

MINUTE ITEM

This Calendar Item No. 29
was approved as Minute Item
No. 29 by the State Land
Commission on 10/24/85
to 10/24/85
meeting.

MINUTE ITEM

29

10/24/85
LSE E-415
PRC 714
PRC 729
PRC 2966
PRC 3743
PRC 3896
PRC 6498
Gonzalez

Approval of New Gas Sales Contracts and Amendments to
Gas Sales Contracts, State Oil and Gas Leases LSE E-415,
PRC's 714, 729, 2966, 3743, 3896, 6498, Contra Costa,
Sacramento, San Joaquin and Solano Counties

Assistant Executive Officer Trout summarized the problems staff
has encountered with Chevron with regard to information
requested in connection with an ongoing audit of these leases.
This audit has uncovered unpaid revenue to the State as a
result of an unknown, unenforced provision in the gas sales
contracts between Chevron and PG&E.

Mr. Andrew Katz, representing Chevron, outlined how Chevron
would be adversely affected if this item was not approved by
the Commission at this meeting

Chairman Cory advised Mr. Katz to notify him personally if PG&E
contemplated arbitration, as a result of the Commission's
failure to approve this item. Mr. Cory also encouraged
Mr. Katz to urge Chevron to cooperate with staff in gathering
data needed to complete the ongoing audit.

Chairman Cory directed staff to review transcripts of 1977
Natural Gas Hearings containing representations by Chevron and
PG&E that State revenues would not be curtailed as a result of
gas pricing. Staff was directed to report back to the
Commission at the November meeting.

The Commission deferred any action on Calendar Item 29 until
the November 21 Commission meeting.

Attachment: Calendar Item 29

CALENDAR ITEM

A 4, 10, 11, 26

S 2, 5, 7

: 29

10/24/85
LSE E-415
PRC 714
PRC 729
PRC 2966
PRC 3743
PRC 3896
PRC 6498
Gonzalez

APPROVAL OF NEW GAS SALES CONTRACTS
AND AMENDMENTS TO GAS SALES CONTRACTS,
STATE OIL AND GAS LEASES
LSE E-415, PRC'S 714, 729, 2966, 3743, 3896 AND 6498
CONTRA COSTA, SACRAMENTO, SAN JOAQUIN AND SOLANO COUNTIES

LESSEE: Chevron U.S.A. , Inc.
P. O. Box 5050
San Ramon, California 94583

LEASE INFORMATION, AREA AND TYPE OF LAND:
Summarized in Exhibit "B".

APPROVALS REQUESTED:

Approval of new gas sales agreements and
amendment of existing sales agreements as
listed in Exhibit "A" for subject leases.

BACKGROUND:

Chevron is the State's Lessee for the subject
leases and has entered into individual lease
and unit gas sales agreements over the years
with Pacific Gas and Electric (PG and E), the
only buyer of gas production in the area. The
gas sales contract state the price the "Buyer"
(PG and E) is willing to pay the "Seller"
(Chevron) for a minimum required purchase
quantity of gas of the mutually agreed-to lease
producibility expressed as a percentage and
called the "load factor". The gas sales
agreements are amended at times to reflect

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changes in price and load factor resulting from economic conditions or regulatory agency requirements in existence at the time. PG and E requested Chevron to agree to a reduction in price paid it under the several gas sales agreements from \$3 per MMBTU to \$2.92 per MMBTU and finally to \$2.66 per MMBTU effective November 1, 1985. In addition, PG and E has requested Chevron to agree to reduction of the load factor for the Rio Vista Deep Zone (LSE 415) to 33 1/3 percent from the present 50 percent. (All of the various sales agreements between Chevron and PG and E relative to State leases will then be at a 33 1/3 percent load factor). PG and E advised that the amendments are required to permit PG and E to comply with the California Public Utilities Commission (CPUC) approved average cost sequencing guidelines, and will preserve Chevron's present sales sequencing position. PG and E further advised that under the CPUC mandate, PG and E will honor the minimum purchase requirements of all agreements and will make discretionary purchases only from those sellers who have agreed to the load factor of 33 1/3 percent. In addition to the above amendments, Chevron and PG and E have:

1. Entered into two new gas sales contracts for the River Island and Isleton Fields, PRC 714 and PRC 729.
2. Entered into a new gas sales agreement for a newly-issued State Oil and Gas Lease, PRC 6498, for State owned lands of the Stockton State Hospital.

A summary of the requested approvals is attached as Exhibit "A".

AB 884:

N/A.

EXHIBITS:

- A. Gas Sales Agreement.
- B. State Lease Information.

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OTHER PERTINENT INFORMATION:

1. Pursuant to terms of the various leases, the Lessee must obtain prior state approval before entering into any sales contracts for the disposition of production from the leased lands.
2. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Adm. Code 15378.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
2. APPROVE THE GAS SALES AGREEMENTS AND AMENDMENTS TO GAS SALES AGREEMENTS COVERING GAS PRODUCTION UNDER STATE LEASES LISTED IN EXHIBITS "A" AND "B" AND BY REFERENCE MADE A PART HEREOF.

EXHIBIT "A"
CHEVRON U.S.A., INC.
GAS SALES AGREEMENTS

| Gas Sales Contract Date | Field | State Lease(s) | Document Submitted | Price Provision |
|----------------------------|------------------------|---------------------|----------------------|---|
| 9/22/67 | Rio Vista Deep | LSE E-415.1 | Amendment-12/17/84 | Modify price to \$3.00/MMBTU eff. 1/1/85 |
| 9/22/67 | Rio Vista Deep | LSE E-415.1 | Amendment-7/17/85 | Reduce load factor to 33 1/3% eff. 1/1/85 |
| 6/30/67 | Sherman Island | LSE E-415.1 | Amendment-12/17/84 | Modify price to \$3.00/MMBTU eff. 1/1/85 |
| 7/18/57 | West Thornton | PRC 2996.1 | Amendment-9/11/85 | Modify price to \$2.92/MMBTU eff. 10/1/85 |
| 11/26/68 | Ryer Island | PRC 3743.1 & 3896.1 | Amendment | Modify price to \$3.00/MMBTU eff. 1/1/85 |
| 11/26/68 | Ryer Island | PRC 3743.1 & 3896.1 | Amendment-9/11/85 | Modify price to \$2.92/MMBTU eff. 10/1/85 |
| 8/19/85 | Stockton | PRC 6498.1 | Amendment-9/11/85 | Modify price to \$2.92/MMBTU eff. 10/1/85 |
| 1/20/85 | River Island & Isleton | PRC 714.1 & 729.1 | Amendment-9/11/85 | Modify price to \$2.92/MMBTU eff. 10/1/85 |
| 1/1/56 | Rio Vista Gas Unit | LSE E-415.1 | Amendment-3/12/84 | Modify price to \$3.00/MMBTU eff. 1/1/85 |
| 1/1/56 | Rio Vista Gas Unit | LSE E-415.1 | Amendment-9/11/85 | Modify price to \$2.92/MMBTU eff. 10/1/85 |
| 5/16/40 | Rio Vista State | LSE E-415.1 | Amendment-9-11-85 | Modify price to \$2.92/MMBTU eff. 10/1/85 |
| 1/20/85 | River Island & Isleton | PRC 714.1 & 729.1 | New Contract-1/20/85 | Price \$3.00/MMBTU |
| 8/19/85 | Stockton | PRC 6498.1 | New Contract-8/19/85 | Price \$3.00/MMBTU |

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EXHIBIT "B"

LSE E-415.1

Chevron U.S.A., Inc.
State Lease Information

- LSE E-415.1 - Lease issued on June 1940. The Rio Vista Field includes State-owned and submerged lands within an 8000 acre block of private and federal land in Solano, Contra Costa, San Joaquin and Sacramento Counties. State submerged lands are in the beds of the Sacramento, San Joaquin and Mokelumne Rivers and Threemile and Sevenmile Sloughs.
- PRC 714.1 - Lease issued in April 1952. Held by Chevron and Union Oil Company. In the River Island Field, contains 377 acres of State submerged lands in the beds of the North Fork of the Mokelumne River and Georgiana Slough.
- PRC 729.1 - Lease issued in June 1952. Held by Chevron and Union. In the Isleton Gas Field and contains 357 acres of State submerged lands in the bed of the Sacramento River, north of Isleton.
- PRC 2966.1 - Compensatory Agreement issued in June 1962. Held by Chevron, Texaco and Union. Part of the West Thornton Field and contains approximately 294 acres of submerged lands in the Sacramento and Mokelumne Rivers and Snodgrass and Georgiana Sloughs.
- PRC 3743.1 - Lease issued in April 1967. Held by Chevron and Shell. Contains approximately 2200 acres of tide and submerged lands around Ryer Island, Suisun Bay. Ryer Island Gas Field.
- PRC 3896.1 - Lease issued in January 1968. Held by Chevron and Shell Oil. Approximately 1400 acres of tide and submerged lands in Suisun Bay around Middle Ground and Snag Islands, in the Ryer Island Gas Field.
- PRC 6498.1 - Lease issued in September 1983 to Chevron. Contains 112 acres of State-owned lands of the Stockton State Hospital, Stockton, San Joaquin County.

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