

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 08/30/89
meeting.

CALENDAR ITEM

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08/30/89
PRC 7283
Hamilton

POOLING OF A PORTION OF
STATE OIL AND GAS LEASE PRC 7283,
SUTTER COUNTY

LESSEE: Capitol Oil Corporation
Attention: Mr. Paul W. Mason
1545 River Park Drive, Suite 501
Sacramento, CA 95815

SUMMARY:

A negotiated subsurface State Oil and Gas Lease PRC 7283 was entered into with Capitol Oil Corporation on February 6, 1989. This lease contains approximately 128 acres of Department of Fish and Game land located on the Tisdale By-Pass in Sutter County, California.

Paragraph 22(b) of the lease allows the Lessee, with the consent of the State and under terms and conditions approved by the State, to pool or unitize all or part of the leased lands with lands held by the Lessee or others.

Capitol proposes to form an operating unit that contains 305.37 acres of State and private leased lands (described in Exhibit "A"). The purpose of the proposed operating unit is to explore for and produce natural gas.

Capitol has requested that the Commission consent to the pooling of 64.37 acres of State Oil and Gas Lease PRC 7283 leased lands with State Reclamation Board and private leased lands held by Capitol to form an operating unit that contains the lands described in Exhibit "A" (305.37 total acres).

CALENDAR ITEM NO. 25 (CONT'D)

MANAGEMENT
of the Commission
shall be to
to the Commission
to the Commission
to the Commission

In addition, Capitol has requested that all of the pooled lands, including the 64.37 acres from Lease PRC 7283, be subject to the same terms and conditions, and has proposed language that describes the rights of the parties under the unit. Staff has reviewed Capitol's proposed language and has developed an agreement of Understanding (Exhibit "D") which describes the terms and conditions under which the pooled Lease PRC 7283 lands will be developed.

STATUTORY AND OTHER OTHER REFERENCES:

- A. P.R.C. 6829.2 and P.R.C. 6832.
- B. Paragraph 22(b) of State Oil and Gas Lease PRC 7283.

AB 884: N/A.

OTHER PERTINENT INFORMATION:

- 1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), the staff has determined that this activity, consent to the pooling of a portion of leased lands under State Oil and Gas Lease PRC 7283, 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. Code Regs. 15378.

- EXHIBITS:
- A. Land Description of Proposed Operating Unit.
 - B. Site Map.
 - C. Map of Proposed Operating Unit.
 - D. Agreement of Understanding.

IT IS RECOMMENDED THAT THE COMMISSION:

- 1. FIND THE ACTIVITY, CONSENT TO THE POOLING OF A PORTION OF LEASED LANDS UNDER STATE OIL AND GAS LEASE PRC 7283, EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
- 2. CONSENT TO THE POOLING OF 64.37 ACRES OF STATE OIL AND GAS LEASE PRC 7283 LEASED LANDS WITH OTHER STATE AND PRIVATE LEASED LANDS HELD BY CAPITOL OIL CORPORATION TO FORM AN OPERATING UNIT THAT CONTAINS THE LANDS DESCRIBED IN EXHIBIT "A" (305.37 TOTAL ACRES). ALL POOLED STATE OIL AND

File Ref.: PRC 7283

GAS LEASE PRC 7283 LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF STATE OIL AND GAS LEASE PRC 7283 AND THE AGREEMENT OF UNDERSTANDING DATED AUGUST 7, 1989, ATTACHED AS EXHIBIT "D".

- 3. AUTHORIZE THE EXECUTION OF ANY DOCUMENT NECESSARY TO EFFECT THE COMMISSION'S ACTION.

EXHIBIT "A"

File Ref.: PRC 7283

Beginning at a point on the West line of Lot 24, said lot being shown on that certain map entitled "Subdivision Map of Tisdale Ranch" filed in the office of the County Recorder of Sutter County on October 16, 1913, in Book 3 of Surveys, pages 2 and 3, said point being located 660', more or less, South of the Northwest corner of said Lot 24 and being the Westerly terminus of a line drawn East and West between the North Half and the South Half of said Lot 24, thence from said point of beginning East along said East-West line to its intersection with the East line of said Lot 24, being also the West line of Lot 5 shown on said Subdivision Map of Tisdale Ranch, thence continuing East along a line drawn East and West between the North Half and the South Half of said Lot 5 to its intersection with the East line of said Lot 5 at a point located 660', more or less, South of the Northeast corner of said Lot 5; thence North along the East line of said Lot 5 a distance of 179.83', more or less, to the Northwest corner of Lot 288 of the "North Basin Tract", as delineated on that certain map filed for record in Book 5 of Surveys, page 23, in the office of the County Recorder of Sutter County, thence ~~containing~~ East a distance of 1350.66' to a point, thence South 0 degrees, 16' 22" West 1299.83', more or less, to a point on the South line of said Lot 288, said point also described as being located on a line parallel with and distant 100' at right angles Northerly from the center line of the North levee of the Tisdale Bypass, thence South to a point on a line distant Southerly 340' and parallel with the center line of the North levee of the Tisdale Bypass, thence continuing South to a point on the North line of the subdivision of lands in Reclamation District No. 1500 as shown on the map entitled "Map of Survey of Portions of Land in Reclamation District No. 1500" filed in the office of the County Recorder of Sutter County on December 24, 1935, in Book 6 of Surveys, pages 1-23, thence North 89 degrees 33' 46" West along said North line to the Northeast corner of Tract 11-4 as shown on said Map of Survey of Portion of Lands of Reclamation District No. 1500, thence South 4 degrees 17' 52" West to a point on a line projected and continuing East from the South line of Lots 26 and 3 as shown on said Subdivision Map of Tisdale Ranch, thence West to the Southeast corner of said Lot 3, thence West along the South line of said Lots 3 and 26 to the Southwest corner of said Lot 26, thence North along the West line of Lots 26, 25 and 24 as shown on said Subdivision Map of Tisdale Ranch 3300', more or less, to the point of beginning.

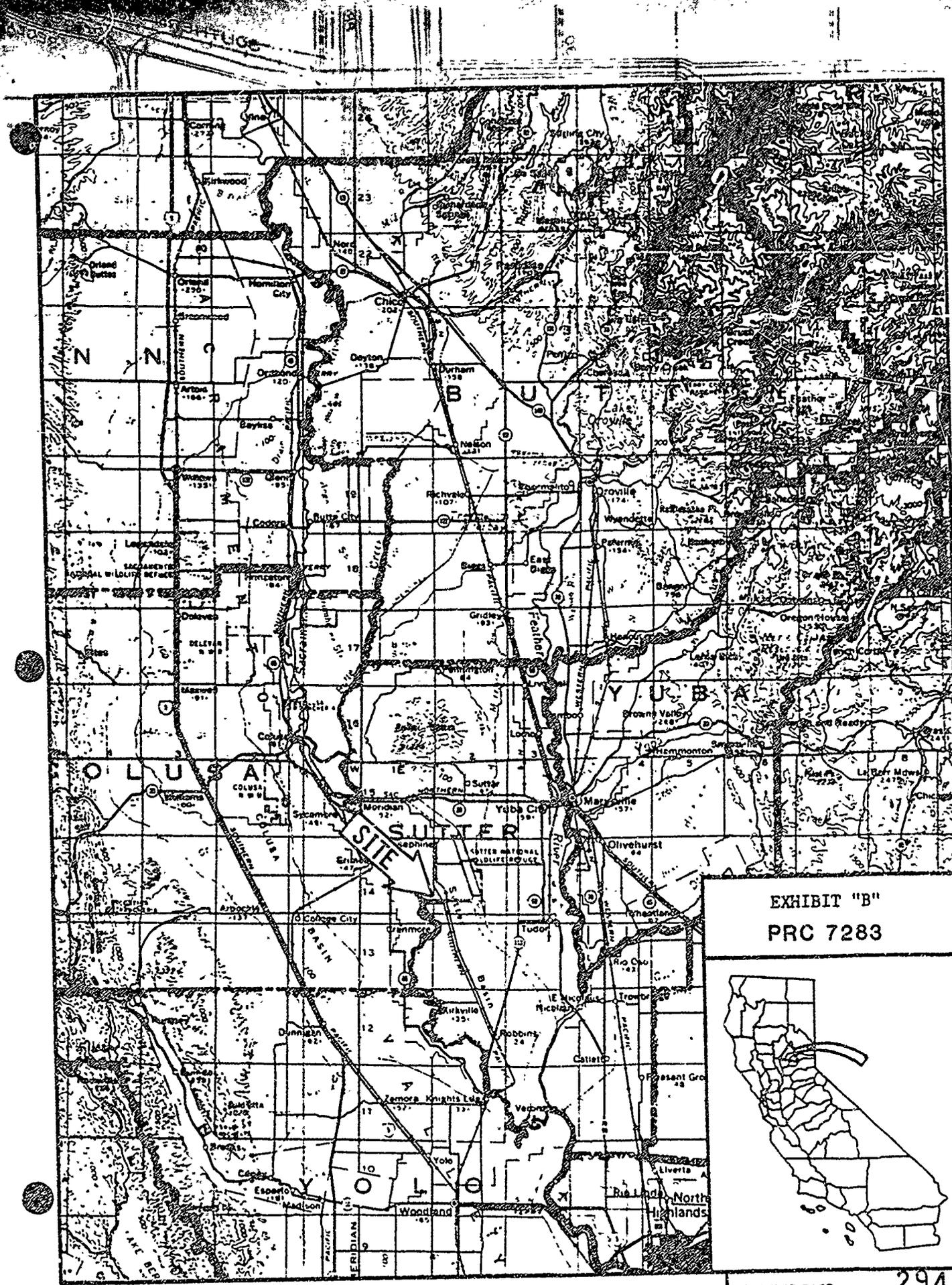


EXHIBIT "B"
 PRC 7283



EXHIBIT "D"

AGREEMENT OF UNDERSTANDING
for

State Oil and Gas Lease PRC 7283

State Oil and Gas Lease PRC 7283 (Lease PRC 7283) was entered into between the State Lands Commission (State) and Capitol Oil Corporation (Capitol) on February 6, 1989 and contains approximately 128 acres situate in Sutter County, California.

Lease PRC 7283 paragraph 22(b) allows Capitol, with the consent of the State and under terms and conditions approved by the State, to pool or unitize all or part of the lands under Lease PRC 7283 with lands held by Capitol or others.

For the purpose of exploration and production of natural gas and associated hydrocarbon substances (but not oil), Capitol and the State agree to the pooling of a portion of the land under Lease PRC 7283 to form an operating unit that contains the lands described in Exhibit "A". This agreement is made upon the following terms and conditions:

1. Capitol calculates that the unit as described in Exhibit "A" contains a total of 305.37 acres, and that Lease PRC 7283 covers 64.37 acres therein (21.08%). Such figures and percentage are the result of Capitol's research and calculations, but Capitol does not warrant the accuracy thereof.

2. Said unit shall become effective upon the execution by Capitol in writing, not later than six months after final approval of this request, of a "Declaration of Pooling" which shall describe the pooled acreage in terms identical to the description of said unit contained in Exhibit "A" hereto. Written notice of such declaration shall be given to the State.

3. Drilling operations on and production from said unit shall be deemed to drilling operations on and production from the pooled lands (64.37 acres) covered by Lease PRC 7283.

4. In the event production of natural gas and associated hydrocarbon substances (but not oil) is obtained from said operating unit, there shall be allocated to Lease PRC 7283 21.08% of the total amount thereof regardless of whether or not such production is from any part of the lands covered by Lease PRC 7283, and the royalties provided for in Lease PRC 7283 shall be calculated on the production so allocated to Lease PRC 7283 and shall be paid in the same manner and subject to the same terms and conditions as other royalties therein provided for. Such royalties shall be in lieu of any other royalties which would

EXHIBIT "D"

accrue under Lease PRC 7283 on account of production of natural gas and associated hydrocarbon substances (but not oil) from any part or parts of the lands covered by Lease PRC 7283 which are included in said operating unit.

5. Capitol (for this paragraph 5 and for the following paragraphs 6, 7 and 8, including Capitol, its successors and assigns whether or not specifically mentioned) may at any time quitclaim to the persons entitled thereto all or any part of the land in said unit and shall thereupon be released from all further obligations and duties as to the area of said unit so quitclaimed and all drilling requirements thereon shall be reduced prorata, and no further quitclaim shall be required among owners of land in said unit to terminate leases on quitclaimed land insofar as the interest of such owners in said unit is concerned; provided, however, that the initial percentage of production from said unit so allocated to lands covered by Lease PRC 7283 shall remain unchanged notwithstanding the surrender of less than all of the land pooled into said unit, except:

a. That after the surrender of less than all of the land included in said unit, if the owner of such surrendered land shall commence or cause to be commenced the drilling of a well for oil or gas on such surrendered land, or any part thereof, thereupon and forever thereafter such surrendered land shall cease to participate in production from that part of said unit retained by Capitol;

b. That land lost or quitclaimed because of failure of title for any cause beyond the control of Capitol shall be removed from said unit and shall not thereafter participate in production.

c. Whenever quitclaimed land, or land on which title is lost, within said unit shall cease to participate in production as above provided, production from the remaining portion of said unit shall thereafter be proportionately allocated, on the basis of net acreage contained in said unit, only to the remaining lands in said unit entitled to participate in production.

7. Capitol shall not be liable to any party for reduction of the acreage content of said unit resulting from loss of title for any reason beyond its control and in such event Capitol shall have the right to cancel said unit. Capitol shall not be obligated to make any retroactive apportionment of royalties in the event of any reduction in participation in production or in acreage content of said unit. In case any action is brought at law or in equity by persons claiming title to any land in said unit in hostility to the lessors from whom Capitol holds a lease on such land, then during the pendency of said action, until the final decision thereof, Capitol may discontinue operations upon the land in controversy, or if it operates wells thereon, may impound royalties accruing from production thereon until the ownership

thereof is finally determined. Capitol shall not be required to drill any offset well on that part of the leased land pooled into said unit to offset any other well drilled on the acreage pooled into said unit.

8. Capitol may at any time (a) either before or after the commencement of drilling of a well on said unit but prior to the discovery of natural gas therein, or (b) upon the abandonment of all wells drilled on said unit, wholly dissolve said unit by giving the State written notice of such dissolution. It is mutually understood and agreed that any such dissolution shall not be deemed to in anywise impair or affect any of Capitol's rights or obligations under Lease PRC 7283 or constitute a surrender of any part of, or of any interest in, the leasehold estate under Lease PRC 7283. The State confirms and agrees that upon the dissolution of said unit, whether or not Lease PRC 7283 or any other lease involved therein remains in effect, all rights of the State under Lease PRC 7283 to royalty on natural gas and associated hydrocarbon substances produced from the lands which were included in said unit (other than land covered by Lease PRC 7283) shall cease and terminate.

9. The sale, conveyance or other transfer of, or of any interest in, any portion or portions of the land covered by Lease PRC 7283 which is at the time of such transfer subject to said unit shall (unless the instrument effecting such transfer expressly provides otherwise) be deemed to include and shall operate as a transfer and assignment of all of the transferor's interest, rights and benefits under Lease PRC 7283 (including the right to royalty on allocated production from said unit) insofar as such interest, rights and benefits pertain to the portion or portions of the land covered by Lease PRC 7283 or interest therein so transferred.

10. All lands under Lease PRC 7283 not pooled or unitized pursuant to this Agreement of Understanding shall remain fully subject to the terms and conditions of Lease PRC 7283 and shall be unaffected by operations or production on the pooled or unitized portion of the leased lands or on acreage pooled or unitized with a portion of the leased lands.

Capitol Oil Corporation

State Lands Commission

By: *Mont R. Quinn*

By: _____

Date: 8-7-89

Date: _____

ATTEST *[Signature]*

ATTEST