at 500 B/D/well) attached to the lease on file in the office of the State Lands Commission. The area is considered a natural gas prospect with little likelihood of encountering oil. Maximum payment for any of the surrounding leases is 1/6 royalty and \$5 per acre annual rental. The other 50% mineral owner in the subject parcel has agreed to a 1/8 royalty and \$5 per acre annual rental. The lease shall also provide for a primary drilling term of 3 years.
3. All of the rental and royalty revenue paid under the proposed lease is required, pursuant to the respective Public Resources

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and Water Codes to be deposited in the accounts of the California Water Resources Development Bond Fund.

4. The proposed lease has been reviewed by Staff Counsel who have advised that the proposed negotiated lease will comply with the requirements of Public Resources Code Section 6815, and other applicable provisions of law and the rules and regulations of the Commission.

ENVIRONMENTAL IMPACT:

The State Lands Division, in accordance with Article 10, Section 2906(b) of the Cal. Adm. Code, has conducted an initial study and has concluded that the project will not have a significant effect on the environment. Therefore, in compliance with subsection (c) of such Section 2906, a Negative Declaration was prepared and filed with the State Clearinghouse as EIR ND 216.

EXHIBITS:

- A. Land Description. B. Location Map.
C. Negative Declaration.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN ENVIRONMENTAL IMPACT REPORT HAS NOT BEEN PREPARED FOR THIS PROJECT BUT THAT A NEGATIVE DECLARATION HAS BEEN PREPARED AS EXHIBIT "C" ON FILE WITH THE OFFICER OF THE STATE LANDS COMMISSION.
2. CERTIFY THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED IN THE NEGATIVE DECLARATION.
3. DETERMINE THAT THE PROJECT WILL NOT HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT.
4. FIND THAT, IN ACCORDANCE WITH SECTION 6815, OF THE PUBLIC RESOURCES CODE, AS TO THE 538 ACRES OF PROPRIETARY LANDS WHOSE SURFACE IS UNDER THE JURISDICTION OF THE DEPARTMENT OF WATER RESOURCES, CONTRA COSTA COUNTY, THE PROVISIONS OF SECTION 6827 ARE IMPRACTICAL BY REASON OF ITS INACCESSIBILITY FROM SURFACE DRILLSITES REASONABLY AVAILABLE OR OBTAINABLE.

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5. AUTHORIZE THE ISSUANCE OF A SUBSURFACE OIL AND GAS LEASE ON THE STATE'S MINERAL INTEREST IN 538 ACRES OF PROPRIETARY LANDS DESCRIBED IN EXHIBIT "A" ATTACHED, WHOSE SURFACE IS UNDER THE JURISDICTION OF THE CALIFORNIA DEPARTMENT OF WATER RESOURCES, PURSUANT TO DIVISION 6, OF THE PUBLIC RESOURCES CODE; TO MCCULLOCH OIL CORPORATION FOR CONSIDERATION OF AN ANNUAL RENTAL OF \$10 PER ACRE, AND AS ROYALTY ON NATURAL GAS PRODUCTION, A TWENTY-FIVE PERCENT SHARE OF ITS VALUE AND ON OIL, A PERCENTAGE DETERMINED IN ACCORDANCE WITH THE SCHEDULE ATTACHED TO THE LEASE, ON FILE IN THE OFFICE OF THE COMMISSION AND BY REFERENCE MADE A PART HEREOF.

Attachment: Exhibit "A"

EXHIBIT "A"

That portion of the subsurface lying below the depth of five hundred feet (500') in the following described parcels:

All that certain real property lying within Contra Costa County, State of California, described as follows:

(1) The South Half of Section 18, Township 1 South, Range 4 East, M.D.B.&M.

(2) A portion of Section 24, Township 1 South, Range 3 East and of Section 19, Township 1 South, Range 4 East, M.D.B.&M., more particularly described as follows:

BEGINNING at the Northwest corner of that certain 4.17 acre parcel of land conveyed by Amelia G. Webber to William G. Ferguson, et al, by deed dated March 8, 1923, recorded March 23, 1923, in Book 438 of Deeds, page 118, from which corner a 2-inch diameter iron pipe stamped "R.E. 5009" bears West 18 feet and the Northwest corner of the Northeast Quarter of said Section 19 bears West 403.7 feet, and running thence from said point of beginning South along the West line and its production of the 4.17 acre parcel so conveyed a distance of 2,170.15 feet to a 2-inch diameter iron pipe stamped "R.E. 5009"; thence West parallel to the North line of said Section 19, a distance of 4,328.21 feet to a 2-inch diameter iron pipe stamped "R.E. 5009"; thence North 1,691.86 feet to a 2-inch diameter iron pipe stamped "R.E. 5009"; thence South 89° 51' West, 405.00 feet to a 2-inch diameter iron pipe stamped "R.E. 5009"; thence North 475.00 feet to a point on the North line of said Section 24, from which point a 2-inch diameter iron pipe stamped "R.E. 5009" bears South 187.5 feet, and another 2-inch diameter iron pipe stamped "R.E. 5009" bears North 89° 51' East, 219.2 feet; thence North 89° 51' East the North line of said Section 24, a distance of 2,064.51 feet, more or less, to the section corner common to Sections 13, 24, 18 and 19, Township 1 South, Range 3 and 4 East, M.D.B.&M; thence East along the North line of said Section 19, a distance of 2,668.70 feet, more or less, to the point of beginning.

It presently appears that Lessor named herein owns only an undivided 50% interest in the oil, gas, and other hydrocarbon substance in, under, or which may be recovered from the real property hereinabove described, and the parties hereto hereby agree that only 50% of the royalties, rentals, and other payments herein provided for shall be paid to Lessor named herein; provided, however, that it is the intent of the parties hereto, and it is hereby agreed, that this lease shall cover the entire present interest and estate of Lessor in said real property, together with any interest or estate therein which Lessor may hereafter acquire; provided further, that if at any time it should appear that Lessor owns an interest in said oil, gas, and other hydrocarbon substances which is either greater than or less than the interest hereinabove set forth in this paragraph, then the royalties, rentals, and other payments herein provided for shall be paid to Lessor in the proportion which Lessor's interest in said oil, gas, and other hydrocarbon substances bears to the whole undivided estate therein.