

MINUTE ITEM
This Calendar Item No. 42
was approved as Minute Item
No. 42 by the State Lands
Commission by a vote of 2
to 0 at its 4-12-88
meeting.

CALENDAR ITEM

42

04/12/88
PRC 5995
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APPROVAL OF LETTER AMENDMENT TO EXISTING
GAS PURCHASE AND SALES AGREEMENT

LESSEE AND OPERATOR:

Casex Company
Attention: M. J. Castro
P. O. Box 2667
Truckee, California 95734

BACKGROUND ON LEASES:

Casex Company is lessee and operator of State Oil and Gas Lease PRC 5995 located in Solano County. The lease requires 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 March 26, 1987, the Commission approved a letter amendment dated January 1, 1987, which amended a certain gas purchase and sales agreement between Casex Company and PG&E to permit Casex Company to sell the State's royalty share of the gas produced from Well 1-1 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.

AMENDMENTS TO EXISTING GAS PURCHASE AND SALES AGREEMENTS:

Casex Company has submitted to the Commission for approval an executed letter amendment dated November 9, 1987 that amends the price paragraph of a certain Casex Company and PG&E gas purchase sales agreement effective January 1, 1988. The amendment redetermines

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the "Fair Market Price" of gas sold at the wellhead, extends the effective date for the next price redetermination and affects the State's gas royalty from State Oil and Gas Lease PRC 5995.

Pursuant to the amendment, Casex Company has accepted \$1.65 per MMBtu as the "Fair Market Price" for gas sold at the wellhead. However, because Casex Company accepted this price prior to the December 11, 1987 deadline and agreed to extend the effective date for the next price redetermination to March 1, 1989, PG&E will pay Casex Company an additional \$0.05 per MMBtu for a total of \$1.70 per MMBtu until March 1, 1989.

Staff has reviewed the letter amendment and finds that because PG&E is essentially the only purchaser of gas in this area, its price determinations, not arrived at in arms-length negotiations, represent the only price for gas sales under the lease.

OTHER PERTINENT INFORMATION:

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.

EXHIBIT: A. Letter Amendment dated November 9, 1987 between Casex Company and PG&E redetermining "Fair Market 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 NOVEMBER 9, 1987 SIGNED BY CASEX COMPANY AMENDING A CERTAIN GAS PURCHASE AND SALES AGREEMENT BETWEEN CASEX COMPANY AND PACIFIC GAS AND ELECTRIC COMPANY, AND PERMIT CASEX COMPANY TO SELL THE STATE'S ROYALTY SHARE OF THE GAS PRODUCED FROM STATE OIL AND GAS LEASE PRC 5995 AT PG&E'S NEW REDETERMINED "FAIR MARKET PRICE" OF \$1.65 PER MMBTU PLUS CONSIDERATION OF \$0.05 PER MMBTU, FOR A TOTAL OF \$1.70 PER MMBTU UNTIL MARCH 1, 1989.

EXHIBIT "A"

PACIFIC GAS AND ELECTRIC COMPANY

PG&E +

245 MARKET STREET, ROOM 121H • SAN FRANCISCO, CALIFORNIA 94106 • (415) 972-6500 • FAX 415 972-9213

GENE SATRAP
MANAGER
GAS SUPPLY MANAGEMENT

November 9, 1987

Casex Company
P.O. Box 2667
Truckee, CA 95734

Gentlemen:

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

Buyer desires to amend the PRICE paragraph of the Agreement effective January 1, 1988. Specifically, Buyer proposes to redetermine the Fair Market Price under the Agreement to One Dollar and Sixty-five Cents (\$1.65) per MMBtu; change the effective date of price redetermination from January 1 to March 1; agree that the party Sellers to the Agreement effect this accord by December 11, 1987. In return for these changes, Buyer offers to pay Seller an additional Five Cents (\$0.05) per MMBtu consideration to total One Dollar and Seventy Cents (\$1.70) per MMBtu until March 1, 1989, for gas sold under the Agreement.

Accordingly, effective January 1, 1988, the parties to said Agreement hereby agree to the following:

1. Buyer agrees to pay and Seller agrees to accept a Fair Market Price of One Dollar and Sixty-five Cents (\$1.65) per MMBtu for Seller's share of natural gas production sold and purchased at the wellhead pursuant to the Agreement. Buyer agrees to pay an additional Five Cents (\$0.05) per MMBtu consideration for extension of the price redetermination provision in the Agreement pursuant to Paragraph 2 below and execution of this Letter Amendment by December 11, 1987. The total Price shall be One Dollar and Seventy Cents (\$1.70) and shall remain in effect until March 1, 1989.

2. Subparagraph (b) of the PRICE paragraph as listed on Attachment "A" hereto is deleted in its entirety and the following like-numbered subparagraph shall be substituted therefor:

"(b) Either party may make written request within thirty days prior to March 1, 1989, and thereafter at any time but not sooner than one (1) year after the effective date of the most recently redetermined price hereunder, that the price to be paid for Seller's gas effective on March 1 of such contract year shall no longer be based on subparagraph (a) of this Paragraph (7) but shall be based on the Fair Market Price of the gas at the wellhead as mutually determined by the parties or as established through arbitration in accordance with Section 6 of the attached General Conditions."

Seller and Buyer further agree that, except as appearing in this Letter Amendment to the Agreement, all other terms and conditions of the Agreement shall remain in full force and effect.

By execution hereof, Seller accepts the Price terms and provisions described above. Seller will evidence acceptance by executing in the space provided and returning both originals to Buyer's office by 5:00 p.m., Pacific Standard Time, December 11, 1987. Buyer will then return a fully executed original to Seller.

Sincerely,

PACIFIC GAS AND ELECTRIC COMPANY

By _____
Manager, Gas Supply Management
Department

ACCEPTED AND AGREED TO:

CASEX COMPANY

By W. J. Lester