

MINUTE ITEM

This Calendar Item No. 011  
was approved as Minute Item  
No. 11 by the State Lands  
Commission by a vote of 3  
to 0 at its 7/15/91  
meeting.

CALENDAR ITEM

A 3, 8  
S 1

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07/15/91  
PRC 6078  
Hamilton

APPROVE THE ASSIGNMENT AND AMENDMENT OF  
NEGOTIATED SUBSURFACE (NO SURFACE USE)  
STATE OIL AND GAS LEASE PRC 6078  
(80 ACRES OF SUBMERGED LANDS IN THE BED  
OF THE SACRAMENTO RIVER AT GRAYS BEND)  
IN SUTTER AND YOLO COUNTIES

**LESSEE/ASSIGNOR:**

Hilliard Oil & Gas, Inc.  
Attn: H. E. Northcott  
c/o 109 Northpark Blvd.  
P. O. Box 3134  
Covington, Louisiana 70434-3134

**LEASE OPERATOR/ASSIGNEE:**

Gaines Well Service, Inc.  
Attn: Gregory Jack Gaines, Sr.  
9741 Colony Road  
Wilton, California 95693

**BACKGROUND:**

Negotiated subsurface (no surface use) State oil and gas lease PRC 6078 was entered into on October 30, 1981, between the State Lands Commission (State) and Hilliard Oil & Gas, Inc. (Lessee). The lease contains approximately 80 acres of State-owned submerged lands in the bed of the Sacramento River at Grays Bend in Sutter and Yolo Counties, California (leased lands). The State currently is receiving royalty from directional gas well "Edson #2" which passes under and through the leased lands and which is operated by Gaines Well Service, Inc., a California corporation (Gaines).

Lease Paragraph 6 allows the Lessee, with Commission approval, to assign any portion of the Lease to a corporation that possesses the qualifications in P.R.C. 6801. The lease also specifies that the assignment will take effect on the first day of the month following Commission approval.

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In documents filed on July 11, 1990, the Lessee proposes to assign all of its interest in the Lease to Gaines. Staff has reviewed the documents and Lease files and has found that: (1) the Assignee is qualified under P.R.C. 6801 to hold the Lease, (2) the Lessee has complied with all lease provisions and no default exists and (3) all filing fees, processing costs and required documentation have been received and are file in the Commission's Long Beach office.

Lease Paragraph 16 requires the Lessee to furnish and maintain a bond in the sum of \$50,000 to guarantee the faithful performance of all Lease provisions (payment of all royalties and rentals and abandonment of all wells). Based on an estimation of the amount of reserves and of the costs of abandoning the "Edson #2" well, Gaines has requested that the amount of the security be reduced. Staff has reviewed information supplied by Gaines and in the Commission's files and has determined that \$15,000 is sufficient security for the Lease.

All of the gas produced from the "Edson #2" well is sold to Shell Oil Company. Under the terms of the sales contract, Shell is not required to pay the seller (Lessee) for the gas it buys until the 25th day of the calendar month following the month of production, which is the same day the State's royalty is due. Because the Lessee may not have the money or the production data to provide the State until after the royalty due date, staff proposes that the lease be amended to permit the Lessee to make royalty payments by the 5th day of the second calendar month following the calendar month the gas is produced. This payment schedule currently is being used in all new northern California negotiated subsurface oil and gas leases issued by the Commission.

**STATUTORY AND OTHER REFERENCES:**

- A. P.R.C. 6801 and 6804.
- B. Lease Paragraphs 6 and 16.

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), staff has determined that this activity is exempt from the requirements of CEQA because the activity is not a "project" as defined by CEQA and the CEQA Guidelines.

CALENDAR ITEM NO. C 1 1 (CONT'D)

2. Bond or other security in the sum of \$15,000 has been received.

**EXHIBITS:**

- A. Lease Location Map.
- B. D.O.G. Assignment and Bonding Notices.
- C. Lease Amendment.

**IT IS RECOMMENDED THAT THE COMMISSION:**

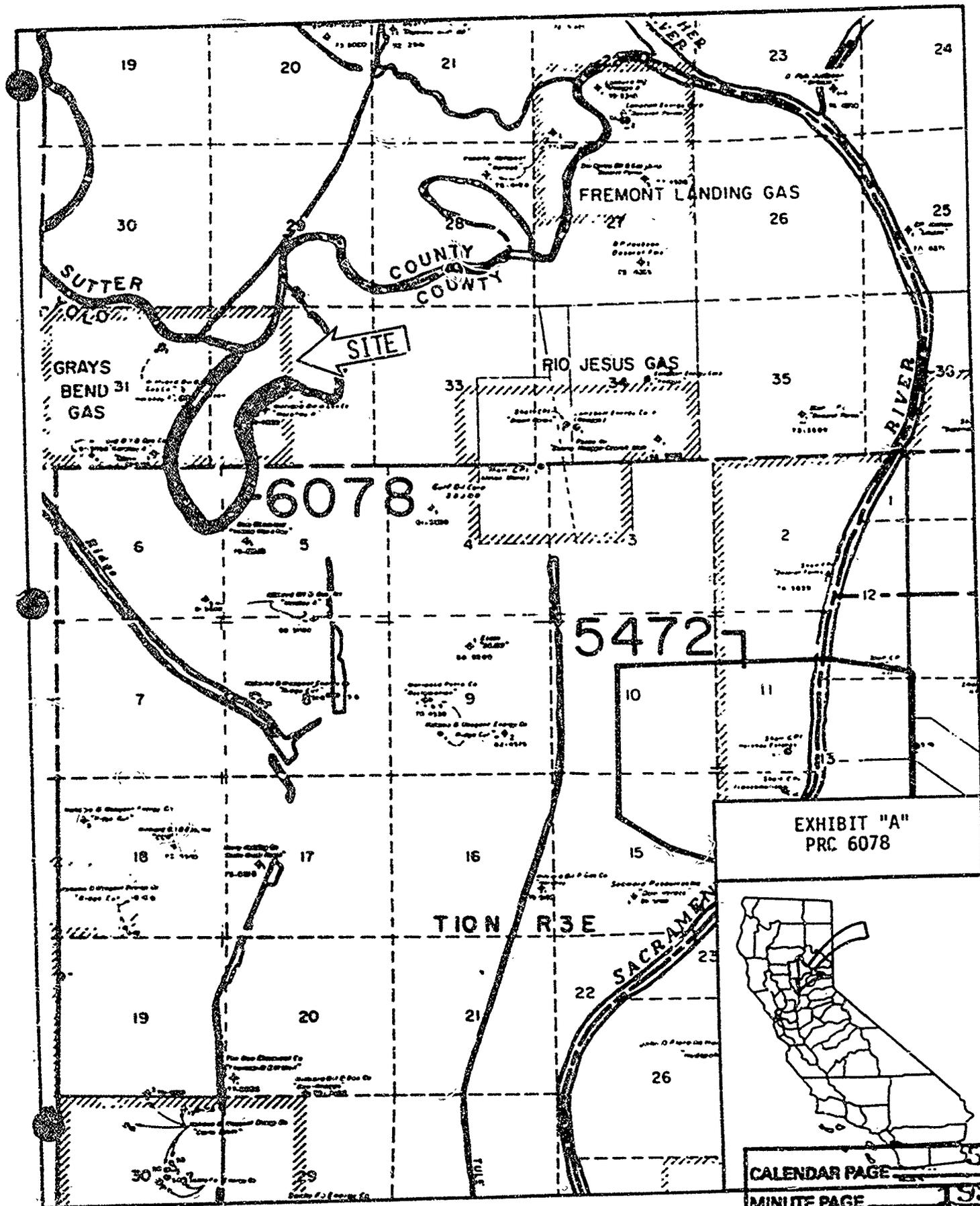
1. FIND THE ACTIVITY EXEMPT FROM THE REQUIREMENTS OF THE CEQA, PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. APPROVE THE ASSIGNMENT OF AN UNDIVIDED 100 PERCENT INTEREST IN STATE OIL AND GAS LEASE PRC 6078 FROM HILLIARD OIL & GAS, INC. (LESSEE AND ASSIGNOR) TO GAINES WELL SERVICE, INC. (ASSIGNEE). COMMISSION APPROVAL OF THIS ASSIGNMENT IS GIVEN UPON THE CONDITIONS THAT THE ASSIGNMENT WILL NOT RELEASE THE ASSIGNOR FROM ANY OBLIGATION TO THE COMMISSION UNDER THE LEASE, ANY CONDITIONS IN ANY ASSIGNMENT AGREEMENT TO THE CONTRARY NOTWITHSTANDING, AND THAT THE ASSIGNEE WILL BE BOUND BY THE LEASE, INCLUDING ANY MODIFICATIONS AND COLLATERAL AGREEMENTS, TO THE SAME EXTENT AS THE ASSIGNOR, ANY CONDITIONS IN ANY ASSIGNMENT AGREEMENT TO THE CONTRARY NOTWITHSTANDING. PURSUANT TO LEASE PARAGRAPH 6 THIS ASSIGNMENT WILL TAKE EFFECT ON AUGUST 1, 1991.
3. APPROVE THE DOCUMENT "AMENDMENT TO STATE OIL AND GAS LEASE PRC 6078" (EXHIBIT "C"), WHERE GAINES AND THE STATE AGREE TO:
  - (a) AMEND THE LAST SENTENCE IN THE THIRD PARAGRAPH (LOCATED NEAR THE TOP OF PAGE 5 OF THE LEASE) OF LEASE PARAGRAPH 3 TO READ: "MONEY ROYALTY ON NON-OIL PRODUCTION SHALL BE DUE NO LATER THAN THE FIFTH DAY OF THE SECOND CALENDAR MONTH FOLLOWING THE CALENDAR MONTH IN WHICH THE NON-OIL PRODUCTION IS PRODUCED."
  - (b) AMEND THE FIRST SENTENCE OF LEASE PARAGRAPH 16 TO READ: "THE LESSEE SHALL FURNISH UPON EXECUTION OF THIS LEASE AND MAINTAIN A BOND OR OTHER SECURITY IN FAVOR OF THE STATE OF CALIFORNIA IN THE SUM OF \$15,000 TO GUARANTEE THE FAITHFUL PERFORMANCE BY THE LESSEE OF ALL PROVISIONS OF THIS LEASE, DIVISION 6 OF THE PUBLIC RESOURCES CODE AND THE REGULATIONS PROMULGATED THEREUNDER, INCLUDING, BUT NOT LIMITED TO,

CALENDAR ITEM NO. C 1 1 (CONT'D)

IMMEDIATE ELIMINATION OF ANY CONTAMINATION OR POLLUTION  
CAUSED BY OR RESULTING FROM OPERATIONS UNDER THIS LEASE."

ALL OTHER TERMS AND CONDITIONS OF THE LEASE WILL REMAIN  
UNCHANGED AND IN FULL FORCE AND EFFECT.

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



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EXHIBIT "A"  
PRC 6078



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EXHIBIT "B-1"

PROPERTY/WELL TRANSFER OR ACQUISITION

PRC 6078

We have been informed that you have Acquired/Transferred wells.  
Please complete and return the following to the:  
Division of Oil and Gas

February 14, 1990

Hoodland, CA 95695

Effective February 1, 1990  
(date)

Graham Royalty, Ltd.  
(old operator)

the following described property to Gaines Well Service, Inc.  
(new operator) transferred ownership of

1. Part of NE Quarter Sec. 31, T-11N R-3E  
(legal description of property)

Part of Secs. 31 & 32 T-11N R-3E and in Secs. 5 & 6  
T-10N R-36

Bed of the last natural channel of the Sacramento River at Grays Bend T-10 & 11N  
Sec. 31, T. 11N, R. 3E, M.D. B. & M., Yolo  
(land or county)

2. Edson 2

(List of all producing, idle, and abandoned wells)

(If additional space is needed, use back of form.)

Graham Royalty, Ltd.  
(name of old operator)

1675 Larimer, Suite 100  
(address)

Denver, Colorado 80202

Phone (303) 429-1734

By Lynnette R. Peltier Reg. Affairs Super.  
(signature) (title)

Gaines Well Service, Inc.  
(name of new operator)

20548 S. Tinnin Rd.  
(address)

Hanteca, CA 95336

Phone (915) 587-6751  
209 823-6005

By Gregory Jack Briner Secretary  
(signature) (title)

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STATE OF CALIFORNIA  
DEPARTMENT OF CONSERVATION  
DIVISION OF OIL AND GAS

2541 UNWARRANTED 3-5-90  
C.D. Also physically made  
700 A. ROAD 3-5-90  
BOND NO. \_\_\_\_\_

INDIVIDUAL OIL AND GAS WELL CASH BOND **PRC 6078**

Public Resources Code Sections 3204 and 3205.5

(INSTRUCTIONS ON REVERSE SIDE)

Know All Persons by Their Presents:

That Gaines Well Service, Inc.  
(or) (Partners or Corporation)  
That \_\_\_\_\_

as principal, having an address for service of 20548 <sup>(Address)</sup> S. Thinn Rd. Manteca, Ca.  
present a total cash deposit of Ten THOUSAND AND NO/100 DOLLARS  
(\$ 10,000.00) in the form of:

Cashiers Check No. \_\_\_\_\_ in the amount of \$ \_\_\_\_\_ : and/or  
Certified Check No. \_\_\_\_\_ in the amount of \$ \_\_\_\_\_ : and/or  
Certificate of Deposit No. 01434 in the amount of \$ 10,000. : and/or  
Passbook Account No. \_\_\_\_\_ in the amount of \$ \_\_\_\_\_

made payable solely or assigned solely to the Department of Conservation, Division of Oil and Gas.

WHEREAS, said principal is about to drill, re-drill, deepen, or permanently alter an oil or gas well designated as "Edson 2"

and is located in Sec. 31, T. 11N, R. 3E, N.D. B.M., and, in lieu of (M.D., I.B., or H.)  
an indemnity bond, is filing this cash bond in accordance with Section 3205.5 of the California Public Resources Code.

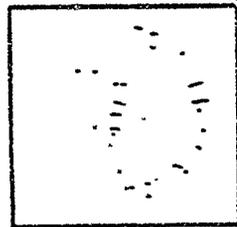
NOW, THEREFORE, the conditions of the foregoing obligation are that if the principal shall comply with all the provisions of Division 3 (commencing with Section 3000) of the Public Resources Code and shall obey all lawful orders of the State Oil and Gas Supervisor, or district deputy or deputies, subject to subsequent appeal as provided in Division 3, and shall pay all charges, costs and expenses incurred by the Supervisor or district deputy or deputies with respect to the well and attendant facilities of the principal, in pursuance of the provisions of Division 3, then this obligation shall be void; otherwise, it shall remain in full force and effect.

Principal hereby authorizes the Department of Conservation, Division of Oil and Gas, to collect or otherwise apply the total deposit presented herein to enforce the liability of the principal on the deposit.

This bond may be cancelled only in accordance with the provisions of Section 3207 of the Public Resources Code. This bond is furnished to comply with the provisions of Division 3, Chapter 1 of the Public Resources Code and of Chapter 2, Title 14, Part 2 of the Code of Civil Procedure and is subject to the terms and provisions thereof.

This is to verify under penalty of perjury that the above cash deposit is free of all liens, including tax liens.

Executed at Manteca, California, California, on December 21, 19 89  
(City and State) (Date)



(SEAL OF PRINCIPAL)

\*(Principal) Gaines Well Service, Inc.

By Gregory Jack Gaines  
(Printed or typed name)

Gregory Jack Gaines  
(Signature)

APPROVED BY: M. G. McLeod, State Oil and Gas Supervisor

By \_\_\_\_\_ Deputy  
(Signature)

DATE \_\_\_\_\_, 19 \_\_\_\_\_

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PRC 6078

STATE OF CALIFORNIA  
DEPARTMENT OF CONSERVATION  
DIVISION OF OIL AND GAS

WELL BOND RIDER,  
(INSTRUCTIONS ON REVERSE SIDE)

On the date the bond was executed, December 21 19 89, Gaines Well Service, Inc.  
(Surety or operator)  
as principal, on behalf of Gaines Well Service, Inc.  
(Surety or principal) (Operator)  
as Principal, executed Individual cash bond  
(Bond Type: Individual or Blanket)

Bond No. \_\_\_\_\_ in the sum of Ten THOUSAND AND NO/100 DOLLARS (\$ 10,000),  
in favor of the STATE OF CALIFORNIA.

NOW, THEREFORE, it is agreed that this rider shall be attached to and form a part of Bond No. \_\_\_\_\_  
effective on December 21 19 89, amending said Bond as follows:  
(Date)

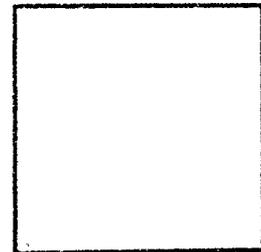
The above-listed bond hereby assumes all liability of  
well "Edson 2", Sec. 31, T. 11N, R. 3E, MD B.& M.,  
Grays Bend (field) formerly covered by Graham  
Royalty LTD. Blanket Bond No. 40011C5943,  
dated 4/28/86, executed by St. Paul Fire and Marine  
Insurance Co.

IN WITNESS WHEREOF, the seal and signature of the said principal is hereto affixed and the corporate seal and name of the  
said surety is hereto affixed and executed by its duly authorized \_\_\_\_\_  
(City) (Office or Attorney-in-Fact) California, on December 21 19 89.  
(Date)



(SEAL OF PRINCIPAL)

[Principal] Gaines Well Service, Inc.  
Gregory Jack Gaines  
(Printed or typed name of individual)  
*Gregory Jack Gaines*  
(Signature)  
secretary  
(Title)



(SEAL OF SURETY)

[Surety] Bank of America  
By \_\_\_\_\_  
(Printed or typed name of Attorney-in-Fact)  
\_\_\_\_\_  
(Signature of Attorney-in-Fact)

# EXHIBIT "C"

## AMENDMENT TO STATE OIL AND GAS LEASE PRC 6078

State Oil and Gas Lease PRC 6078 was entered into between the State Lands Commission (State) and Hilliard Oil & Gas, Inc. (Lessee) on October 30, 1981. The Lease contains approximately 80 acres of State-owned submerged lands in the bed of the Sacramento River at Grays Bend in Sutter and Yolo Counties, California.

On \_\_\_\_\_, 1991, the Commission approved the assignment of an undivided 100 percent interest in the Lease from Hilliard Oil & Gas, Inc. (Lessee and Assignor) to Gaines Well Service, Inc. (Assignee) and approved amendments to the Lease.

Pursuant to the Commission approval, Gaines Well Service, Inc. and the State hereby agree to:

1. Amend the last sentence in the third paragraph (located near the top of page 5 of the Lease) of Lease Paragraph 3 to read: "Money royalty on non-oil production shall be due no later than the fifth day of the second calendar month following the calendar month in which the non-oil production is produced."
2. Amend the first sentence of Lease Paragraph 16 amended to read: "The Lessee shall furnish upon execution of this lease and maintain a bond or other security in favor of the State of California in the sum of \$15,000 to guarantee the faithful performance by the Lessee of all provisions of this lease, Division 6 of the Public Resources Code and the regulations promulgated thereunder, including, but not limited to, immediate elimination of any contamination or pollution caused by or resulting from operations under this lease."

All other terms and conditions of the Lease will remain unchanged and in full force and effect.

Gaines Well Service, Inc.  
a California corporation

State of California  
State Lands Commission

By: G. Jack Gaines

By: \_\_\_\_\_

Name: G. Jack Gaines

Name: \_\_\_\_\_

Title: Secretary

Title: \_\_\_\_\_

Date: 5/29/91

Date: \_\_\_\_\_

ATTEST

ATTEST

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