

MINUTE ITEM

This Calendar Item No. C87 was approved as Minute Item No. 87 by the California State Lands Commission by a vote of 3 to 0 at its 9-17-01 meeting.

**CALENDAR ITEM
C87**

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09/17/01
PRC 8348 W 40481
A. Nitsche

**CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE
(NO SURFACE USE) OIL AND GAS LEASE AND
A RIGHT-OF-WAY AGREEMENT,
FOURTEEN MILE SLOUGH,
SAN JOAQUIN COUNTY**

APPLICANT:

Oxy Resources California, LLC
Attn.: Mr. Charles E. Adams
28590 Highway 119, P. O. Box 1002
Tupman, CA 93276-1002

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease and Right-of-Way Agreement W 40481 covers approximately 44.1 acres in Fourteen Mile Slough, San Joaquin County, California (see Exhibit A, attached hereto, for land description).

BACKGROUND:

Oxy Resources California, LLC, has submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease and Right-of-Way Agreement. Because the State land is a waterway, surface locations for oil and gas operations (drill sites) are not available. However, oil and gas resources within 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 directional drilling from a county-approved upland 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:

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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, attached hereto, and because the Applicant has county (Lead Agency) approval to drill a well near the State land, Commission staff has concluded that the criteria of Public Resources Code section 6815(a) have been satisfied. A negotiated subsurface Oil and Gas Lease with the Applicant will protect oil and gas resources within 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.

Public Resources Code section 6832 authorizes the Commission to approve a plan of cooperative or unit development where necessary or proper to secure the proper protection of the interests of the State. The small and irregular size of the State lands combined with the lack of drillsite access supports the development of the lands under a cooperative or unit plan. The lease would permit the Lessee, with the consent of the State, to pool or unitize the leased lands. The unit(s) would be comprised of all the lands falling within a 160-acre circle circumscribed around the wellbore at the producing interval. For purposes of calculating royalty under the lease, production from the unit well(s) would be allocated to the State lands in the proportion that the State lands encompassed within the 160-acre unit bears to the total land included therein.

In addition to the right to prospect for, drill for, produce, and take oil, gas and other hydrocarbon substances from the leased lands, Lessee is requesting a non-exclusive right of way to drill one or more pass-through well(s) into and through the leased lands, subject to the terms and conditions found in Paragraph 36 of the State Oil and Gas Lease and Right-of-Way Agreement. A "pass-through well" is defined in the Right-of-Way Agreement as a well that is drilled through the Leased lands and produced from an interval in the reservoir not closer to the leased lands than 1,489 feet. The Right-of-Way Agreement will produce revenue to the State should the producing interval of the well be located more than 1,489 feet from the State land. Lessee has agreed to all terms and

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conditions and has executed State Oil and Gas Lease and Right-of-Way Agreement W 40481

OTHER PERTINENT INFORMATION:

1. An Improvement Plan IP-01-57 was prepared and approved for this project by San Joaquin County. The California State Lands Commission's staff has reviewed such document.
2. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15061), the staff has determined that this activity is exempt from the requirements of the CEQA under the general rule that the CEQA applies only to projects which have the potential for causing a significant effect on the environment. The staff believes, based on the information available to it, that 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).

3. 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 project, as proposed, is consistent with its use classification.
4. The lease allows a drilling term of three years.
5. The lease requires an annual rental of \$20 per acre (\$882, for approximately 44.1 acres).
6. The State shall receive a royalty of 16-2/3 percent of any gas and oil produced under the lease, or 16 2/3 percent of that portion of the pooled production attributable to our lease.
7. The lease requires a Performance bond or other security in the sum of \$5,000.
8. Under the Right-of-Way Agreement, the State will receive an overriding royalty of four percent of the current market price of all oil, gas and

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hydrocarbon substances produced from pass-through well(s).

EXHIBITS:

- A. Land Description
- B. Site Map
- C. San Joaquin County Improvement Plan IP-01-57

PERMIT STREAMLINING ACT DEADLINE:

December 30, 2001

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

1. FIND THAT AN IMPROVEMENT PLAN IP-01-57 WAS PREPARED AND APPROVED FOR THIS PROJECT BY SAN JOAQUIN COUNTY AND THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN.
2. 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).
3. FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.
4. 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 AND RIGHT-OF-WAY AGREEMENT IS THE BEST INSTRUMENT TO DEVELOP AND PROTECT OIL AND GAS RESOURCES WITHIN THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO, AND THAT THE STATE LAND IS UNSUITABLE FOR COMPETITIVE BIDDING BECAUSE

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SURFACE DRILL SITES ARE NOT AVAILABLE AND WELLS DRILLED ON THE ADJACENT PRIVATE PROPERTY MAY DRAIN STATE OIL AND GAS RESOURCES.

5. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE AND A RIGHT-OF-WAY AGREEMENT, IN FORM ON FILE IN THE OFFICE OF THE COMMISSION, WITH OXY RESOURCES CALIFORNIA, LLC. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT A (APPROXIMATELY 44.1 ACRES), ATTACHED HERETO, A DRILLING TERM OF THREE YEARS, ANNUAL RENTAL OF \$20 PER ACRE (\$882 FOR APPROXIMATELY 44.1 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 16-2/3 PERCENT, PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$5,000, AND AN OVERRIDING ROYALTY OF FOUR PERCENT OF THE CURRENT MARKET PRICES OF OIL, GAS, AND HYDROCARBON SUBSTANCES PRODUCED FROM A PASS THROUGH WELL.

AUTHORIZATION

AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

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EXHIBIT A

W 40481

LAND DESCRIPTION

Being a parcel of tide and submerged land in the bed of Fourteen Mile Slough. San Joaquin County, State of California. situate in Township 2 North, Range 5 East, Mount Diablo Meridian, said parcel being bounded on the North by a line having latitude of 38° 01' 19" North; bounded on the East by a line having a longitude of 121° 22' 46" West; bounded on the South by the Ordinary High Water Mark of the south bank of said slough, and bounded on the West by a line having longitude of 121° 24' 29" West.

EXCEPTING THEREFROM any portion thereof landward of the Ordinary High Water Mark of said slough.

Longitudes shown herein were scaled from that certain map entitled County Survey No. 4623 and are based on the North American Datum of 1927.

This description was prepared by S. Shasta Greene in June, 2001.



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EXHIBIT C

W 40481



SAN JOAQUIN COUNTY COMMUNITY DEVELOPMENT DEPARTMENT

1610 E. HAZELTON AVENUE, STOCKTON, CA 95205-6208
PHONE: 209/499-3121 FAX: 209/499-3123

June 12, 2001

State of California
Dept Conservation - Administration
801 K Street, #Flr-24
Sacramento, CA 95814-3528

Gentlemen:

RE: IMPROVEMENT PLAN NUMBER: IP-01-57 APN: 071-050-32

On June 5, 2001, the San Joaquin County Community Development Department approved an Application No. IP-01-57 to drill for gas and/or oil on property located Section 23, Township 2 North, Route 5 East, M.D.M., San Joaquin County.

The property is owned by R. Eberhardt, and the applicant was Oxy Resources California, 1015 C Airport Road, Rio Vista, CA 94571.

Improvement plans are processed as ministerial projects by San Joaquin County.

If you have any questions, please do not hesitate to contact this office.

Sincerely,

A handwritten signature in black ink, appearing to read "CFR", written over a white background.

CHUCK FARANO
Counter Manager

CH:gjt

Attachments: Conditions of Approval & Map

cc: Environmental Health Division
Building Inspection Division
R. Eberhardt

Department of Public Works
Bureau of Fire Prevention
Oxy Resources California

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**IMPROVEMENT PLAN CONDITIONS
FOR
GAS AND OIL**

CONDITIONS OF APPROVAL: APPLICATION NO: IP-01-57
DATE APPROVED: June 5, 2001

1. There must be proof that the applicant has posted the surety bond as required by the State of California Division of Oil and Gas.
2. An application for a drilling permit for test holes shall be submitted to the San Joaquin Environmental Health Division before drilling commences. The application shall contain a map showing test hole location, depth, and method of test hole destruction.
3. The site plan shall show all structures, equipment, sumps, and access roads.
4. The project shall conform to the approved site plan.
5. The permit shall become void should the use of the property become a nuisance as defined by Section 9-3113 of the Planning Title.
6. Unattended sumps shall be enclosed by a six-foot (6') high chain link fence.
7. Secure encroachment permits for any access points to the public right-of-way from the Department of Public Works.
8. The permit shall expire eighteen (18) months after the date of approval unless all permits necessary to complete the project have been secured and actual drilling shall be diligently pursued to completion, or the permit shall be come void. Any cessation for one-hundred-eighty (180) days or more shall void this permit.
9. This permit may be transferred provided:
 - a. The transferee provides the Planning Division with proof of a surety bond, as required by the California Division of Oil and Gas, two weeks prior to the transfer.
 - b. The transferee complies with all approved permit.

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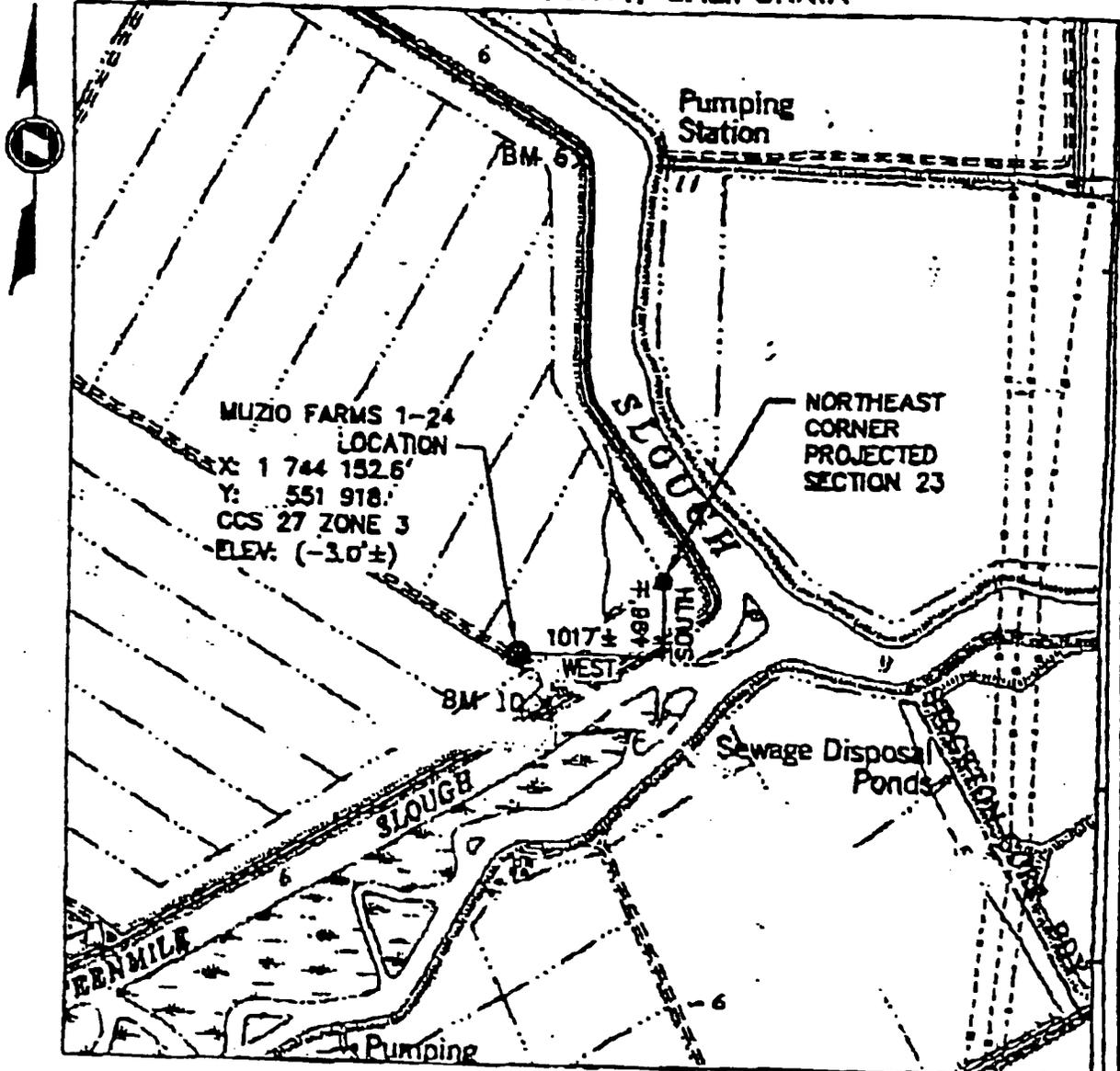
**IMPROVEMENT PLAN CONDITIONS
FOR GAS AND OIL WELL
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10. Provide sanitary facilities for all employees, as required by the California Occupational Safety and Health Administration.
11. Provide a potable water supply approved by the San Joaquin County Environmental Health Services for all employees.
12. All unused or abandoned holes shall be filled with bentonite or other approved grout material as specified in San Joaquin County Ordinance 1862, and the surface is to be left in its original condition.
13. All gas or oil drilling operations shall be performed in accordance with the rules and regulations set forth by the California Division of Oil and Gas.
14. Adequate fire fighting equipment shall be maintained on the premises in conformity with all State and local regulations.
15. Mud and wastes from the drilling and production shall be disposed of at a site approved by the San Joaquin County Environmental Health Division.
16. Any derricks shall be removed within ninety (90) days of completion or abandonment of the well unless a greater time is approved by the Planning Director in writing, based on a showing of good cause.
17. The surety bond shall remain in force until drilling is completed and the site is restored. On completion or abandonment of the well, all sumps shall be filled to natural grade and site restored to its original condition.
18. Secure a permit from the San Joaquin County Bureau of Fire Prevention before drilling commences.

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SKETCH OF WELL LOCATION FOR OXY RESOURCES CALIFORNIA L.L.C.

WELL LOCATED 496± FT. SOUTH; 1017± FT. WEST FROM THE
N.E. CORNER, PROJECTED SECTION 23, T. 2 N. R. 5 E, M.D.M
SAN JOAQUIN COUNTY, CALIFORNIA



MUZIO FARMS 1-24

WELL NAME

LAUGENOUR AND MEKLE

CIVIL ENGINEERS

WOODLAND, CALIFORNIA

SCALE: 1" = 100 FT. DATE: 6/21/01

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