

MINUTE ITEM  
This Calendar Item No. 25  
was approved as Minute Item  
No. 25 by the State Lands  
Commission by a vote of 3  
to 0 at its 1/22/87  
meeting.

CALENDAR ITEM  
**25**

A 4, 10, 11, 26  
S 2, 5, 7

01/22/87  
LSE E-415  
PRC 714  
PRC 729  
PRC 2966  
PRC 3743  
PRC 3896  
PRC 6498  
W 9738  
Hamilton

APPROVAL OF LETTER AMENDMENT TO EXISTING  
GAS PURCHASE AND SALES AGREEMENTS

LESSEE AND OPERATOR:

Chevron U.S.A., Inc.  
Attn: Hilman P. Walker  
P. O. Box 5050  
San Ramon, California 94583-0905

BACKGROUND ON LEASES:

Chevron U.S.A. Inc. (Chevron) is lessee and operator of State oil and gas Leases E-415 (Chap. 5-38), PRC 714, PRC 729, PRC 3743, PRC 3896 and PRC 6498 and Compensatory Royalty Agreement PRC 2966 which are locate in Contra Costa, Sacramento, San Joaquin and Solano counties.

Leases PRC 3743 and PRC 3896 are jointly held by Chevron and Shell California Production Inc. Shell's 50 percent share of the gas produced from the two leases is used by Shell at its Bay Area refinery with the State's royalty based upon the price Chevron receives from the sale of the remaining gas to Pacific Gas and Electric Company (PG&E). The leases require that the State approve all sales contracts including any amendments which affect the disposition of the State's royalty share of production from the leased lands.

EXISTING GAS PURCHASE AND SALES AGREEMENTS:

On November 20, 1986, the Commission approved a Letter Amendment dated July 22, 1986, amending certain gas purchase and sales agreements between Chevron and PG&E to permit Chevron to sell

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the State's royalty share of the gas produced under the leases at PG&E's California Gas Market Retention Program (MRP) price for the contract period of August 1, 1986 to October 31, 1986. This approval superseded the previous July 24, 1986 Commission action where Chevron was permitted to sell the State's royalty share of the gas produced from the Chevron State leases at the reduced CPUC prescribed preferential sequencing price.

**AMENDMENTS TO EXISTING GAS PURCHASE AND SALES AGREEMENTS:**  
Under two Letter Amendments both dated October 13, 1986, amending certain gas purchase and sales agreements between Chevron and PG&E, PG&E has offered the California natural gas producers two pricing options:

The first is the extension of PG&E's MRP from November 1, 1986 to December 31, 1986. This program requires the seller (Chevron and the State) to adjust the cost of its produced gas to compete with out-of-state lower-cost gas available to PG&E. The adjusted MRP price for November and December 1986 is \$1.84 and \$1.80 per MMBtu, respectively. Gas deliveries under this program are at 100 percent gas well capability, subject to PG&E system constraints.

The second program is the preferential gas purchase sequencing program. PG&E has stated that one of its suppliers has substantially reduced the price of the gas it sells to PG&E and that this price reduction has significantly reduced the average cost of gas bought by PG&E as determined by the CPUC approved Average Cost Sequencing Guideline in CPUC Decision No. 84-12-067. Since PG&E must continue to conform to the intent of the Decision, PG&E has offered the seller (Chevron and the State) the option to reduce the wellhead price of its produced gas to \$1.93 per MMBtu effective November 1, 1986 (from \$2.05 per MMBtu for August, September and October 1986) so as to receive benefit if its production being purchased in a sequence ahead of higher priced available out-of-state supplies. Gas deliveries under this program are currently at about 50 percent gas well capability.

Chevron has executed both Letter Amendments but is currently selling its share of the gas produced from the State leases at the MRP price. Chevron's purpose for executing both amendments is to ensure as high a volume of gas as possible in the face of out-of-state lower-cost gas. Chevron contends that this marketing strategy does insure full production resulting in higher income as possible.

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Since Chevron cannot sell the State's gas royalty under either program without first obtaining Commission approval, Chevron has requested that the Commission approve both price change Letter Amendments to provide marketing flexibility to maximize its income and the State's royalty.

Staff has reviewed the Letter Amendments between Chevron and PG&E date October 13, 1986 and finds that it is in the State's best interest to approve the amendment which extends the MRP from November 1, 1986 through December 31, 1986 and permit Chevron to sell the State's royalty share of the gas produced from the State leases.

AB 884: N/A.

**OTHER PERTINENT INFORMATION:**

1. 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.

**EXHIBITS:**

- A. Letter Amendment dated October 13, 1986 extending PG&E's MRP.
- B. Attachment to letter Amendment dated October 13, 1986 adjusting preferential sequencing price.

**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 THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.
2. APPROVE THE LETTER AMENDMENT DATED OCTOBER 13, 1986 WHICH AMEND CERTAIN GAS PURCHASE AND SALES AGREEMENTS BETWEEN CHEVRON U.S.A. INC. AND PACIFIC GAS AND ELECTRIC COMPANY AND PERMIT CHEVRON U.S.A. INC. TO SELL THE STATE'S ROYALTY SHARE OF THE GAS PRODUCED FROM STATE OIL AND GAS LEASES E-415, PRC 714, PRC 729, PRC 3743, PRC 3696 AND PRC 6498 AND COMPENSATORY ROYALTY AGREEMENT PRC 2966 AT PACIFIC GAS AND ELECTRIC COMPANY'S MARKET RETENTION PROGRAM PRICE FOR THE MONTHS OF NOVEMBER AND DECEMBER 1986, INCLUSIVE, EFFECTIVE NOVEMBER 1, 1986.

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# EXHIBIT "A"

## PACIFIC GAS AND ELECTRIC COMPANY

PG&E + 245 MARKET STREET • SAN FRANCISCO, CALIFORNIA 94106 • (415) 972-6300 • TWX 910-372-6587

GENE SATRAP  
MANAGER  
GAS SUPPLY MANAGEMENT

October 13, 1986

Chevron U.S.A. Inc.  
Room E1094  
P.O. Box 5043  
San Ramon, CA 94583-0943

Gentlemen:

Please refer to that certain Gas Purchase and Sales Agreement(s), as amended, (Agreement) between Chevron U.S.A. Inc. (Seller) and Pacific Gas and Electric Company (Buyer) as listed on the attached Exhibit A, and specifically to the PRICE paragraph therein.

Buyer's continuing purchases of large volumes of low-cost spot and discount-priced gas have significantly reduced the average delivered cost to Buyer for its out-of-state gas supplies. Such purchase opportunities, coupled with current end-user alternative fuel and gas market competition in Buyer's service territory, require Seller to adjust the cost for its higher-priced California gas to compete with Buyer's gas purchase opportunities for available lower-cost gas. Buyer proposes that, rather than Buyer reducing purchases of Seller's gas production volumes to favor out-of-state lower-cost gas purchases, Buyer is willing to offer to Seller the opportunity to maximize its gas deliveries by meeting Buyer's market price target.

To provide Seller such a market opportunity to maximize its gas production from its gas well(s) covered by the Agreement, Buyer offers to Seller the option to participate in the California Gas Market Retention Program (Program). Such Program participation is at Seller's sole and complete discretion.

Please be advised that this is not a request from Buyer to Seller to redetermine the Fair Market Value gas purchase price in the Agreement between us.

Therefore, be it understood that:

"The price Buyer agrees to pay and Seller agrees to accept as payment in full, pursuant to the terms of the Agreement, as amended herein, for Seller's share of gas produced and sold to Buyer from well(s) covered by the

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October 13, 1986

Agreement for the months of November and December 1986 shall be determined as follows:

As a Program participant, from the twentieth (20th) day through the twenty-eighth (28th) day of October 1986, and from the eighteenth (18th) day through the twenty-fifth (25th) day of November 1986, Seller shall have the option to contact Buyer during normal business hours of 8:00 a.m. to 5:00 p.m., P.D.T., Monday through Friday, at the following telephone numbers: (415) 72-2690; (415) 972-7075; or (415) 972-6598. During such telephone contacts, Buyer shall be obligated to provide its PRELIMINARY PRICE for the next succeeding month.

On or after the twenty-eighth (28th) day of October 1986 and the twenty-fifth (25th) day of November 1986, Seller shall have the option of contacting Buyer at the above-listed telephone numbers during the listed business hours and Buyer shall be obligated to inform Seller of the Program price in effect for the current or succeeding month, as appropriate. Said Program price shall not vary from the PRELIMINARY PRICE, as previously committed to, by more than plus or minus five percent (5%) and shall be rounded to the nearest whole one cent. Buyer shall confirm in writing such Program price in effect for the succeeding or current month, if requested by Seller.

Seller shall retain the unilateral right to terminate this Amendment with respect to participation in the Program during the month of December 1986, by giving Buyer written notice prior to November 26, 1986. Such notice shall be as provided in the NOTICE section of the Agreement, stating Seller's intent to terminate its participation in the Program and, therefore, terminate this Amendment, effective 7:00 a.m., P.D.T., December 1, 1986. Seller understands that once Seller gives such written notice to terminate its participation in the Program, Seller cannot re-enter the Program.

Seller and Buyer further agree that the prices agreed to herein do not constitute a redetermination of the Fair Market Value gas purchase price under the PRICE paragraph of the Agreement. Seller understands that gas tendered for sale at the prices to be offered by Buyer herein will be purchased by Buyer on a discretionary basis, at its sole judgement, when Buyer is capable of accepting such gas into its system, subject to constraints imposed by contracts or operating requirements.



EXHIBIT B

Attached to and made part of that certain Letter Agreement  
between Chevron U.S.A. Inc. and Pacific Gas and Electric Company  
dated October 13, 1986

<u>Field</u>	<u>Contract Date</u>	<u>PGandE Contract Number</u>
Arbuckle	September 1, 1957	205
Beehive Bend - Willows	January 20, 1985	844
Bounde Creek	September 1, 1983	1022
Buckeye Kirk	January 1, 1982	297
Cache Slough	October 12, 1978	654
Compton Landing	October 12, 1978	655
Compton Landing	September 16, 1980	708
Crossroads	July 1, 1978	648
Durham	January 1, 1968	460
Dutch Slough	January 1, 1986	-
Grimes	July 21, 1964	373
Grimes	June 15, 1979	683
Grimes	June 23, 1980	1050
Grimes	June 3, 1981	1021
Lathrop	March 30, 1962	329
Rio Vista Deep	September 22, 1967	451
Rio Vista Deep, State Lands	September 22, 1967	453
Rio Vista State Lands	May 16, 1940	100
Rio Vista Unit	January 1, 1956	239
River Islands Winters Zone	January 10, 1968	458
River Islands - Isleton	January 20, 1985	845
Ryer Island	November 26, 1968	480
Sherman Island	June 30, 1967	449
Stockton	August 19, 1985	874
Van Sickle Island	October 23, 1969	493
West Grimes	August 11, 1961	295
West Thornton	July 18, 1957	214
Zamora	July 1, 1978	640