

MINUTE ITEM
This Calendar Item No. C23
was approved as Minute Item
No. C23 by the State Lands
Commission by a vote of 2
to 0 at its 10/29/90
meeting.

CALENDAR ITEM

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C 2 3

10/29/90
PRC 5995
Nitsche

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APPROVE AMENDMENT TO STATE OIL AND GAS
LEASE PRC 5995, SOLANO COUNTY

LESSEE/OPERATOR:

Casex Co.
Attn: Mr. M.J. Castro
P.O. Drawer 2667
Truckee, California 95734-2267

AREA, TYPE LAND AND LOCATION:

State oil and gas lease PRC 5995 was issued to Seahawk Oil International, Inc. and Casex Company on April 29, 1981. Lease PRC 5995 and an adjoining lease PRC 5996 were unified effective October 1, 1983 to total approximately 238.49 acres all of which is in the bed of Lindsey Slough, Solano County.

BACKGROUND:

PRC 5995 was issued by competitive bidding on April 29, 1981. The current consideration under the lease is 81.38 percent share of the net profits, plus 16-2/3 percent royalty. Presently, there are two producing gas wells on the lease, the Seahawk 1-1 and the 1-2. The 1-2 well has been essentially non-commercial with only minimal production for more than six months. The 1-1 well has recently ceased producing due to reservoir depletion. In a letter dated August 9, 1990, Casex Co. has proposed remedial well work to return the well to production and has requested modification of the State's interest in State oil and gas lease PRC 5995 to allow for recovery of the cost of the remedial work which will then extend the economic limit of the well on the lease.

Staff reviewed the well production history and proposed a program for restoration of production. Staff agrees that the wells have reached their economic limit under the State's 81.38

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percent share of net profits and 16-2/3 percent royalty burden and that there is considerable economic risk in attempting to extend the productive life of these wells.

Under P.R.C. Section 6827.2, the Commission may agree to modifications of lease terms to prevent the premature abandonment of a lease if it finds that the continued production is in the best interests of the State and that such production is economically unfeasible under the present terms of the lease. Both lessees have agreed to the proposed lease amendment.

STAFF RECOMMENDATIONS:

Staff recommends that the lease be amended to eliminate the net profits share effective September 1, 1990 and retain the royalty interest of 16-2/3 percent, for all production less than 950 mcf/day. However, the royalty would increase to 25 percent for production exceeding 950 mcf/day. The land rental and all other terms and conditions of the lease are to remain the same.

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 is exempt from the requirements of the CEQA because it 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. Lease Amendment.
- B. Lease Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE IT IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.

CALENDAR ITEM NO. C 2.3 (CONT'D)

2. FIND THAT THE CONTINUED PRODUCTION UNDER LEASE PRC 5995 IS IN THE BEST INTERESTS OF THE STATE AND THAT SUCH PRODUCTION IS ECONOMICALLY UNFEASIBLE UNDER THE PRESENT TERMS OF THE LEASE.
3. APPROVE AN AMENDMENT TO STATE OIL AND GAS LEASE PRC 5995 EFFECTIVE SEPTEMBER 1, 1990, ELIMINATING THE 81.38 PERCENT NET PROFITS SHARE AND RETAINING THE ROYALTY INTEREST OF 16-2/3 PERCENT, FOR ALL PRODUCTION LESS THAN 950 MCF/DAY AND INCREASING THE ROYALTY TO 25 PERCENT FOR PRODUCTION EXCEEDING 950 MCF/DAY. ALL OTHER TERMS AND CONDITIONS OF THE LEASE ARE TO REMAIN IN EFFECT.

EXHIBIT "A"

AMENDMENT TO STATE OIL AND GAS LEASE PRC 5995

On April 29, 1981, the State Lands Commission (State) and Seahawk Oil International, Inc. and Casex Company (Lessee) entered into State Oil and Gas Lease PRC 5995 and Lease PRC 5996. These Leases were contiguous and contained approximately 86.27 acres and 152.22 acres, respectively, of tide and submerged land lying within the bed of Lindsey Slough in Solano County, California.

On September 28, 1983, the State approved an agreement that merged Lease PRC 5996 into Lease PRC 5995 effective October 1, 1983. Pursuant to the agreement, all of the leased land under Lease PRC 5996 became part of and subject to the provisions of Lease PRC 5995, and Lease PRC 5996 ceased to exist.

Lease PRC 5995 Paragraph 3(c) requires the Lessee to account for and pay to the State, in money as royalty on non-oil production, 16-2/3 percent of the current market price of all such production removed or sold from the leased land.

Lease PRC 5995 Paragraph 3(f) requires the Lessee to pay to the State, in addition to the royalty provided in Paragraph 3(c), the percentage of net profits specified in Exhibit "C" (81.38 percent). The percentage of net profits shall be ascertained and paid to the State in accordance with provisions set forth in Exhibit "D".

Non-oil production from the leased land has been declining and has reached its economic limit under the present terms of Lease PRC 5995. Additional expense is required to attempt to increase production. Because of the net profits provisions presently in the Lease, the Lessee cannot justify the additional expense. Both the Lessee and State recognize there would be mutual benefit if the Lessee attempted to maximize non-oil production from the leased land.

The State on October 29, 1990, in accordance with Public Resources Code Section 6827.2, found that continued production from Lease PRC 5995 is in the best interests of the State and such production is economically unfeasible under the present terms of the Lease. Therefore, in order to prevent the premature abandonment of the Lease the State agrees to modify its royalties and net profits and the Lessee agrees to maximize non-oil production from the leased land.

Lease PRC 5995 Paragraph 3(c) is hereby amended to read:

In addition to the rental provided in Paragraph 2, Lessee shall account for and pay to the State, in money as royalty on non-oil production, which consists of dry gas, natural gasoline, and other products extracted and saved from the gas produced under this lease, except gas used for lease operations or reinjected into the leased lands, 16-2/3 percent of the current market price on all such production up to and including 950 Mcf per day removed or sold from the leased lands. For all production removed or sold from the leased lands over 950 Mcf per day, the royalty shall be 25 percent. The production rate, in Mcf per day, shall be determined by dividing the monthly production from the leased lands by the number of producing days in the month. The current market price shall be determined by the State and shall include any premium or bonus paid for the non-oil production. The current market price shall never be less than the higher of the highest price in the nearest field at which non-oil production of like quality is being sold in substantial quantities or the net proceeds or exchange value derived by the Lessee from the non-oil production removed or sold from the leased lands. Money royalty on non-oil production shall be due not later than the fifth day of the second calendar month in which the non-oil production is produced.

Lease PRC 5995 Paragraph 3(d) is hereby amended to read:

At the State's option, exercised upon sixty (60) days' written notice, and lieu of money royalty on non-oil production, Lessee shall deliver to the State in kind all of its non-oil royalty production removed or sold from the leased lands.

Lease PRC 5995 Paragraph 3(f) is deleted in its entirety.

All other terms and conditions of Lease PRC 5995 will remain unchanged and in full force and effect. The effective date of this amendment will be September 1, 1990.

LESSEE:

State of California

Seahawk Oil International, Inc.

State Lands Commission

By: *John O. Smith*

By: _____

Date: Oct 10, 1990

Date: _____

Attest: *Lincoln L. Denton*

Attest: _____

Casex Company

By: *W. J. Carter*

Date: Oct 10, 1990

Attest: *[Signature]*

EXHIBIT B
STATE LANDS COMMISSION

PRC 5995

CASEX CO.

SOLANO COUNTY

