

MINUTE ITEM

This Calendar Item No. 40
was approved as Minute Item
No. 40 by the State Lands
Commission by a vote of 3
to 0 at its 3/24/87
meeting.

CALENDAR ITEM

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

40

03/26/87
LSE E-415
PRC 714
PRC 729
PRC 2966
PRC 3743
PRC 3896
PRC 6498
W 9738
Hamilton

**APPROVAL OF LETTER AMENDMENTS TO EXISTING
GAS PURCHASE AND SALES AGREEMENTS**

LESSEE AND OPERATOR:

Chevron U.S.A. Inc.
Attention: 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, PRC 714, PRC 729, PRC 3743, PRC 3896 and PRC 6498 and Compensatory Royalty Agreement PRC 2966 which are located 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.

(PAGES 126-126.14)
(ADDED 03/18/87)

-1-

CALENDAR PAGE	126
MINUTE PAGE	981

EXISTING GAS PURCHASE AND SALES AGREEMENTS:

On January 22, 1987, the Commission approved a Letter Amendment dated October 13, 1986, which amends certain gas purchase and sales agreements between Chevron and PG&E to permit Chevron to sell 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 months of November and December 1986, inclusive, effective November 1, 1986. This approval extended the State's participation in PG&E's MRP to December 31, 1986.

AMENDMENTS TO EXISTING GAS PURCHASE AND SALES AGREEMENTS:

In a letter dated December 12, 1986, PG&E offered the California natural gas producer three pricing Program Alternatives which PG&E believes represent the "Fair Market Value" (FMV) price for gas sold at the wellhead in Northern California. Each program has a different price and term. The effective date of each pricing program is January 1, 1987 and the term is that period of time which must elapse before Chevron or PG&E may again redetermine the FMV purchase price pursuant to existing gas purchase and sales agreements. The three FMV pricing Program Alternatives are: (1) \$1.70 per MMBtu for 1987 contract year; (2) \$1.75 per MMBtu for 1987 and 1988 contract years; and (3) \$1.80 per MMBtu for 1987, 1988 and 1989 contract years.

Chevron has submitted executed Letter Amendments modifying existing gas purchase and sales agreements to sell its gas commencing January 1, 1987 at the FMV price of \$1.70 per MMBtu for 1987 contract year (Program Alternative No. 1). Since Chevron cannot sell the State's royalty share of the gas produced from the Chevron State leases without first obtaining Commission approval, Chevron has requested that the Commission also elect to participate in PG&E's pricing Program Alternative No. 1 and permit Chevron to sell the State's gas at the FMV price of \$1.70 per MMBtu commencing January 1, 1987.

CALENDAR ITEM NO. 40 (CONT'D)

Staff agrees with Chevron's analysis that Program Alternative No. 1, \$1.70/MMBTU for one year, 1987, is the best price for the limited period and would not preclude taking advantage of gas price increases should they occur in 1988 and 1987. The alternative to acceptance of the prices offered by PG&E is lengthy arbitration with the possibility of shut-in production during arbitration which would result in a loss of revenue and possible reservoir damage.

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.

AB 884: N/A.

EXHIBITS:

"A-1" - "A-4". Letter Amendments (4) dated January 1, 1987 between Chevron and PG&E Redetermining "Fair Market Value" 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 AMENDMENTS DATED JANUARY 1, 1987 SIGNED BY CHEVRON U.S.A. INC. AMENDING CERTAIN GAS PURCHASE AND SALES AGREEMENTS BETWEEN CHEVRON U.S.A. INC. AND PACIFIC GAS AND ELECTRIC COMPANY, AND PERMIT CHEVRON 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 3896 AND PRC 6498 AND COMPENSATORY ROYALTY AGREEMENT PRC 2966 AT PG&E'S PROGRAM ALTERNATIVE NO. 1 "FAIR MARKET VALUE" PRICE OF \$1.70 PER MMBTU FOR THE 1987 CONTRACT YEAR, EFFECTIVE JANUARY 1, 1987.

EXHIBIT "A-1"

- ① Rio Vista Field, Deep Zones, State Level PRC 415.1 PGE 4-22-6
- ② River Island - Salton, PRC 714.1/PRC 729.1 PGE 1-20-85
- ③ Sherman Oil (Darker Oil Unit), PRC 415.1 PGE 4-30-67
- ④ Salton, PRC 644.1 PGE 8-14-85

PACIFIC GAS AND ELECTRIC COMPANY

PG&E + 211 MARKET STREET • SAN FRANCISCO, CALIFORNIA 94106 • (415) 972-6500 • TWX 910-372-8687

GENE SATRAP
MANAGER
GAS SUPPLY MANAGEMENT

January 1, 1987

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

Gentlemen:

Please refer to the Gas Purchase and Sales Agreement(s), as amended, (Agreement) between Chevron U.S.A. Inc. (Seller) and Pacific Gas and Electric Company (Buyer), as described on the attached Exhibit A, covering gas production from gas field(s) in California, and specifically to the PRICE paragraph therein.

By letter dated December 5, 1986, PG&E requested that the price to be paid for gas purchased pursuant to the Agreement be revised. As a result of our recent negotiations, the parties have agreed to a revised price to be paid under said Agreement effective as of January 1, 1987.

Accordingly, effective January 1, 1987, the parties to said Agreement hereby agree to the following:

1. Paragraph 7, subparagraph (a) will be deleted in its entirety and the following like numbered Paragraph 7, subparagraph (a) shall be substituted therefor:

"(a) Unless and until modified in accordance with the provisions of subparagraph (b) of this Paragraph 7, Buyer shall pay to Seller for all gas taken, or agreed to be paid for whether or not taken, the lesser of either (1) One Dollar and Seventy Cents (\$1.70) per MMBtu, (2) the applicable ceiling price or prices permitted under the Natural Gas Policy Act of 1978 (NGPA) or superseding federal legislation regarding the price for natural gas, or regulation promulgated by the Federal Energy Regulatory Commission (FERC) or any other agency having competent jurisdiction, or (3) the applicable ceiling price or prices permitted under any legislation or regulation enacted by the State of California or any agency thereof of competent jurisdiction.

APPROVAL COPY

CALENDAR PAGE	126.3
MINUTE PAGE	964

2. The following phrase appearing in subparagraph 7 (b):

"(b) Either party may make written request within thirty (30) days prior to January 1, 1987, . . ."

shall be deleted and the following phrase substituted therefor:

"(b) Either party may make written request within thirty (30) days prior to January 1, 1988, . . ."

Except as herein specifically modified, all the terms and conditions of said Agreement shall remain in full force and effect for all gas delivered under said Agreement.

By execution hereof, Seller proffers the price terms and conditions described above. Buyer will evidence acceptance by executing in the space provided and returning one copy to Seller.

PROPOSED:

CHEVRON U.S.A. INC.

By _____
(Seller)

ACCEPTED AND AGREED TO:

PACIFIC GAS AND ELECTRIC COMPANY

By _____
(Buyer)

Approval Copy	
Natural Gas Sales	<input checked="" type="checkbox"/>
Legal	<input type="checkbox"/>
Lard	<input type="checkbox"/>
Production	<input type="checkbox"/>
Financial	<input type="checkbox"/>
Approved For Execution	

APPROVAL COPY

CALENDAR PAGE	126.4
MINUTE PAGE	985

EXHIBIT A

Attachment to the 1987 Amendment
of Fair Market Value dated January 1, 1987,
to Chevron U.S.A. Inc.
from Pacific Gas and Electric Company

<u>Field</u>	<u>Contract Date</u>	<u>PGandE Contract Number</u>
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	September 16, 1980	708
Durham	January 1, 1968	460
Dutch Slough	January 1, 1986	938
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
River Islands Winters Zone	January 10, 1968	458
River Islands - Isleton	January 20, 1985	845
Sherman Island	June 30, 1967	449
Stockton	August 19, 1985	874
West Grimes	August 11, 1961	295
Zanora	July 1, 1978	640

APPROVAL COPY

CALENDAR PAGE	126.5
MINUTE PAGE	966

EXHIBIT "A-2"

Rio Vista State Lands 5/10/90

Rio Vista Field, Rio Vista Unit (State
Lands)
PG&E 415.1
PG&E 5-16-90

PACIFIC GAS AND ELECTRIC COMPANY

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GENE SATRAP
MANAGER
GAS SUPPLY MANAGEMENT

January 1, 1987

Chevron U.S.A. Inc.
Room 21094
P.O. Box 5043
San Ramon, CA 94583-0943

Gentlemen:

Please refer to the Gas Purchase and Sales Agreement(s), as amended, (Agreement) between Chevron U.S.A. Inc. (Seller) and Pacific Gas and Electric Company (Buyer), as described on the attached Exhibit A, covering gas production from gas field(s) in California, and specifically to the PRICE paragraph therein.

By letter dated December 5, 1986, PGandE requested that the price to be paid for gas purchased pursuant to the Agreement be revised. As a result of our recent negotiations, the parties have agreed to a revised price to be paid under said Agreement effective as of January 1, 1987.

Accordingly, effective January 1, 1987, the parties to said Agreement hereby agree to the following:

1. Paragraph 15, subparagraph (a) will be deleted in its entirety and the following like numbered Paragraph 15, subparagraph (a) shall be substituted therefor:

"(a) Unless and until modified in accordance with the provisions of subparagraph (b) of this Paragraph 15, Buyer shall pay to Seller for all gas taken, or agreed to be paid for whether or not taken, the lesser of either (1) One Dollar and Seventy Cents (\$1.70) per MMBtu, (2) the applicable ceiling price or prices permitted under the Natural Gas Policy Act of 1978 (NGPA) or superseding federal legislation regarding the price for natural gas, or regulation promulgated by the Federal Energy Regulatory Commission (FERC) or any other agency having competent jurisdiction, or (3) the applicable ceiling price or prices permitted under any legislation or regulation enacted by the State of California or any agency thereof of competent jurisdiction.

APPROVAL COPY

CALENDAR PAGE	126.6
MINUTE PAGE	987

2. The following phrase appearing in subparagraph 15 (b):

"(b) Either party may make written request within thirty (30) days prior to January 1, 1987, . . ."

shall be deleted and the following phrase substituted therefor:

"(b) Either party may make written request within thirty (30) days prior to January 1, 1988, . . ."

Except as herein specifically modified, all the terms and conditions of said Agreement shall remain in full force and effect for all gas delivered under said Agreement.

By execution hereof, Seller proffers the price terms and conditions described above. Buyer will evidence acceptance by executing in the space provided and returning one copy to Seller.

PROPOSED:

ACCEPTED AND AGREED TO:

CHEVRON U.S.A. INC.

PACIFIC GAS AND ELECTRIC COMPANY

By _____
(Seller)

By _____
m (Buyer)

Approval Copy	
Natural Gas Sales	
Legal	
Land	
Production	
Financial	
Approved For Execution	

APPROVAL COPY

CALENDAR PAGE	126.7
MINUTE PAGE	988

EXHIBIT A

Attachment to the 1987 Amendment
of Fair Market Value dated January 1, 1987,
to Chevron U.S.A. Inc.
from Pacific Gas and Electric Company

<u>Field</u>	<u>Contract Date</u>	<u>PGandE Contract Number</u>
Rio Vista State Lands	May 16, 1940	100

1. No. 100-1000-100
2. 100-1000-100

APPROVAL COPY

CALENDAR PAGE	126.8
MINUTE PAGE	989

EXHIBIT "A-3"

Ryan Island
PRC 3743.1 and PRC 3896.1
11-36-68

PACIFIC GAS AND ELECTRIC COMPANY

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GENE SATRAP
MANAGER
GAS SUPPLY MANAGEMENT

January 1, 1987

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

Gentlemen:

Please refer to the Gas Purchase and Sales Agreement(s), as amended, (Agreement) between Chevron U.S.A. Inc. (Seller) and Pacific Gas and Electric Company (Buyer), as described on the attached Exhibit A, covering gas production from gas field(s) in California, and specifically to the PRICE paragraph therein.

By letter dated December 5, 1986, PGandE requested that the price to be paid for gas purchased pursuant to the Agreement be revised. As a result of our recent negotiations, the parties have agreed to a revised price to be paid under said Agreement effective as of January 1, 1987.

Accordingly, effective January 1, 1987, the parties to said Agreement hereby agree to the following:

1. Paragraph 10, subparagraph (a) will be deleted in its entirety and the following like numbered Paragraph 10, subparagraph (a) shall be substituted therefor:

"(a) Unless and until modified in accordance with the provisions of subparagraph (b) of this Paragraph 10, Buyer shall pay to Seller for all gas taken, or agreed to be paid for whether or not taken, the lesser of either (1) One Dollar and Seventy Cents (\$1.70) per MMBtu, (2) the applicable ceiling price or prices permitted under the Natural Gas Policy Act of 1978 (NGPA) or superseding federal legislation regarding the price for natural gas, or regulation promulgated by the Federal Energy Regulatory Commission (FERC) or any other agency having competent jurisdiction, or (3) the applicable ceiling price or prices permitted under any legislation or regulation enacted by the State of California or any agency thereof of competent jurisdiction.

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APPROVAL COPY

CALENDAR PAGE	126.9
MINUTE PAGE	900

January 1, 1987

2. The following phrase appearing in subparagraph 10 (b):

"(b) Either party may make written request within thirty (30) days prior to January 1, 1987, . . ."

shall be deleted and the following phrase substituted therefor:

"(b) Either party may make written request within thirty (30) days prior to January 1, 1988, . . ."

Except as herein specifically modified, all the terms and conditions of said Agreement shall remain in full force and effect for all gas delivered under said Agreement.

By execution hereof, Seller proffers the price terms and conditions described above. Buyer will evidence acceptance by executing in the space provided and returning one copy to Seller.

PROPOSED:

ACCEPTED AND AGREED TO:

CHEVRON U.S.A. INC.

PACIFIC GAS AND ELECTRIC COMPANY

By _____
(Seller)

By _____
(Buyer)

Approval Copy	
Natural Gas Sales	<input checked="" type="checkbox"/>
Legal	<input type="checkbox"/>
Land	<input type="checkbox"/>
Production	<input type="checkbox"/>
Financial	<input type="checkbox"/>
Approved For Execution	

APPROVAL COPY

CALENDAR PAGE	126.10
MINUTE PAGE	951

EXHIBIT A

Attachment to the 1987 Amendment
of Fair Market Value dated January 1, 1987,
to Chevron U.S.A. Inc.
from Pacific Gas and Electric Company

<u>Field</u>	<u>Contract Date</u>	<u>PGandE Contract Number</u>
Arbuckle	September 1, 1957	205
Ryer Island	November 26, 1968	480

APPROVAL COPY

EXHIBIT "A-4"

West Johnston
PRC 2966.1
N&E 7-11-57

PACIFIC GAS AND ELECTRIC COMPANY

PG&E +

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GENE SATRAP
MANAGER
GAS SUPPLY MANAGEMENT

January 1, 1987

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

Gentlemen:

Please refer to the Gas Purchase and Sales Agreement(s), as amended, (Agreement) between Chevron U.S.A. Inc. (Seller) and Pacific Gas and Electric Company (Buyer), as described on the attached Exhibit A, covering gas production from gas field(s) in California, and specifically to the PRICE paragraph therein.

By letter dated December 5, 1986, PG&E requested that the price to be paid for gas purchased pursuant to the Agreement be revised. As a result of our recent negotiations, the parties have agreed to a revised price to be paid under said Agreement effective as of January 1, 1987.

Accordingly, effective January 1, 1987, the parties to said Agreement hereby agree to the following:

1. Paragraph 6, subparagraph (a) will be deleted in its entirety and the following like numbered Paragraph 6, subparagraph (a) shall be substituted therefor:

"(a) Unless and until modified in accordance with the provisions of subparagraph (b) of this Paragraph 6, Buyer shall pay to Seller for all gas taken, or agreed to be paid for whether or not taken, the lesser of either (1) One Dollar and Seventy Cents (\$1.70) per MMBtu, (2) the applicable ceiling price or prices permitted under the Natural Gas Policy Act of 1978 (NGPA) or superseding federal legislation regarding the price for natural gas, or regulation promulgated by the Federal Energy Regulatory Commission (FERC) or any other agency having competent jurisdiction, or (3) the applicable ceiling price or prices permitted under any legislation or regulation enacted by the State of California or any agency thereof of competent jurisdiction.

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CALENDAR PAGE	126.12
MINUTE PAGE	953

2. The following phrase appearing in subparagraph 6 (b):

"(b) Either party may make written request within thirty (30) days prior to January 1, 1987, . . ."

shall be deleted and the following phrase substituted therefor:

"(b) Either party may make written request within thirty (30) days prior to January 1, 1988, . . ."

Except as herein specifically modified, all the terms and conditions of said Agreement shall remain in full force and effect for all gas delivered under said Agreement.

By execution hereof, Seller proffers the price terms and conditions described above. Buyer will evidence acceptance by executing in the space provided and returning one copy to Seller.

PROPOSED:

ACCEPTED AND AGREED TO:

CHEVRON U.S.A. INC.

PACIFIC GAS AND ELECTRIC COMPANY

By _____
(Seller)

By _____
(Buyer)

Approval Copy	
Natural Gas Sales	<input checked="" type="checkbox"/>
Legal	<input type="checkbox"/>
Land	<input type="checkbox"/>
Production	<input type="checkbox"/>
Financial	<input type="checkbox"/>
Approved For Execution	

APPROVAL COPY

EXHIBIT A

Attachment to the 1987 Amendment
of Fair Market Value dated January 1, 1987,
to Chevron U.S.A. Inc.
from Pacific Gas and Electric Company

<u>Field</u>	<u>Contract Date</u>	<u>PG&E Contract Number</u>
Compton Landing	October 12, 1976	655
Van Sickle Island	October 23, 1969	493
West Thornton	July 18, 1957	214

COMPTON LANDING CONTRACT TERMINATED AT PG&E'S REQUEST 12/11/86

Approval Copy	
Natural Gas Sales	<input checked="" type="checkbox"/>
Legal	<input type="checkbox"/>
Land	<input type="checkbox"/>
Production	<input type="checkbox"/>
Financial	<input type="checkbox"/>
Approved For Execution	

APPROVAL COPY