

MINUTE ITEM

This Calendar Item No. 31  
 was approved as Minute Item  
 No. 31 by the State Lands  
 Commission by a vote of 2  
 to 0 at its 4-29-81  
 meeting.

MINUTE ITEM

4/29/81  
 Freckman  
 Graber  
 W 40179  
 PRC 5998

31. AWARD OF A NEGOTIATED OIL AND GAS LEASE UNDER LANDS OF  
 DEUEL VOCATIONAL INSTITUTION, SAN JOAQUIN COUNTY

During consideration of Calendar Item 31 attached, Mr. William F. Northrop, Executive Officer, explained that since the State does not have a drillsite on its land, it has negotiated the subject lease with Dow Chemical. He indicated Dow's offer was 16-2/3% royalty, \$20 per acre and 30% of the net profits.

Acting Chairman Carl D'Agostino, representing Chairman Kenneth Cory, pointed out that he had a problem with this item. He felt the State was at a disadvantage because Dow is the only entity besides Deuel Vocational Institution which has a drillsite in the area. Consequently, due to the lack of a drillsite, there is no competition. Mr. D'Agostino felt there was no compelling need for the State to accept such a significantly lower net profits than it is receiving from other leases. He suggested that since it is an exploratory well, the State should move slower and see if Deuel could be persuaded to provide a drillsite and offer the area for lease pursuant to competitive public bid, with the possibility of obtaining a higher net profits return to the State.

It was pointed out by staff that due to the time constraints set forth under Chapter 1200, Statutes of 1978 (AB 884), this application had to be approved or disapproved at this meeting or it would be automatically deemed approved. It was also pointed out that if the application is denied, it would take 4-6 months for the application to return to the Commission because it would have to again go through the environmental process.

Mr. Clark Ditzler, Manager, Dow Chemical Company, appeared in support of the staff's recommendation. He stated they had negotiated with the staff in good faith for 15 months and had held up activities in the area pending the result of these negotiations. He stated he was surprised that this action might be set aside now after that length of time. He stressed that this well is highly exploratory and concurred with the staff's estimate of 4-1/2% chance of finding hydrocarbons on the property.

Because of the concerns raised by Mr. D'Agostino and because of the environmental deadline, the Commission decided that by the close of business on April 30 if the Executive Officer

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had obtained confirmation from Deuel Vocational Institution that a drillsite was not available, the staff's recommendation would be approved. However, if he found that a drillsite was available, then the action of the Commission would be to deny without prejudice Dcw's application.

Upon motion duly made and carried, the following resolution was approved by the Commission by a vote of 2-0:

IF, BY 5:00 P.M. ON APRIL 30, 1981, THE EXECUTIVE OFFICER FINDS THAT THERE IS A POSSIBILITY THAT DEUEL VOCATIONAL INSTITUTIONAL WILL MAKE AVAILABLE A DRILLSITE, THEN THE APPLICATION WILL BE DENIED WITHOUT PREJUDICE; OTHERWISE, THE RECOMMENDATION OF THE STAFF AS OUTLINED IN CALENDAR ITEM 31 ATTACHED IS APPROVED.

(At 5:00 p.m. on April 30, 1981, the Executive Officer was advised by a representative from the Deuel Vocational Institution that they will make available a drillsite; therefore, Dow Chemical's application was denied without prejudice.)

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AWARD OF A NEGOTIATED OIL AND GAS LEASE  
UNDER LANDS OF DEUEL VOCATIONAL INSTITUTION,  
SAN JOAQUIN COUNTY

APPLICANT: The Dow Chemical Company  
2855 Mitchell Avenue  
Walnut Creek, California 94598

LEASE TERMS: A 16 2/3% royalty on oil, gas and other  
hydrocarbons plus 30% of net profits plus  
\$20.00 rental per acre per year.

ACREAGE: 780.0 acres of lands located within the  
boundary of Deuel Vocational Institution,  
San Joaquin County.

TYPE OF LAND: Proprietary.

LOCATION: Lands under the management of the Department  
of Corrections located within the Deuel  
Vocational Institution, San Joaquin County.

TERMS: Primary term 20 years, Drilling term 1  
year, Surety Bond \$100,000.00.

PERTINENT INFORMATION:

A negotiated oil and gas lease is proposed for this parcel due to the fact that drill sites are not available on the State lands (drilling is prohibited on the surface of the Deuel Vocational Institute) and The Dow Chemical Company has leased all lands adjacent to the State lands. Section 6815 of the Public Resources Code provides:

"Whenever it appears to the Commission that wells drilled upon private lands are draining or may drain oil or gas from lands owned by the State or where the provisions

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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 following the 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 . . . . "

Dow proposes to develop the State lands by directionally drilling into the State lands from drillsite(s) located on adjacent lands.

**STAFF DETERMINATION:**

Sufficient as to technical and economic factors.

**LEGAL STAFF DETERMINATION:**

- A. The Commission has complied with the procedural requirements of law;
- B. The lease submitted conforms with:
  - 1. The applicable provisions of law; and
  - 2. The rules and regulations of the Commission.

**ENVIRONMENTAL INFORMATION:**

A Negative Declaration (N. D. #262) was prepared by Commission staff pursuant to C.E.Q.A. and the State E.I.R. Guidelines.

This project is situated on proprietary lands not identified as possessing significant environmental values. A staff review of available environmental information indicates no reason to identify the subject parcel as having such value at this time.

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EXHIBIT: "A" Location Map.

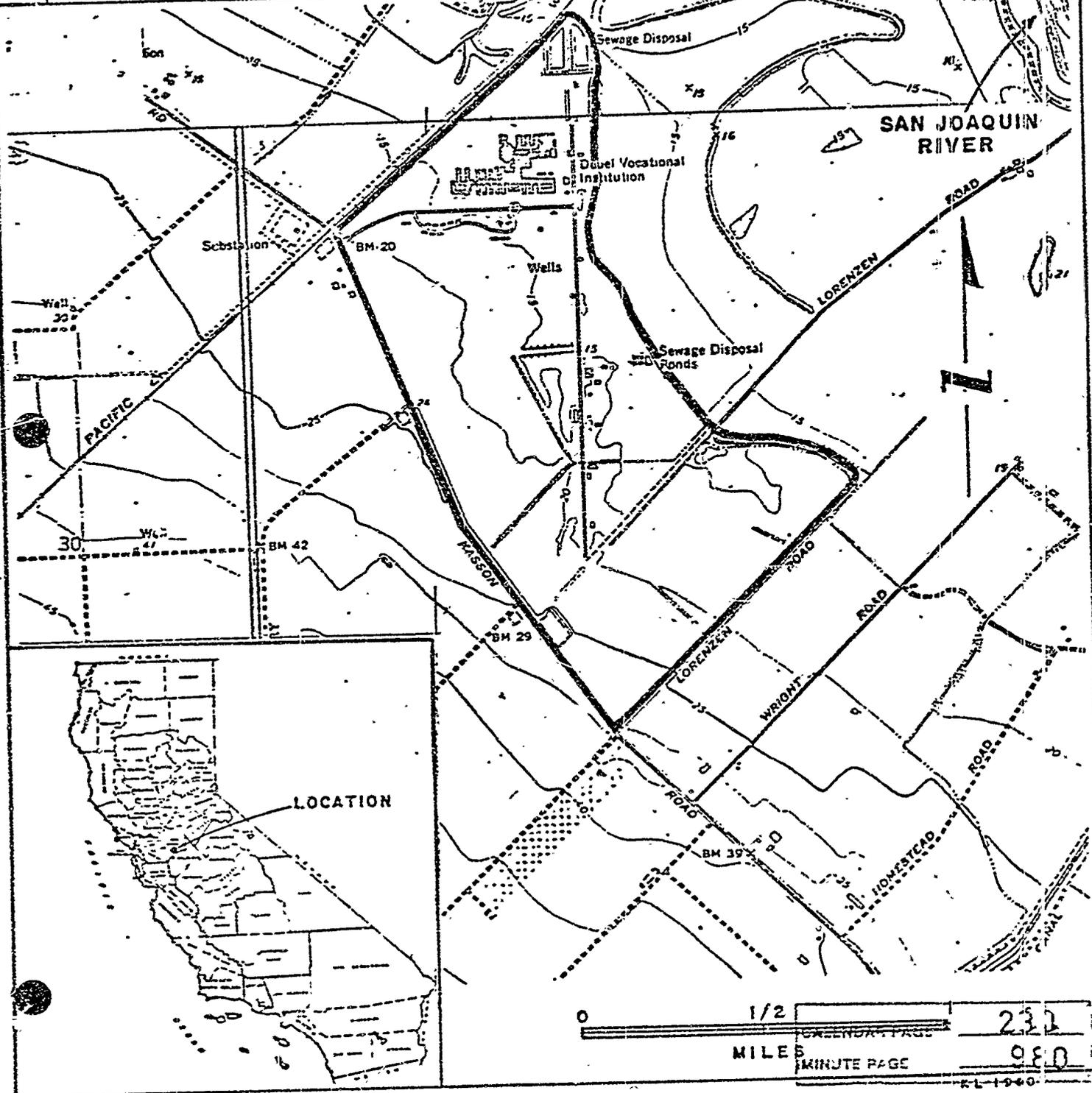
IT IS RECOMMENDED THAT THE COMMISSION:

1. CERTIFY THAT A NEGATIVE DECLARATION (ND 262) WAS PREPARED BY STATE LANDS COMMISSION PURSUANT TO THE CALIFORNIA ENVIRONMENTAL QUALITY ACT AND THAT SUCH DOCUMENT WAS REVIEWED AND CONSIDERED.
2. FIND THAT THE PROJECT WILL NOT HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT.
3. AUTHORIZE THE ISSUANCE OF A NEGOTIATED OIL AND GAS LEASE TO THE DOW CHEMICAL COMPANY FOR APPROXIMATELY 780 ACRES OF SCHOOL LANDS UNDER DEUEL VOCATIONAL INSTITUTION DESIGNATED AS W 40179 IN SAN JOAQUIN COUNTY, CALIFORNIA. CONSIDERATION FOR ISSUANCE OF THE LEASE SHALL BE \$20.00 PER ACRE PER YEAR RENTAL, 16 2/3% ROYALTY ON ALL HYDRO-CARBONS PRODUCED, AND 30% OF NET PROFITS.

EXHIBIT "A"  
 LOCATION MAP  
 W.O. 40179  
 STATE LANDS COMMISSION  
 Proposed Oil and Gas Lease  
 DEUEL VOCATIONAL INSTITUTE  
 SAN JOAQUIN COUNTY

JANUARY 1980

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