MINUTE ITEM
This Calendar Item No. C98 was approved as Minute Item No. 98 by the California State Lands Commission by a vote of 3 to 0 at its 8-19-03 meeting.

CALENDAR ITEM
C98

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S 2

08/19/03
PRC 8377
J. Planck
M. Hamilton

CONSIDER APPROVAL OF AN AMENDMENT OF NEGOTIATED LIMITED SURFACE USE OIL AND GAS LEASE NO. PRC 8377, GRIZZLY ISLAND WILDLIFE MANAGEMENT AREA, SOLANO COUNTY

LESSEE:

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

BACKGROUND:

On January 30, 2002, the Commission issued a negotiated limited surface use Oil and Gas Lease No. PRC 8377 to Oxy Resources California, LLC, (ORCA). The Lease contains approximately 8,850 gross (4,952 net) mineral acres in the Grizzly Island Wildlife Management Area, Solano County, California (see Location Map, Exhibit A-3, attached hereto). The State's mineral interests in the leased lands are fifty percent (50%) mineral interest in those lands under the jurisdiction of the California Department of Fish and Game (DF&G) underlying Grizzly and Hammond Islands and one hundred percent (100%) mineral interest in those lands under the jurisdiction of the California State Lands Commission (Commission) underlying Montezuma Slough, Grizzly Slough, Howard Slough and Roaring River. The DF&G administers all surface use of the Grizzly Island Wildlife Management Area.

Over the past several years, ORCA has conducted geophysical survey operations on the leased lands. Based on their analysis of the geophysical data, ORCA has requested that the lease be expanded to the west to include approximately 423 contiguous acres of fifty percent (50%) mineral reservation DF&G lands. The lands ORCA seeks to include within the existing lease are described in Exhibit I and depicted in Exhibit II, attached hereto.

000611
CALENDAR PAGE

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MINUTE PAGE

On May 15, 2003, the Solano County Planning Commission adopted a Mitigated Negative Declaration, and approved a project and issuance of Use Permit No. U-03-03 to allow ORCA to use the DF&G Maintenance Yard site to drill two (2) wells. Under the terms of the Lease, all construction-related activities, including the drilling, completing, and equipping of the wells and the installation of the gathering line, may be conducted only during the designated "Construction Window." With the approval of DF&G and in accord with the terms of the Use Permit, the lease was amended establishing the Construction Window for the DF&G Maintenance Yard as a four and one-half month period commencing on April 15th and ending on September 30th of each year. The Commission approved the first amendment and the drilling of these wells at its meeting on June 2, 2003.

ORCA has asked the Commission to expand the lease to include the additional acreage. The DF&G has been contacted and does not object to the lease expansion as shown on Exhibit III, attached hereto. The additional lands will be subject to all terms and conditions of Lease PRC 8377, which, at this time, only authorized the drilling activities and location of such activities specified in the above described Commission action. A draft of the proposed amendment adds the acreage as shown on Exhibit IV, attached hereto, to the existing lease.

STATUTORY AND OTHER REFERENCES:

A. Public Resources Code section: Division 6, Parts 1 and 2; Division 13.

B. California Code of Regulations section: Title 2, Division 3; Title 14, Division 6.

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).

2. The State and the Lessee have agreed, solely for the purposes of this lease, that the State's mineral interests in the Additional Lands are an undivided fifty percent (50%). This stipulation is made without representation or warranty of title, either express or implied. This stipulation and the description and depiction of the Additional Lands contained in Exhibits I and II of this amendment are not intended and should not be construed as establishing the boundaries of the State's land, nor the quantum or extent of the State's mineral interest therein, for any purpose other than this lease. The State may have a claim that certain of the lands described in Tide Land Locations 21, 22 and 39, and purportedly conveyed to William S. Chapman and George Lamont by Tide Land Patent, dated January 22, 1878, comprising a portion of the Additional Lands, may in fact have been submerged lands and would not have passed from State ownership under a tideland patent. The State has reserved all of its rights with respect to the claim, including without limitation, the right to assert the claim during the term of this lease. If any legal action is initiated and results in a settlement or final determination by a court of competent jurisdiction that the size, location, extent or quantum of the State's mineral interest in the Additional Lands, or any portion thereof, differs from that described in Exhibits I and depicted in II of this amendment and as stipulated above, then the size, location, extent or quantum of the State's mineral interest in the Additional Lands, as each may be determined, shall be adjusted accordingly, effective from the date such settlement or judgment becomes final. No retroactive adjustment of rental or royalty paid prior to such final determination shall be required as the result of the re-determination of interest.

3. Lessee has paid annual rental through January 29, 2004, in the amount of forty dollars ($40.00) per acre or $198,080 for approximately 8,850 gross (4,952 net) mineral acres. Upon Commission approval and execution of the amendment, Lessee shall pay annual rental on the Additional Lands in the amount of forty dollars ($40.00) per net mineral acre. The initial payment will be prorated to cover the remaining 164 days form the effective date of the amendment, August 19, 2003, until the next rental due date under the lease. Prorated rental based on 423 gross (211.5 net) acres amounts to $3,801.00. On January 30, 2004, as provided in Paragraph 2 of the Lease, Lessee shall pay for all of the lands annual rental in the amount of forty dollars ($40.00) per acre or $206,540 for approximately 9,273 gross (5,163.5 net) mineral acres.

4. Staff believes that a negotiated oil and gas lease is in the best interests of the State because the Applicant presently holds oil and gas leases from private mineral owners covering an undivided fifty percent (50%) mineral interest in the Exhibit I lands.

EXHIBITS:

A-3 Recently leased lands
I. Land Description of Additional Lands
II. Location Map
III. DF&G letter to add acreage to current lease
IV. Amendment of Negotiated Limited Surface Use Oil and Gas Lease No. PRC 8377

PERMIT STREAMLINING ACT DEADLINE:

N/A.

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

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).

OTHER FINDINGS

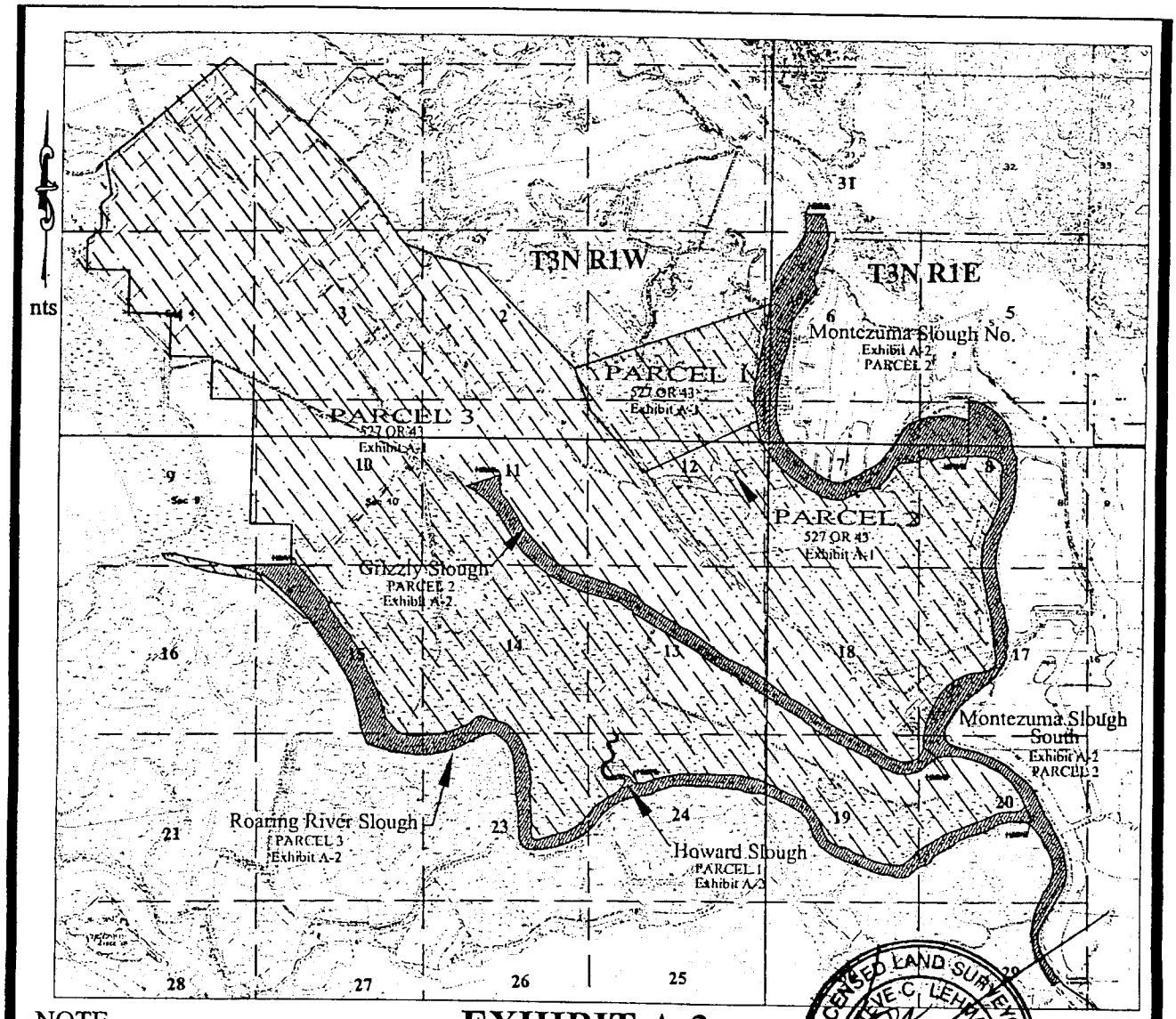
DETERMINE THAT THE CRITERIA OF PUBLIC RESOURCES CODE SECTIONS 6815(a), 6851 AND 6854 HAVE BEEN MET, THAT A NEGOTIATED LIMITED SURFACE USE OIL AND GAS LEASE IS THE BEST INSTRUMENT TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LAND DESCRIBED IN EXHIBIT I, ATTACHED HERETO, AND THAT THE STATE LAND IS UNSUITABLE FOR COMPETITIVE BIDDING BECAUSE THE APPLICANT HAS OIL AND GAS LEASES COVERING AN UNDIVIDED FIFTY PERCENT INTEREST IN THE EXHIBIT I LANDS.

AUTHORIZATION:

APPROVE THE AMENDMENT OF NEGOTIATED LIMITED SURFACE

USE OIL AND GAS LEASE NO. PRC 8377, GRIZZLY ISLAND WILDLIFE MANAGEMENT AREA, SOLANO COUNTY, TO LEASE THE ADDITIONAL ACREAGE IDENTIFIED IN EXHIBIT I, ATTACHED HERETO, UPON THE TERMS AND CONDITIONS OUTLINED IN THIS CALENDAR ITEM, AND IN SUBSTANTIALLY THE FORM ATTACHED.

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



NOTE

This reduced Oil and Gas Lease Map is for exhibit purpose only, and not to be used to determine royalty due to the State. A fullsize Oil and Gas lease Map is filed at CSLC office Sacramento under WO 40834

EXHIBIT A-3

LICENSED LAND SURVEYOR
STEVE C. LEHMAN
Exp. 12/31/05
No. 7377
STATE OF CALIFORNIA

Legend

50% Mineral Interest in DFG 7796 ac±

Approx.Section Lines

100% Mineral Interest in CSLC 1054 ac±

OIL AND GAS LEASE

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

EXHIBIT A-3

LOCATION MAP
W 40834
OXY

OIL & GAS LEASE IN HOWARD, MONTEZUMA & GRIZZLY & ROARING RIVER SLOUGHS AND FISH & GAME LANDS ON HAMMOND & GRIZZLY ISLAND

SOLANO COUNTY

EXHIBIT I

PRC 8377

LAND DESCRIPTION

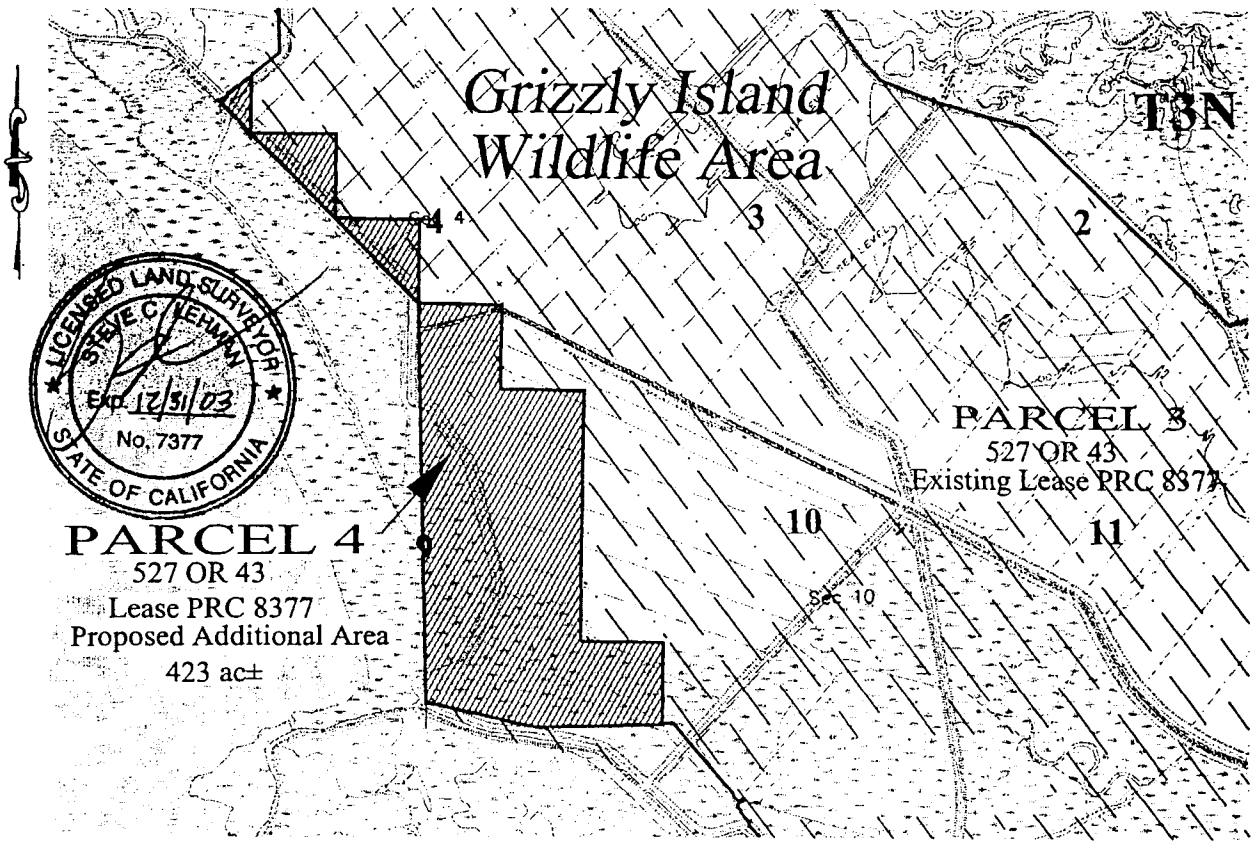
All of Parcel 4 as conveyed to the State of California by the Final Order and Decree of Condemnation recorded March 30, 1950 in Book 527 Official Record Page 43, Solano Country Records, Solano County, State of California.

END OF DESCRIPTION

LICENSED LAND SURVEYOR
STEVE C. LEHMAN
Exp. 12/31/03
No. 7377
STATE OF CALIFORNIA

NO SCALE

SITE MAP

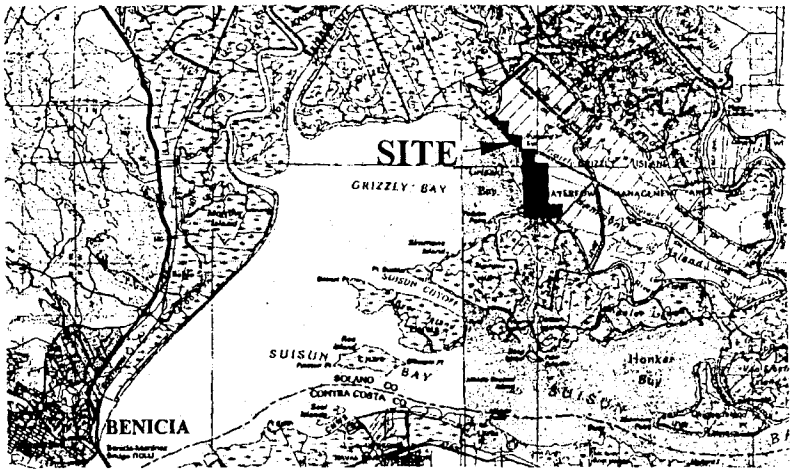


OXY RESOURSES CALIFORNIA, LLC
OIL AND GAS LEASE PRC 8377 AMENDMENT

NO SCALE

LOCATION MAP

Grizzly Island



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

Exhibit II
PRC 8377
APN 046-260-07
Grizzly Island
SOLANO COUNTY

SCL

STATE OF CALIFORNIA - THE RESOURCES AGENCY GRAY DAVIS, Governor

DEPARTMENT OF FISH AND GAME
GRIZZLY ISLAND WILDLIFE AREA
2548 GRIZZLY ISLAND ROAD
SUISUN, CALIFORNIA 94585
(707) 425-3828

July 21, 2003

Mr. Arthur Nitsche
Associate Mineral Resources Engineer
California State Lands Commission
200 Oceangate, 12th Floor
Long Beach, CA 90802-4331

File Reference: PRC8377

Dear Mr. Nitsche,

The Department of Fish and Game has no objection to adding the 440 acres of Grizzly Island Wildlife Area, as described in your June 19, 2003 letter, to the Oil and Gas lease PRC 8377 as requested by OXY Resources California.

Sincerely,

Dennis R. Becker

Dennis R. Becker
Senior Wildlife Biologist
Grizzly Island Wildlife Area

cc: Ms. Nancy Templeton
Calif. Department of Fish and Game
Office of the General Counsel
1416 Ninth Street, 13th Floor
Sacramento, CA 95814

EXHIBIT IV PRC 8377

SECOND AMENDMENT TO OIL AND GAS LEASE PRC 8377

Whereas, effective January 30, 2002, the State of California, acting by and through the State Lands Commission, hereafter known as the "State", issued State Oil and Gas Lease PRC 8377 (the "Lease") to Oxy Resources of California LLC, hereafter referred to as the "Lessee", covering certain lands located in Solano County, California; and

Whereas, on June 2, 2003, the State approved the First Amendment to Oil and Gas Lease PRC 8377 rescinding authorization for the drilling of an exploratory natural gas well from Parking Lot 4 and granting authorization for the drilling, completing, equipping and producing of up to two exploratory natural gas wells from a drill site location on the Maintenance Yard; and

Whereas, Lessee has requested that the Lease be further amended to include an additional tract of land under the jurisdiction of the California Department of Fish and Game comprised of 423 gross acres, more or less, said tract being contiguous to the existing leased lands. The tract is more particularly described on Exhibit I and depicted on Exhibit II, attached to this amendment and incorporated herein and hereafter for convenience referred to at the "Additional Lands"; and

Whereas, the State and Lessee have agreed to amend the Lease to include the Additional Lands.

NOW, THEREFORE, the State and Lessee agree to modify the Lease as follows:

1. Effective August 19, 2003, the State hereby leases the Additional Lands to Lessee, upon all of the terms, covenants, conditions, agreements and stipulations contained in the Lease.

2. The State and the Lessee agree, solely for the purposes of this lease, that the State's mineral interests in the Additional Lands are an undivided fifty percent (50%). This stipulation is made without representation or warranty of title, either express or implied. This stipulation and the description and depiction of the Additional Lands contained in Exhibits I and II of this amendment are not intended and should not be construed as establishing the boundaries of the State's land, nor the quantum or extent of the State's mineral interest therein, for any purpose other than this lease. The State may have a claim that certain of the lands described in Tide Land Locations 21, 22 and 39, and purportedly conveyed to William S. Chapman and George Lamont by Tide Land Patent, dated January 22, 1878, comprising a portion of the Additional Lands, may in fact have been submerged lands and would not have passed from State ownership under a tideland patent. The State reserves all of its rights with respect to the claim, including without limitation, the right to assert the claim during the term of this lease. If any legal action is initiated and results in a settlement or final determination by a court of competent jurisdiction that the size, location, extent or quantum of the State's mineral interest in the Additional Lands, or any portion thereof, differs from that described in Exhibits I and depicted in II of this amendment and as stipulated above,

then the size, location, extent and/or the quantum of the State's mineral interest in the Additional Lands, as each may be determined, shall be adjusted accordingly, effective from the date such settlement or judgment becomes final. No retroactive adjustment of rental or royalty paid prior to such final determination shall be required as the result of the re-determination of interest.

3. Lessee has paid rental under the Lease through January 29, 2003 for all of the leased lands covered by the Lease prior to the effective date of this amendment. Upon execution of this amendment, Lessee shall pay additional rental in the amount of forty dollars ($40.00) per net mineral acre for the Additional Lands, prorated from the effective date of this amendment to the next rental due date of January 30, 2004. On January 30, 2004, and annually thereafter as provided in Paragraph 2 of the Lease, Lessee shall pay rental in the amount of forty dollars ($40.00) per net mineral acre for all of the lands covered thereby.

4. The Additional Lands shall be deemed to be Exhibit A-1 lands under the Lease for the purpose of allocating production of oil, gas and other hydrocarbon substances and the calculation and payment of royalty due thereon pursuant to Paragraph 3 and Exhibits B and D of the Lease. The "Special Operating Requirements" set forth in Exhibit C of the Lease pertaining to the lands identified in Exhibit A-1, including all restrictions pertaining to surface access and use of said lands, shall apply to the Additional Lands with the same force and effect as if such lands were originally included as Exhibit A-1 lands at the time the Lease was issued.

5. As herein modified and amended, the Lease is and shall remain in full force and effect.

6. The effective date of this amendment of State Oil and Gas Lease PRC 8377 shall be August 19, 2003.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment of State Oil and Gas Lease PRC 8377 as of the date hereafter affixed.

LESSEE:	STATE:
OXY RESOURCES OF CALIFORNIA, LLC	STATE OF CALIFORNIA, STATE LANDS COMMISSION
By:_____	By:_____ Paul B. Mount II
Date:_____	Date:_____

NOTE: Form contemplates 2 Exhibits:

I. Legal Description of Additional Lands
II. Depiction of Additional Lands