

CALENDAR ITEM
C75

MINUTE ITEM
This Calendar Item No. C75
was approved as Minute Item
No. 75 by the State Lands
Commission by a vote of 3
to 0 at its 11-26-01
meeting.

A 8, 17

S 4, 5

PRC 8349

11/26/01

W 40844

A. Nitsche

**CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE
(NO SURFACE USE) OIL AND GAS LEASE, AND CONSENT TO POOLING
OF A PORTION OF THE LEASE LANDS, MOKELUMNE RIVER,
SACRAMENTO AND SAN JOAQUIN COUNTIES**

APPLICANT:

Towne Exploration Company
Attn.: Mr. E. B. Towne, Jr.
582 Market Street, Suite 515
San Francisco, CA 94104

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease would include approximately 58.59 acres in the Mokelumne River, Sacramento and San Joaquin Counties, California.

BACKGROUND:

Towne Exploration Company, a California limited partnership, (Towne) has submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease on approximately 58.59 acres in the Mokelumne River, Sacramento and San Joaquin Counties (Exhibit A, attached hereto). 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:

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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 drilled and completed two natural gas wells on land adjacent to the State lands and agreed to include a portion of the State's land into a unit, as more particularly described below, 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. Commission staff has studied the geophysical data and geology of this area and concluded a negotiated subsurface oil and gas lease is in the best interest of the State.

Towne has drilled two productive natural gas wells on upland parcels adjacent to the State lands covered by the proposed lease. In the opinion of Staff, production from the two wells, designated the "Tyler Island Farms 5-1" and the "Tyler Island Farms 6-1", would expose State lands underlying the Mokelumne River to the uncompensated drainage of natural gas. However, Towne proposes to protect the State by forming the "Tyler Island Farms 6-1 Unit" (the "Unit") for the production of natural gas and associated hydrocarbon substances (excluding oil). The Unit will be comprised of 160 acres, more or less, and cover all depths and horizons lying below a depth of 3,819 feet beneath the surface. The Unit will encompass the Tyler Island Farms 5-1 and 6-1 wells. Towne has agreed to include approximately 32 acres of the total 58.59 acres covered by the proposed lease into the Unit. Production from anywhere on the Unit will be allocated to the State lands in the proportion that the State lands included in the Unit, bears to the total acres in the Unit. Royalty will then be calculated and paid upon that portion of Unit production allocated to the State lands.

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Commission Staff has reviewed the geophysical data and geology presented by Towne and concluded that the proposed Unit, comprised of 20 percent State lands, will increase the ultimate recovery of natural gas, protect it from unreasonable waste, and is fair and equitable to the State. As a result of the unitization of a portion of the leased lands, the drilling term of the lease would be deemed satisfied as to the 32 acres included in the Unit. The remaining lease acreage not included in the unit, would be subject to the three year drilling term as provided under the lease.

Public Resources Code section 6829.2 and Paragraph 22(b) of the lease allows the Lessee, with the consent of the State and under terms and conditions approved by the State, to pool or unitize all or a portion of the leased lands with lands held by the Lessee or others. Towne has requested that the Commission consent to the pooling of 32 acres of the proposed Oil and Gas Lease by approving the Declaration of Pooling, Tyler Island Farms 6-1 Unit, dated effective November 8, 2001, a copy of which is attached as Exhibit C. Commission Staff has determined that it will be economically advantageous to the State to share in the production from the proposed unit.

In order to accommodate their intended date for creation of the Unit to dovetail with initial production of the Unit wells, Towne has requested the lease be issued with an effective date of November 8, 2001.

BASIS FOR CONSIDERATION:

- A. Public Resources Code section 6829.2, Public Resources Code section 6832 and Paragraph 22(b) of the proposed Oil and Gas Lease.

OTHER PERTINENT INFORMATION:

- 1. 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).

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2. 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.
3. 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.
4. Annual rental of \$25 per acre (\$1,464.75 for approximately 58.59 acres).
5. Royalty of 20 percent on gas and oil.
6. Performance bond or other security in the sum of \$5,000.

PERMIT STREAMLINING ACT DEADLINE:

March 13, 2002

EXHIBITS:

- A. Land Description
- B. Site Map
- C. Declaration of Pooling, "Tyler Island Farms 6-1 Unit", dated November 8, 2001.

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

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).

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2. FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

OTHER FINDINGS:

1. 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, ATTACHED HERETO, 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. FIND THAT THE DEVELOPMENT OF NATURAL GAS UNDER A COOPERATIVE OR UNIT AGREEMENT, AS OUTLINED IN THIS CALENDAR ITEM, WILL INCREASE THE ULTIMATE RECOVERY OF NATURAL GAS, PROTECT THE RESOURCE FROM UNREASONABLE WASTE AND SECURE THE PROPER PROTECTION OF THE INTERESTS OF THE STATE.

AUTHORIZATION:

1. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE WITH TOWNE EXPLORATION COMPANY. THE LEASE SHALL HAVE AN EFFECTIVE DATE OF NOVEMBER 8, 2001 AND WILL COVER THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO (APPROXIMATELY 58.59 ACRES). THE LEASE WILL CONTAIN A DRILLING TERM OF THREE YEARS, ANNUAL RENTAL OF \$25 PER ACRE (\$1,464.75 FOR APPROXIMATELY 58.59 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$5,000.
2. CONSENT TO THE POOLING OF A PORTION OF THE LEASED LANDS (32 ACRES) WITH OTHER PRIVATE LANDS HELD BY TOWNE EXPLORATION COMPANY. CONSENT IS GIVEN BY APPROVING TOWNE EXPLORATION COMPANY'S DECLARATION

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OF POOLING DATED NOVEMBER 8, 2001, WHICH CREATES THE "TYLER ISLAND FARMS 6-1 UNIT" DESCRIBED IN EXHIBIT C, ATTACHED HERETO, OR APPROXIMATELY 160 ACRES . THE UNITIZED LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF THE OIL AND GAS LEASE NOTWITHSTANDING ANY CONDITIONS IN THE DECLARATION OF POOLING TO THE CONTRARY.

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

EXHIBIT A
Land Description

W40844

A parcel of State owned tide and submerged lands lying in the bed of the Mokelumne River, Sacramento and San Joaquin Counties, California, said parcel more particularly described as follows:

That portion of the bed of the Mokelumne River situated easterly of the easterly line of PRC 415.1, Vintage Petroleum / EOG Resources Inc., Oil and Gas Lease, Rio Vista Gas Field; and lying westerly of the westerly line of PRC 3131.1, Chevron USA, Compensatory Oil and Gas Agreement, River Island Area, both leases are on file in the Records of the California State Lands Commission.

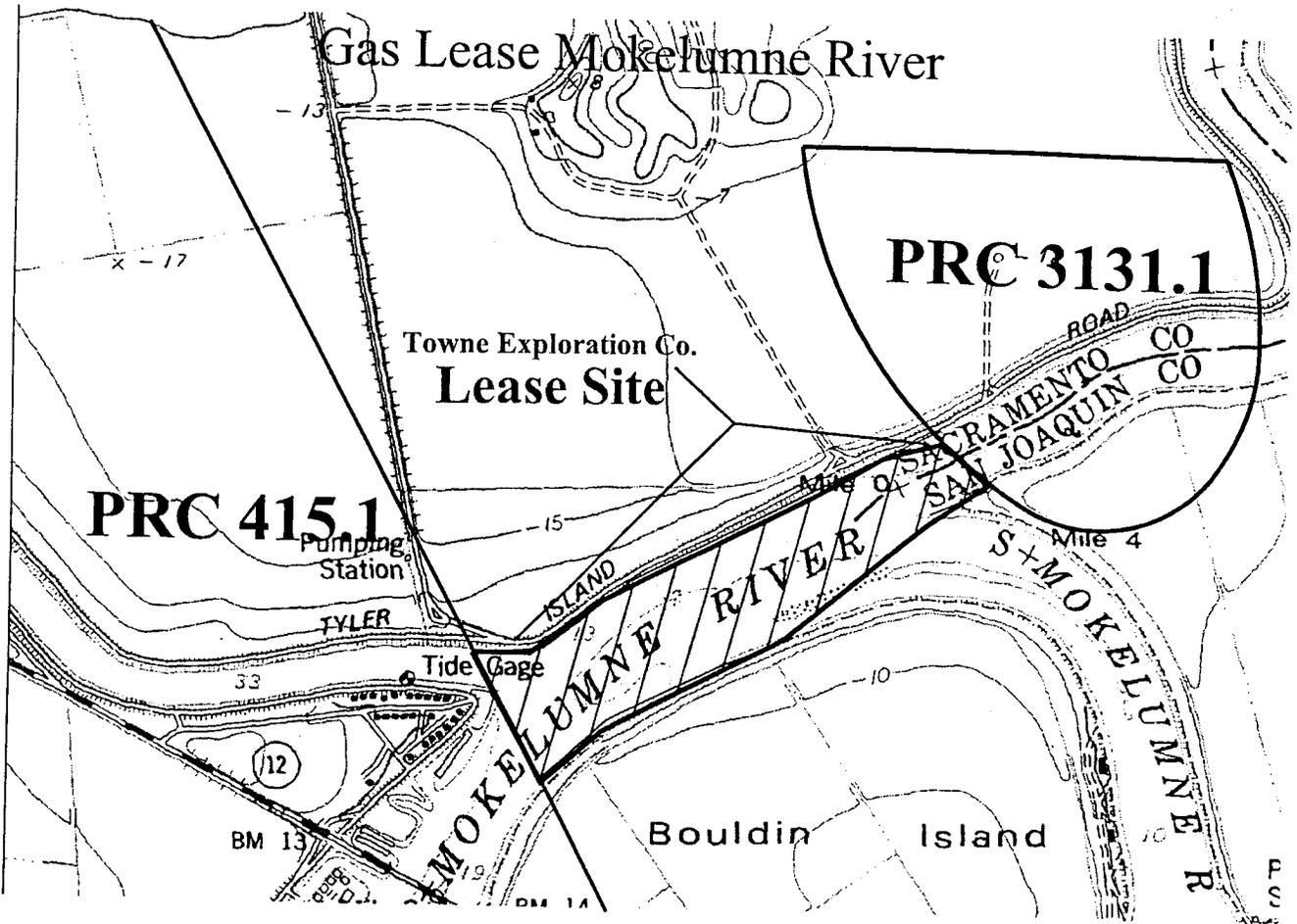
EXCEPTING THEREFROM any portion of the bed of the South Fork of the Mokelumne River.

END OF DESCRIPTION

Written by LMD Boundary Staff, September 2001.

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NO SCALE
SITE MAP



NO SCALE
LOCATION MAP

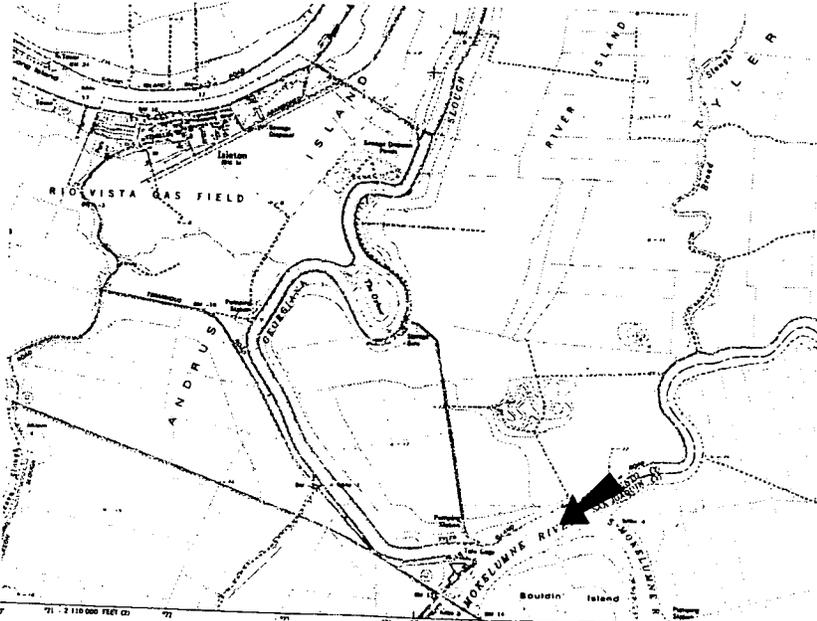


Exhibit B
W 40844

Oil and Gas Lease
 Towne Exploration Co.
 Sacramento and
 San Joaquin Counties



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0002796.1

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 of limitation of any state interest in the subject or any other property.

EXHIBIT C

W40844

RECORDING REQUESTED BY
AND WHEN RECORDED RETURN TO
TOWNE EXPLORATION COMPANY
582 MARKET STREET
SUITE 515
SAN FRANCISCO, CA 94104

DECLARATION OF POOLING TYLER ISLAND FARMS 6-1 UNIT

This Declaration of Pooling is made and declared effective November 8, 2001, by Towne Exploration Company, a California limited partnership, hereinafter "Towne".

WHEREAS, Towne is the present Lessee of those certain Oil, Gas and Mineral Leases described on Exhibit A attached hereto and made a part hereof, hereinafter "said Leases".

Said Leases cover lands within the area described on Exhibit B attached hereto and made a part hereof, as outlined in heavy black notation on the plat attached as Exhibit C, and by this reference made a part hereof, said area hereinafter referred to as "said Unit". Said Unit covers approximately 160 acres, more or less, comprised of 128 acres attributable to the Tyler Island Farms Lease, and 32 acres attributable to the State Lands Lease.

Pursuant to the terms and provisions of said Leases, Towne desires to create a pooled unit for the exploration for and development of natural gas, gas distillate or condensate and all liquid hydrocarbons, except oil, from the pooled unit.

NOW THEREFORE, Towne does hereby exercise the right to pool and combine said Leases insofar as the same cover and lie within said Unit, so as to form in accordance with the terms of said Leases, a single pooled unit for the exploration and development of natural gas, gas distillate or condensate and all liquid hydrocarbons, except oil, from the pooled unit. Said Unit will be designated as the Tyler Island Farms 6-1 Unit.

As of the effective date of this Declaration of Pooling, Towne has drilled two gas wells which lie within the Unit formed herein, being the Tyler Island Farms 6-1 Well and the Tyler Island Farms 5-1 Well.

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Declaration of Pooling
Tyler Island Farms 6-1 Unit
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For the purposes of computing royalties payable under said Leases, should gas, gas distillate or condensate be produced from any lands included in said Unit, such production shall be allocated based on the number of acres in each Lease included in said Unit as the same bears to the total number of acres contained in said Unit.

This Declaration of Pooling is intended to exercise the rights to pool said Leases for gas only, and not for oil.

IN WITNESS WHEREOF, this Declaration of Pooling is executed as of the date indicated below, but is made effective as of the date set forth above

TOWNE EXPLORATION COMPANY, a California limited partnership

By: _____

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EXHIBIT A

Attached to that certain Declaration of Pooling dated November 8,
2001, executed by Towne Exploration Company, creating the Tyler
Island Farms 6-1 Unit

<u>LESSOR</u>	<u>LESSEE</u>	<u>ACRES POOLED</u>	<u>RECORDING INFORMATION</u>
Tyler Island Farms, a corporation*	Towne Exploration Company	128	Recorded August 21, 2001 in Book 20010821 at Page 0509
State of California	Towne Exploration Company	32	To be Recorded

*Insofar as and only insofar as said Lease covers those rights lying beneath a depth of 3,819 feet beneath the surface of the leased lands.

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EXHIBIT B

Attached to that certain Declaration of Pooling dated November 8, 2001, executed by Towne Exploration Company, creating the Tyler Island Farms 6-1 Unit

Those lands contained in that certain Oil and Gas Lease dated November 22, 2000, by and between Tyler Island Farms, a corporation, Lessor, and Towne Exploration Company, Lessee, a Short Form Memorandum of which was recorded in the Official Records of Sacramento County August 21, 2001 in Book 2001082 at Page 0509, insofar as and only insofar as said Lease covers those rights lying beneath a depth of 3,819 feet beneath the surface of the leased lands;

AND

Those lands contained in that certain Oil and Gas Lease dated , 2001, by and between the State of California, Lessor, and Towne Exploration Company, Lessee, a Short Form Memorandum of which was recorded in the Official Records of the County of Sacramento , 2001, in Book at Page ;

INSOFAR AS AND ONLY INSOFAR AS said Oil and Gas Leases cover the following described lands:

All that portion of Swamp and Overflow Land Survey Numbers 681, 683 and 956, Sacramento County Records , lying within projected Sections 5 and 6 in Township 3 North, Range 4 East, M.D.B.&M., described as follows:

Commencing at a point on the Section line common to Sections 32 and 33, Township 4 North, Range 4 East, from which point the Section corner common to Sections 28, 29, 32 and 33, Township 4 North, Range 4 East, bears North 772.00 feet distant; thence West 3544.98 feet to the Northeast corner of that certain tract of land described in a Deed dated May 28, 1945, recorded June 7, 1945, in Book 1148 of Official Records, at Page 14, Sacramento County Records, executed by Libby, McNeil and Libby, a corporation, to Owen W. Wilkinson, et al; thence along the West line of said tract of land and along the centerline of a drainage ditch South 10 Degrees 34 Minutes West 3371.13 feet, South 27 Degrees 17 Minutes West 1323.00 feet, North 81 Degrees 7 Minutes West 1680 feet, South 43 Degrees 46 Minutes West 702.19 feet, South

11 Degrees 11 Minutes East 2,008.1 feet to the point of beginning; thence continuing South 11 Degrees 11 Minutes East 3,500 feet, thence South 21 Degrees 9 Minutes West 92.50 feet to a point on the Easterly bank of Georgiana Slough; thence downstream along the Easterly bank of said Georgiana Slough to the point of intersection of said Easterly bank of Georgiana Slough with the Northerly bank of the Mokelumne River; thence South 18 Degrees East to the south bank of the Mokelumne River; thence meandering in a northeasterly direction up the southerly bank of the Mokelumne River 1100 feet; thence North 11 Degrees West 3800 feet, thence westerly to the point of beginning, containing 160 acres, more or less.