

MINUTE ITEM

31

02/28/85
PRC 5995
Gonzalez

APPROVAL OF GAS SALES AGREEMENT
STATE OIL AND GAS LEASE PRC 5995.1
SOLANO COUNTY

Calendar Item 31, attached, was pulled from the agenda prior to the meeting.

Attachment: Calendar Item 31.

CALENDAR PAGE

MINUTE PAGE

795

CALENDAR ITEM

A 4

S 2

31

02/28/85
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APPROVAL OF GAS SALES AGREEMENT
STATE OIL AND GAS LEASE PRC 5995.1
SOLANO COUNTY

LESSEE:

Casex Company
1370 Brea Boulevard
Fullerton, California 92635

AREA AND TYPE LAND:

A 238-acre parcel of tide and submerged land,
located within the bed of Lindsay Slough,
Solano County.

APPROVALS REQUESTED:

Approval of gas sales agreement between Casex
Company, the State's Lessee, and Pacific Gas
and Electric Company.

BACKGROUND INFORMATION:

1. Casex Company is operator for Casex and
Seahawk International, Inc. who are joint
Lessees under PRC 5995 at Lindsay Slough.
The lease provides for 16 2/3 percent
royalty and 80 percent of the net profits
to the State. Casex has submitted for
Commission approval a sales agreement with
Pacific Gas and Electric for natural gas
produced from two of three existing wells
on the State Lease.

The gas sales contract with Pacific Gas and
Electric covers wells Number 1-1, and 2-1.

CALENDAR ITEM NO. 31 (CONT'D)

The contract provides for the sale of gas at \$3.00/MMBTU and 1/3 load factor (minimum purchase is 33 percent of the wells maximum deliverability) for the calendar year 1985. Subsequent years shall be based on the fair market value of the gas as mutually agreed upon or established through arbitration proceedings. The overall term of the agreements extends to January 1, 2005.

Revenues under this contract will be affected by certain refunds required by the decision of the United States Court of Appeals in August 1983, vacating Order 93 of the Federal Energy Regulatory Commission. This Court finding changes the technical definitions for standard conditions used in calculating the gas heating value for gas pricing purposes under the Natural Gas Policy Act of 1978, as administered by the Federal Energy Regulatory Commission. The Court has ordered refunds calculated retroactively to December 1, 1978 by producers to their purchasers, using new standard condition criteria and Casex, as a producer, is liable for refunding approximately \$200,000. This amount will be deducted as an expense against future revenues and will diminish the amount of net profit and, consequently, reduce the State's royalty received during the pay-out period. The exact amount of refund will be dependent on obtaining data on the actual water vapor content of the produced gas during the period subject to the Court order.

AB 884:

N/A.

OTHER PERTINENT INFORMATION:

Pursuant to paragraph 15 of Lease PRC 5995.1 the Lessee must obtain prior state approval before entering into any sales contracts for the disposition of production from the leased lands.

DATE RECORDED	123
LIBRARY NO.	797

CALENDAR ITEM NO. 31 (CONT'D)

Also, pursuant to the Commission's Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because it is not a "project" as defined by CEQA and the State CEQA Guidelines.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
2. APPROVE THE GAS SALES AGREEMENT BETWEEN CASEX COMPANY AND PACIFIC GAS AND ELECTRIC COMPANY DATED FOR GAS PRODUCED UNDER STATE OIL AND GAS LEASE PRC 5995.1.

DATE	124
PAGE	798