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CALENDAR ITEM

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PRC 7628

APPROVE A NEGOTIATED SUBSURFACE (NO SURFACE USE)
STATE OIL AND GAS LEASE
(105 ACRES UNDER THE SAN JOAQUIN RIVER),
MERCED COUNTY

APPLICANT/PROPOSED LESSEE:

Enron Oil and Gas Company
Attn: Ronald P. Thompson
9343 Tech Center Drive, Suite 200
Sacramento, California 95826

AREA, TYPE AND LOCATION:

The State land contains about 105 acres of submerged land in the bed of the San Joaquin River in Merced County, California (see Exhibits "A", "B" and "C" for the description and approximate location of the State land). Enron Oil and Gas Company, a Delaware corporation, has completed the application requirements for a negotiated subsurface (no surface use) State oil and gas lease on this State land.

LAND USE:

Enron controls by oil and gas leases on adjacent private lands all available drill sites adjacent to the State land and has a permit from Merced County Planning Department (Lead Agency) to drill and complete a natural gas well on the leased private property (see Exhibit "D" for permit requirements).

AUTHORITY:

P.R.C. 6815(a) authorizes the Commission to negotiate and enter into agreements for oil and gas leases on State land if any of the following exists: wells drilled on private or public lands are draining or may drain oil and gas from the

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State land; the Commission determines the State land to be unsuitable for competitive bidding because of such factors as its small size or irregular configuration or its inaccessibility from surface drill sites reasonably available or obtainable; the State owns a fractional mineral interest in the land; or the Commission determines the agreement or lease to be in the best interests of the State.

Because the State land is a waterway and because Enron controls by lease all of the drill sites adjacent to the State land and has county (Lead Agency) approval to drill and produce gas near the State land, Staff has concluded that the criteria of P.R.C. 6815(a) have been met in that the State land is unsuitable for competitive bid leasing because surface locations for oil and gas operations (drill sites) are not available and that a negotiated subsurface (no surface use) oil and gas lease will provide protection from wells drilled on private property which may drain oil and gas from the State land.

NON-NEGOTIABLE LEASE PROVISIONS:

1. Primary term will be twenty (20) years and for so long thereafter as oil or gas is produced in paying quantities from the leased lands, or so long as the lessee is diligently conducting producing, drilling, deepening, repairing, redrilling or other necessary lease or well maintenance operations in the leased lands.
2. No right to use any portion of the leased lands to a depth of 500 feet for drilling locations, producing facilities or related oil and gas operations.
3. All development of the subsurface area of the leased lands shall be accomplished from approved surface locations on adjacent lands.
4. All drilling into the subsurface of the leased lands shall be by slant drilling from approved surface locations on adjacent lands, shall be on a course and to an objective approved in writing by the Commission prior to the commencement of drilling and shall be subject to the Commission's oil and gas drilling and production regulations (2 Cal. Code Regs. 2125 et seq.).

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5. Compliance with all applicable laws, rules and regulations of federal, state and local governments and receipt of all necessary permits or approvals prior to slant drilling into the leased lands.

NEGOTIATED LEASE PROVISIONS:

1. Drilling term of three (3) years. However, if all or part of the leased lands is included in a Commission-approved pooled area or unit, then drilling operations on and production from the pool or unit will be deemed to be drilling operations on and production from the pooled or unitized leased lands.
2. Annual rental of \$30 per acre (\$3,150 for 105 acres).
3. Royalty of twenty five percent (25%) on gas and oil.
4. Performance bond or other security in the sum of \$5,000.

PREREQUISITE CONSIDERATIONS:

Filing fee, processing costs, first year's rental and duly executed State Oil and Gas Lease (Negotiated-Subsurface-Royalty) forms have been received and are on file in the Commission's Long Beach office.

AB 884:

09/13/92.

OTHER PERTINENT INFORMATION:

1. CEQA Guidelines Section 15378(a)(3) identifies an activity involving the issuance to a person of a lease as a "project". However, the site of the project or area in which the major environmental effects will occur is on private property within the County of Merced. The County, therefore, has functioned as the Lead Agency for the project pursuant to CEQA Guidelines Section 15366.

As Lead Agency, the Merced County Planning Department approves locations for the drilling of gas wells on private property in the County. When the criteria of the Merced County Code are met, the County may grant an administrative permit for the drilling of the gas well. Administrative permits are exempt from the CEQA process by the County as ministerial projects.

P.R.C. 21080(b)(1) and CEQA Guidelines Section 15268.

CALENDAR ITEM NO. C 3 4 (CONT'D)

The Merced County Planning Department has processed Administrative Permit #201 to permit Enron Oil and Gas Company to drill a gas well "Gallo 2-1" on private property near State lands (see Exhibit "D" for permit requirements). An environmental document was not prepared as the proposed project was identified as satisfying the requirements of the County's administrative permit.

2. 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 under the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Staff believes, in consideration of the action taken by Merced County under its code, there is no possibility that this project will have a significant effect on the environment.

Authority: P.R.C. 21084 and 14 Cal. Code Regs. 15300.

EXHIBITS:

- A. Land Description.
- B. General Location.
- C. Site Map.
- D. Merced County Administrative Permit No. 201 (for gas well).

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 THERE IS NO POSSIBILITY THAT THE ACTIVITY MAY HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT (14 CAL. CODE REGS. 15361(b)(3)).
2. FIND THAT THE SIGNIFICANT ENVIRONMENTAL VALUES ORIGINALLY IDENTIFIED PURSUANT TO P.R.C. 6370, ET SEQ., ARE NOT WITHIN THE PROJECT SITE AND WILL NOT BE AFFECTED BY THE PROPOSED PROJECT.

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CALENDAR ITEM NO. C 3 4 (CONT'D)

3. DETERMINE THAT THE CRITERIA OF P.R.C. 6815(a) HAVE BEEN MET IN THAT A NEGOTIATED SUBSURFACE (NO SURFACE USE) STATE OIL AND GAS LEASE IS THE BEST INSTRUMENT TO PROTECT AND DEVELOP OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LAND DESCRIBED IN EXHIBIT "A" AND THAT THE STATE LAND IS UNSUITABLE FOR COMPETITIVE BIDDING BECAUSE SURFACE DRILL SITES ARE NOT AVAILABLE AND BECAUSE WELLS DRILLED ON THE ADJACENT PRIVATE PROPERTY MAY DRAIN STATE OIL AND GAS RESOURCES.
4. PURSUANT TO P.R.C. 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) STATE OIL AND GAS LEASE WITH ENRON OIL AND GAS COMPANY. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT "A" (ABOUT 105 ACRES), A DRILLING TERM OF THREE YEARS, ANNUAL RENTAL OF \$30 PER ACRE (\$3,150 FOR 105 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT TWENTY-FIVE PERCENT (25%) AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$5,000.
5. AUTHORIZE THE EXECUTION OF THE DOCUMENTS NECESSARY TO EFFECT THE COMMISSION'S ACTION.

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EXHIBIT "A"

W 40652

LAND DESCRIPTION

All those state owned land in the bed of the San Joaquin River situated in the S 1/2 of the S 1/2 of Section 35, the S 1/2 of the S 1/2 of Section 36, T 7 S, R 10 E, MDM, Section 1, Section 2, the N 1/2 of Section 11, and the N 1/2 of Section 12, T 8 S, R 10 E, MDM, Merced County, California.

END OF DESCRIPTION

PREPARED FEBRUARY, 1992 BY LLB

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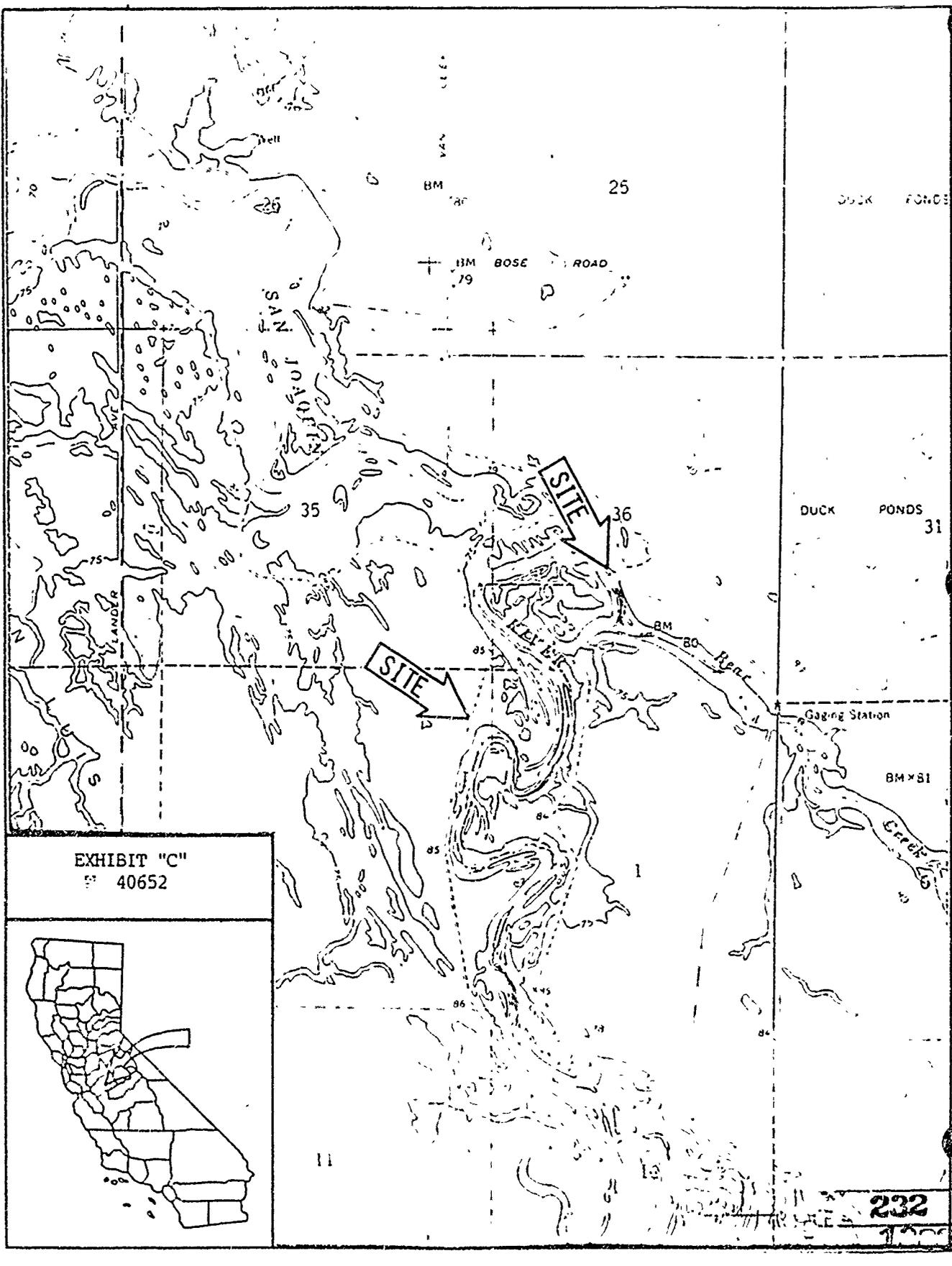


EXHIBIT "C"
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EXHIBIT "D"

W40652

COUNTY OF MERCED
STATE OF CALIFORNIA
ADMINISTRATIVE PERMIT NO. 201

Date of Issue: APRIL 10, 1992

THIS PERMIT WILL EXPIRE ON APRIL 10, 1993, IF USE IS NOT EXERCISED IN ACCORDANCE WITH SECTION 18.180.100 OF THE ZONING CODE.

Issued To: ENRON OIL & GAS COMPANY
9343 TECH CENTER DRIVE, SUITE 200, SACRAMENTO, CA 95826

Assessor's Parcel Number: 064-010-001. Location of Property Subject To This Permit: ON THE EAST SIDE OF STATE HIGHWAY 165 AND THREE MILES SOUTH OF STATE HIGHWAY 140 IN THE STEVINSON OF MERCED COUNTY.

Description of Permit Approved: TO DRILL AN EXPLORATORY OIL/GAS WELL.

Your ADMINISTRATIVE PERMIT NO. 201 was APPROVED on APRIL 10, 1992, by the Hearing Officer or his designee. No appeal was made to the Planning Commission. Therefore, you may start the approved use subject to the following conditions:

1. Applicant shall comply with all County, State, and Federal regulations.
2. The applicant shall obtain a new administrative permit if the operation changes from exploration to production.
3. The project site shall be maintained in a neat and orderly manner at all times.
4. The proposed well shall be drilled according to the plot plan approved by the Planning Director. Modifications have to be approved by the Planning Director.
5. This application is subject to the provisions of Section 18.180.100, "Discontinuance and Exploration of Approved Use" of the Merced County Zoning Code.
6. Upon termination of the exploratory operation the site shall be cleaned up and returned to its original condition.

MERCED COUNTY PLANNING DEPARTMENT
Robert E. Smith, Planning Director

By Mohammad Kharzand

cc: Public Works, Building Division
Assessor
Joseph Gallo, Property Owner

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