

MINUTE ITEM

This Calendar Item No. 20
was approved as Minute Item
No. 20 by the State Lands
Commission by a vote of 3
to 0 at its 8:20-87
meeting.

CALENDAR ITEM

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08/20/87
W 40523 PRC 7119
Hamilton
Graber

ISSUANCE OF NEGOTIATED
SUBSURFACE OIL AND GAS LEASE

APPLICANT: The Termo Company
P. O. Box 2767
Long Beach, CA 90801

AREA, TYPE LAND AND LOCATION: Approximately 93-acre parcel of sovereign land in the bed of the Sacramento River in Butte and Glenn Counties, California.

LAND USE: The State parcel is the bed of the Sacramento River. Subsurface development of oil and gas resources that may underlie the State parcel may be accomplished by directional drilling from adjacent or other nearby private lands.

P.R.C. Section 6815 authorizes the Commission to negotiate and enter into oil and gas leases on State-owned lands in situations where wells drilled upon private lands are draining or may drain oil or gas from State-owned lands, where the State lands are determined by the Commission to be unsuitable for competitive bidding because of their small size or irregular configuration or their inaccessibility from surface drill sites reasonably available or obtainable or where a negotiated lease is in the best interests of the State.

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CALENDAR ITEM NO. 20 (CONT'D)

TERMS OF PROPOSED OIL AND GAS LEASE:

The Termo Company, through a joint venture with Geo-Logic Exploration, has acquired leases on all of the private lands surrounding the State parcel. As operator of these leases, Termo has received from Glenn County a permit to drill a gas well on these private lands at a surface location near the State parcel. Staff has reviewed information supplied by Termo and other data in the Commission's files and concludes that a negotiated subsurface oil and gas lease is the best instrument to protect the State from possible drainage from wells drilled on these adjacent private lands and to develop any oil and gas resources that may underlie the State parcel. Staff has negotiated a lease with Termo, and the parties have agreed to terms, among which are the following:

1. Lessee agrees to pay an annual rental of \$20 per acre or \$1,860 per year for 93 acres;
2. Lessee agrees to pay a flat rate royalty of 25 percent on all gas produced from the State leased lands; and
3. Lessee agrees to pay a sliding scale royalty of 16-2/3 percent (minimum) to 50 percent (maximum) on all oil produced from the State leased lands.

AB 884: 01/01/88.

OTHER INFORMATION:

1. The Glenn County Planning Department has approved a permit to explore and drill for gas on private property located within Glenn County. The permit requires that the drill site be located at least 500 feet from a dwelling, 250 feet from any levee and 120 feet from a County road right-of-way.

CALENDAR ITEM NO. 20 (CONT'D)

An environmental document has not been prepared by the Glenn County Planning Department as the proposed project is identified as satisfying the requirements of the County's Administrative Permit. The project is outside of the flood control levee zone along the river channel and is considered exempt by the Glenn County Planning Department.

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 CEQA under the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Staff believes there is no possibility that this project will have a significant effect on the environment.

Authority: 14 Cal. Adm. Code 15061(b)(3).

3. This activity involves lands identified as possessing significant environmental values pursuant to P.R.C. 6370 et seq. Based upon the staff's consultation with the persons nominating such lands through the CEQA review process, it is staff's opinion that the project, as proposed, is consistent with its use classification.

EXHIBITS:

- A. Land Description.
- B. Site Map.
- C. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THIS ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE THERE IS NO POSSIBILITY THAT THE ACTIVITY WILL HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT (14 CAL. ADM. CODE 15061(b)(3)).

CALENDAR ITEM NO. 20 (CONT'D)

2. FIND THAT GRANTING OF THE LEASE IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED FOR THE LAND PURSUANT TO P.R.C. 6370 ET SEQ.
3. DETERMINE THAT THE LANDS ARE UNSUITABLE FOR COMPETITIVE BIDDING BECAUSE OF THEIR INACCESSIBILITY FROM SURFACE DRILL SITES REASONABLY AVAILABLE OR OBTAINABLE AND THAT IT IS IN THE BEST INTERESTS OF THE STATE TO ENTER INTO A NEGOTIATED SUBSURFACE STATE OIL AND GAS LEASE.
4. AUTHORIZE THE ISSUANCE TO THE TERMO COMPANY OF A NEGOTIATED SUBSURFACE STATE OIL AND GAS LEASE OF A 93-ACRE PARCEL OF STATE SOVEREIGN LAND IN THE BED OF THE SACRAMENTO RIVER IN BUTTE AND GLENN COUNTIES, CALIFORNIA. LESSEE SHALL PAY IN ADVANCE AN ANNUAL RENTAL OF \$20 PER ACRE OR \$1,860 PER YEAR FOR 93 ACRES AND SHALL PAY A FLAT RATE ROYALTY OF 25 PERCENT ON ALL GAS PRODUCED FROM THE STATE LEASED LANDS AND A SLIDING SCALE ROYALTY OF 16-2/3 PERCENT (MINIMUM) TO 50 PERCENT (MAXIMUM) ON ALL OIL PRODUCED FROM THE STATE LEASED LANDS.

EXHIBIT "A"

LAND DESCRIPTION

W 40523

A parcel of California State sovereign land in the bed of the Sacramento River Sections 17, 20, and 21, T22N, R1W, MDM, Butte County and Glenn County, California, described as follows:

Bounded on the southwest and northeast by the ordinary low water marks along the right and left banks of the Sacramento River; bounded on the northwest by a line bearing S 31°48'00" W from the following described point "A"; BEGINNING at a 4" x 4" concrete monument marking the easterly corner of Lot 1 as shown on the map entitled "Subdivision No. 1 of Gianella Heirs Company" filed for record in Book 10 of Maps Page 1, Butte County Official Records; thence N 70°01' W, along the northeasterly boundary of said Lot 1, a distance of 1,202.7 feet; thence West along the northeasterly boundary of said Lot 1, a distance of 2057.9 feet; thence S 1°59'02"W, a distance of 1186.4 feet; thence N 87°35'08" W, a distance of 2064.5 feet to a 1 inch iron pipe tagged RCE 11128; thence S 13°00'02" W, a distance of 531.7 feet to a 1 inch iron pipe tagged RCE 11128; thence continuing S 13°00'02" W, a distance of 120.3 feet to the southwesterly boundary of said Lot and to said point "A"; bounded on the southeast by a line bearing S 61°14'10" W from the following described point "B"; BEGINNING at the northwest corner of Lot 6 as shown on the above described "Subdivision No. 1 of Gianella Heirs Company"; said point being on the southerly line of State Highway Route No. 32; thence from said point of beginning and continuing along the southerly line of said Highway S 89°32'00" E 7.00 feet to the beginning of a 5030 foot radius curve to the left, thence along the arc of said curve, through a central angle of 02° 16' 42" an arc length of 200.02 feet to the northwest corner of that certain parcel in deed from Pine Creek Orchards, Inc. to Anthony and Jacqueline Santos, recorded September 13, 1968, in Book 1535, at page 179, Butte County, California; thence leaving the southerly line of said of said State Highway Route No. 32 and running along the westerly line of said Santos parcel S 06°12'55" E 1341.48 feet to the southwest corner of said Santos parcel; thence leaving said Santos parcel and running S 84°21'47" W 86.57 feet; thence S 61°50'34" W 1480.00 feet; thence S 27°38'44" E 383.02 feet; thence S 28°13'04" E 811.72 feet; thence S 28°38'14" E 234.52 feet; thence S 59°53'46" W 351.99 feet to a point on the easterly

EXHIBIT "A"

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bank of the Sacramento River and said point "B".

END OF DESCRIPTION

PREPARED MAY 8, 1987 BY BOUNDARY SERVICES UNIT, M. L. SHAPER,
SUPERVISOR.

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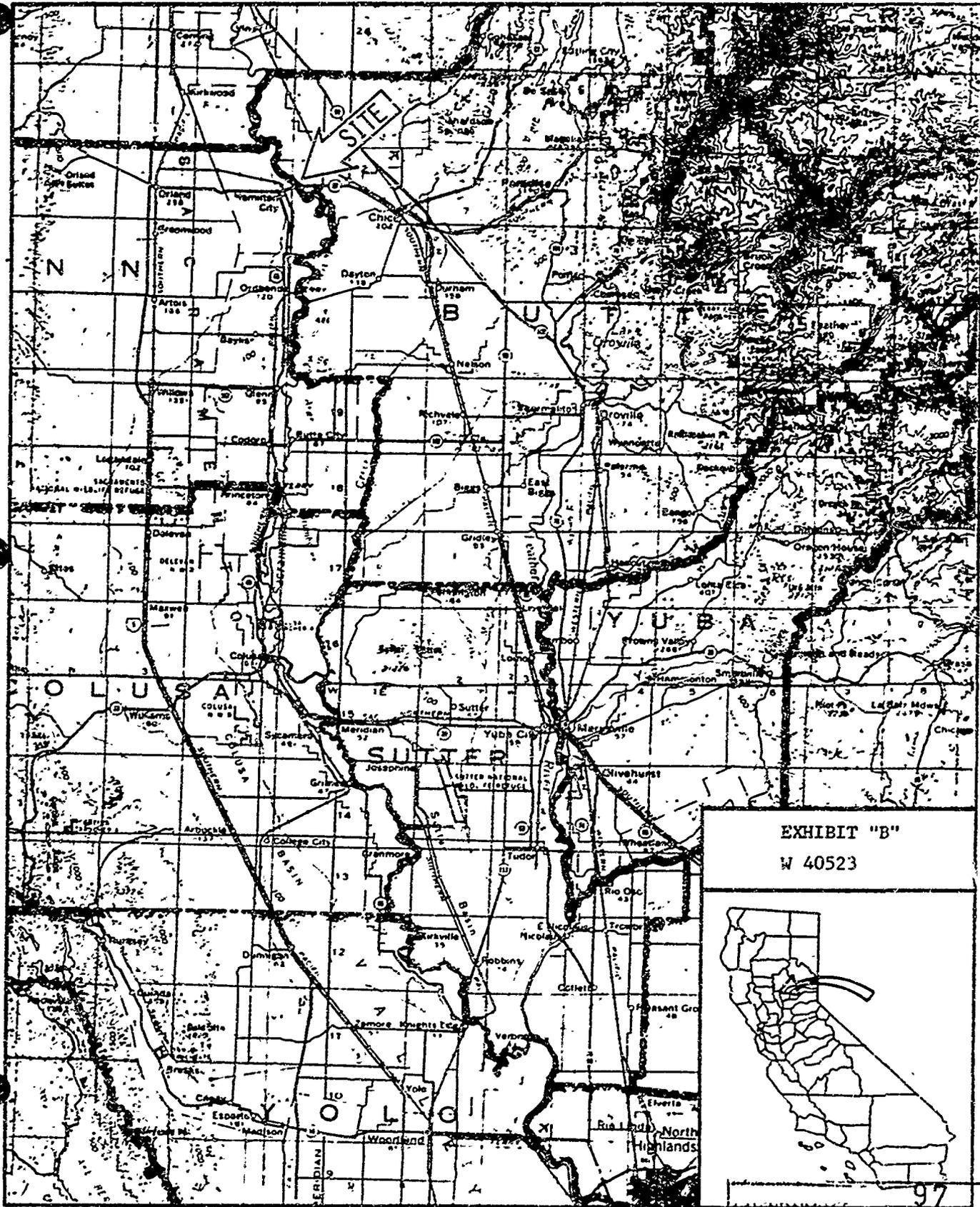


EXHIBIT "B"
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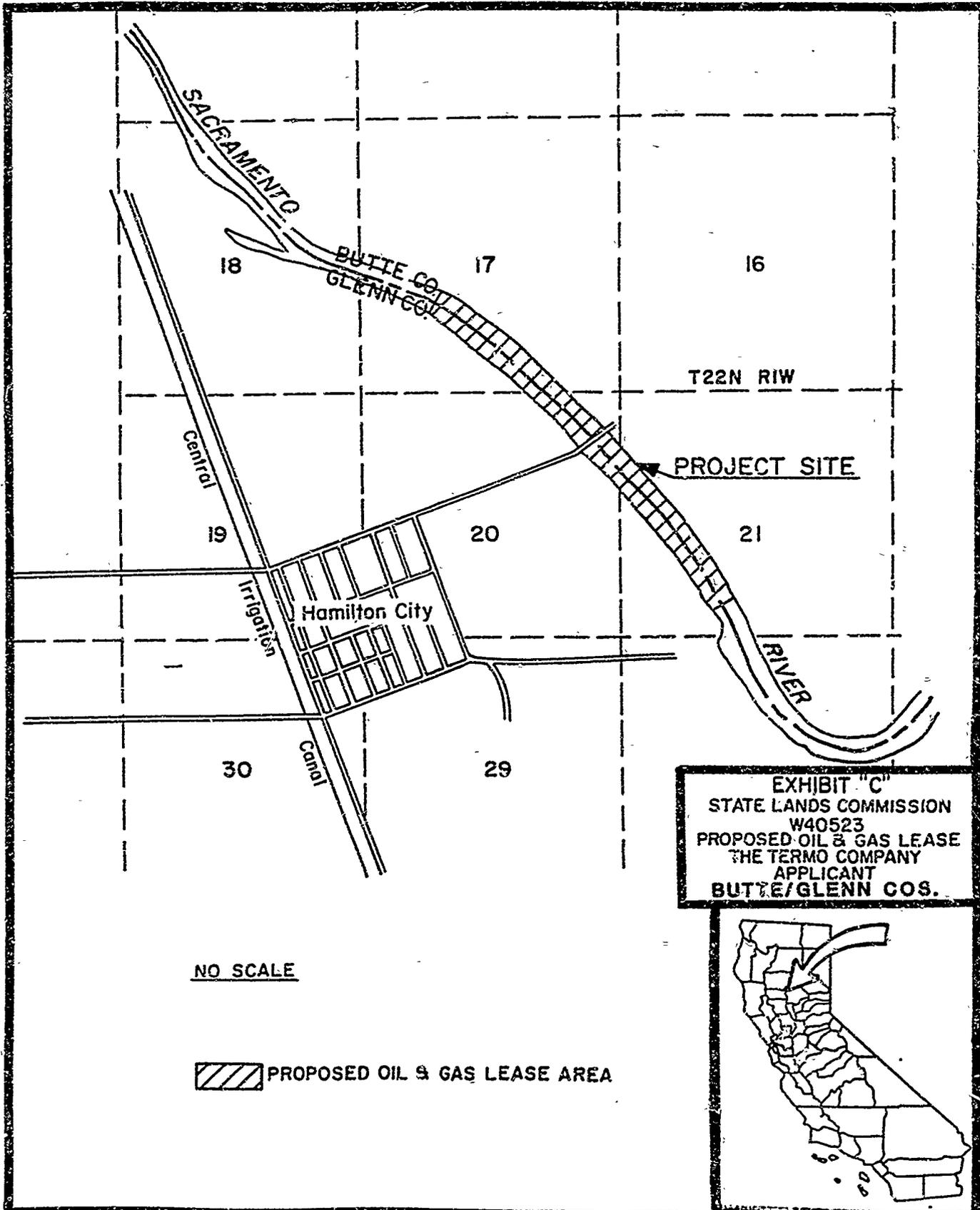


EXHIBIT "C"
 STATE LANDS COMMISSION
 W40523
 PROPOSED OIL & GAS LEASE
 THE TERMO COMPANY
 APPLICANT
 BUTTE/GLENN COS.



NO SCALE

 PROPOSED OIL & GAS LEASE AREA