MINUTE ITEM
This Calendar Item No. C85 was approved as Minute Item No. 85 by the California State Lands Commission by a vote of 3 to ~~0~~ at its 5/12/97 meeting.

CALENDAR ITEM
C85

A 8, 10

S 4, 5

05/12/97
W 40747
A. Nitsche

CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE (NO SURFACE USE) STATE OIL AND GAS LEASE IN THE BED OF THE MOKELUMNE RIVER, SAN JOAQUIN AND SACRAMENTO COUNTIES

BACKGROUND:
Enron Oil and Gas Company has submitted a complete application for a negotiated subsurface (no surface use) Oil And Gas Lease on about 14.5 acres in the bed of the Mokelumne River, San Joaquin and Sacramento counties, (see Exhibit A for land description). Because the State land is a waterway, surface locations for oil and gas operations (drill sites) are not available. However, oil and gas resources that may underlie the State land can be developed and protected pursuant to the Commission's negotiated subsurface (no surface use) Oil And Gas Lease which would permit Commission-approved slant drilling from a county-approved drill site and would permit inclusion of the leased lands in a Commission-approved pooled area or unit.

Public Resources Code section 6815(a) authorizes the Commission to negotiate and enter into oil and gas leases on State lands if any of the following exists: wells drilled on private or public lands are draining or may drain oil and gas from the State lands, the Commission determines the State lands to be unsuitable for competitive bidding because of such factors as their small size or irregular configuration or their inaccessibility from surface drill sites reasonably available or obtainable, the State owns a fractional mineral interest in the lands, or the Commission determines the lease to be in the best interests of the State.

Because the Applicant controls by lease and agreement all of the private property adjacent to the State land described in Exhibit A and because the Applicant has county (Lead Agency) approval to drill a well near the State land, staff has concluded that the criteria of Public Resources Code section 6815(a) have been satisfied. A negotiated subsurface (no surface use) Oil and Gas Lease with the Applicant will protect oil and gas resources that may underlie the State land which is unsuitable for competitive bidding because surface drill sites are not available and wells drilled on the adjacent private property may drain State oil and gas resources.

PERMIT STREAMLINING ACT DEADLINE:
July 6, 1997

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, if the site of the project or area in which the major environmental effects will occur is located on private property within the county, that county will have jurisdiction by law and will be the Lead Agency over the project pursuant to CEQA Guidelines section 15366 if it issues a land use permit for the activity. Sacramento County has revised its zoning ordinances and does not require drilling permits on agricultural parcels greater than 20 acres.

2. The Department of Conservation, Division of Oil, Gas and Geothermal Resources, had determined that drilling operations that result only in minor alterations with negligible or no permanent effects to the existing condition of the land are categorically exempt under CEQA (see Title 14, California Code of Regulations, section 1684.2). The drilling permit that will be issued by the Division of Oil, Gas and Geothermal Resources for the well that could produce from the State Lands will be issued pursuant to this categorical exemption.

3. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15061), Commission 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. The staff believes there is no possibility that this project may have a significant effect on the environment.

   Authority: Title 14, California Code of Regulations, section 15061(b)(3).

4. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code Sections 6370, et seq. Based upon the staff's consultation with the persons nominating such lands and through the CEQA review process, it is the staff's opinion that the significant environmental values that were originally identified are either no longer there or that such values are not within the project site and

will not be affected by the proposed project.

5. Drilling term of three years. However, if all or part of the leased lands are included in a Commission-approved pooled area or unit, then drilling operations on and production from lands pooled or unitized with the leased lands shall be deemed to be drilling operations on and production from the leased lands that are included in the Commission-approved pooled area or unit.

6. Annual rental of $32.50 per acre ($471.25 for approximately 14.5 acres).

7. Royalty of 20 percent on gas and oil.

8. Performance bond or other security in the sum of $5,000.

EXHIBITS:

A. Land Description
B. Site Map and General Location

IF IT IS RECOMMENDED THAT THE COMMISSION:

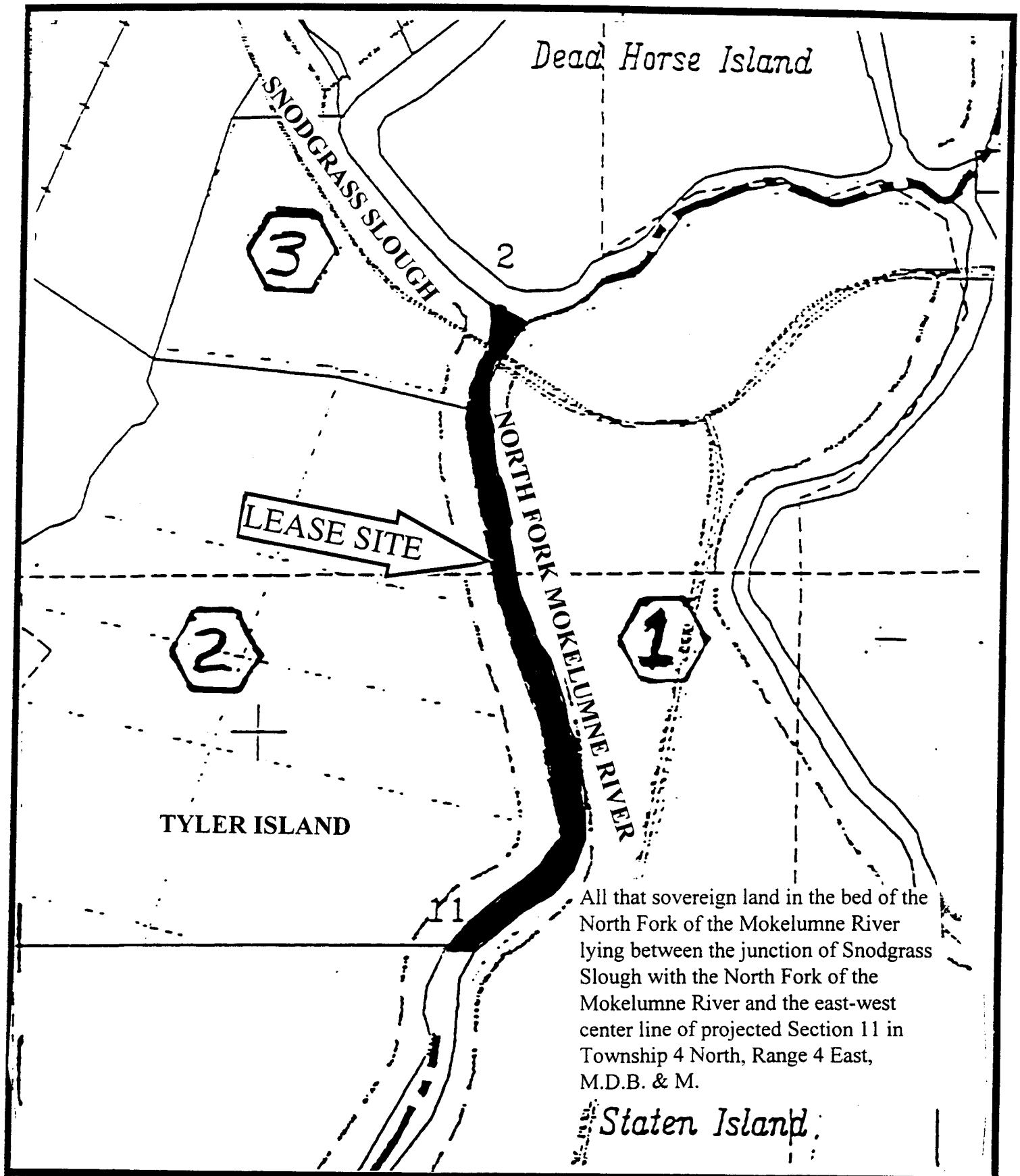
1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 BECAUSE THERE IS NO POSSIBILITY THAT THE ACTIVITY MAY HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT. (TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061(b)(3).

2. FIND THAT THE SIGNIFICANT ENVIRONMENTAL VALUES ORIGINALLY IDENTIFIED PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ., ARE NOT WITHIN THE PROJECT SITE AND WILL NOT BE AFFECTED BY THE PROPOSED PROJECT.

3. DETERMINE THAT THE CRITERIA OF PUBLIC RESOURCES CODE SECTION 6815(a) HAVE BEEN MET, THAT A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE IS THE BEST INSTRUMENT TO DEVELOP AND PROTECT 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 WELLS DRILLED ON

THE ADJACENT PRIVATE PROPERTY MAY DRAIN STATE OIL AND GAS RESOURCES.

4. PURSUANT TO PUBLIC RESOURCES CODE SECTION 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 (APPROXIMATELY 14.5 ACRES), A DRILLING TERM OF THREE YEARS, ANNUAL RENTAL OF $32.50 PER ACRE ($471.25 FOR APPROXIMATELY 14.5 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF $5,000.



All that sovereign land in the bed of the North Fork of the Mokelumne River lying between the junction of Snodgrass Slough with the North Fork of the Mokelumne River and the east-west center line of projected Section 11 in Township 4 North, Range 4 East, M.D.B. & M.

This exhibit is solely for purposes of generally defining the lease premises, and is not intended to be, nor shall it be construed as, a waiver or limitation of any State interest in the subject or any other property.

CALENDAR PAGE EXHIBIT 446
MINUTE PAGE W 40747 000941

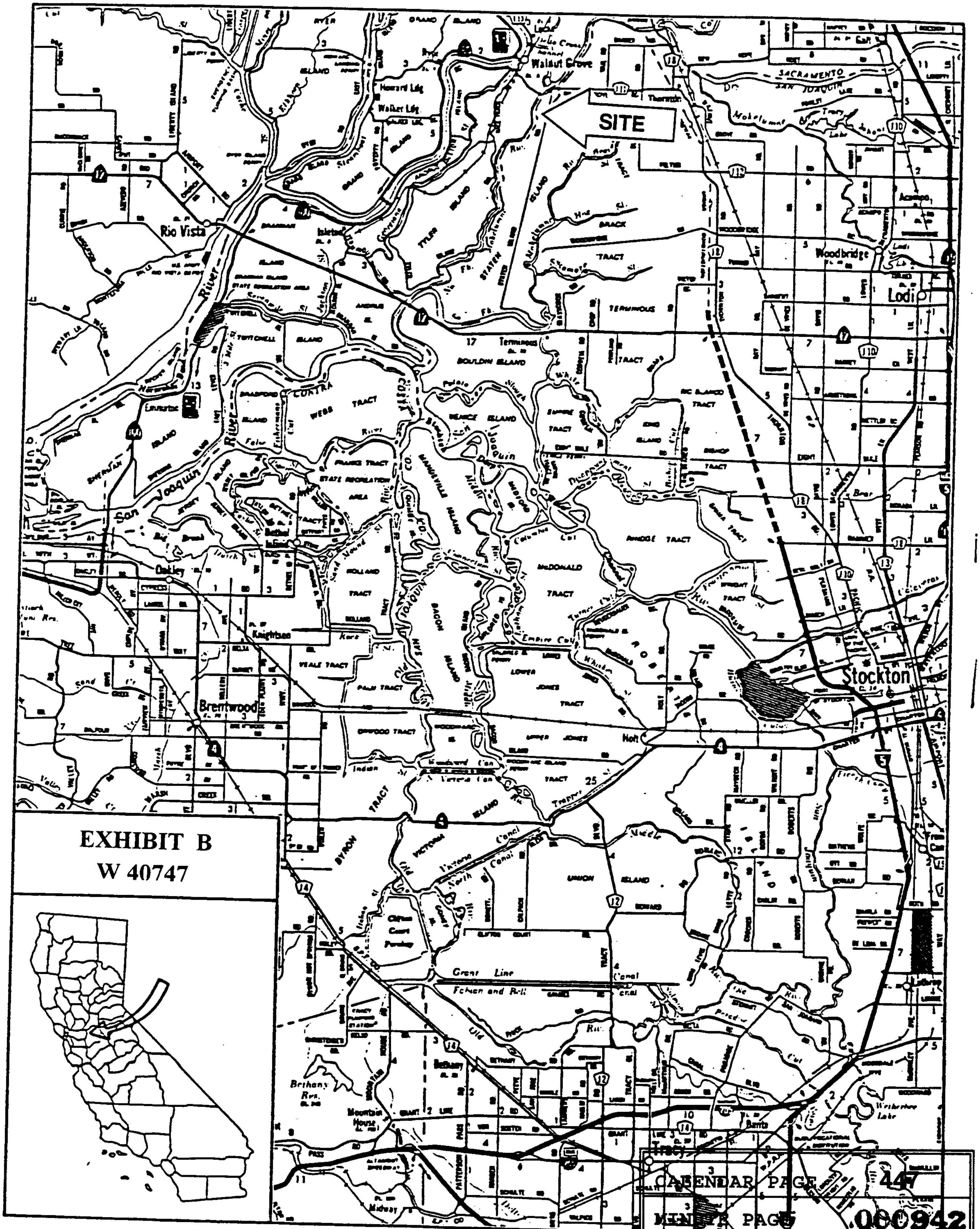


EXHIBIT B

W 40747

CALENDAR PAGE 447

MINUTE PAGE 000942