

MINUTE ITEM

This Calendar Item No. C48 was approved as Minute Item No. 48 by the California State Lands Commission by a vote of 3 to 4 at its 2/2/04 meeting.

**CALENDAR ITEM
C48**

A 8, 10, 15, 17
S 4, 5, 7

02/02/04
PRC 729.1
J. Planck

**CONSIDER ACCEPTANCE OF THE FULL QUITCLAIM OF
NEGOTIATED SUBSURFACE (NO SURFACE USE)
OIL AND GAS LEASE NO. PRC 729.1
(357 ACRES UNDER THE SACRAMENTO RIVER),
SACRAMENTO COUNTY**

LESSEE:

Towne Exploration Company, a California Limited Partnership
Attn: Mr. Edward B. Towne
582 Market Street, Suite 1500
San Francisco, CA 94104

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. PRC 729.1 contains approximately 357 acres of tide and submerged lands in the vicinity of the Sacramento River, Sacramento County, California.

BACKGROUND:

Oil and Gas Lease No. PRC 729.1 (Lease) was issued to Brazos Oil Company on June 30, 1952, and contains approximately 357 acres of tide and submerged lands in the bed and vicinity of the Sacramento River in Sacramento County, California (see Exhibit A, attached hereto). Through a series of approved assignments, the present lessee is Towne Exploration Company, a California Limited Partnership (Towne).

Lease Paragraph 5 permits the lessee to make a written quitclaim of all rights under the lease or of any portion of the leased lands. The quitclaim will be effective when it is filed with the State subject to the continued compliance with all applicable laws and lease provisions, and the continued obligation of the lessee and its surety to pay all accrued rentals and royalties.

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On October 18, 2003, the Commission's Long Beach staff received the document "Quitclaim Deed for State Oil and Gas Lease." This document was dated October 10, 2003, and quitclaims back to the State all of the lessee's right, title and interest in the leased lands described therein, of Oil and Gas Lease No. PRC 729.1 dated June 30, 1952. After staff review, staff requested and received an amended quitclaim deed to replace but to be effective as if received on the same date as the original quitclaim deed. The amended quitclaim is attached hereto as Exhibit B.

A review of the Commission's files reveals that no default exists on the Lease, that the lessee has complied with all applicable laws and Lease provisions and has paid all royalties and rentals. No wells are drilled on or into the State's lands. Towne will be retaining one or more oil and gas leases covering privately owned lands in the vicinity of the State lands to which the quitclaim applies. Towne is the operator of two wells located on the oil and gas leases it will be retaining on privately owned land. One well, the Gardiner Improvement #1 (API No. 06720159), has been idle since July 2002 and Towne plans to plug and abandon it within the next few months. Towne is currently producing a minimum amount of natural gas from the Capitol Company D3 well (API No. 06700229) located on the privately owned lands. A portion of the production from these wells was allocated to the State for royalty payment under PRC 729.1. Notwithstanding the surrender of State lease, Towne has submitted a written stipulation that its obligation to pay royalty as provided in the lease on any produced gas from either of these wells shall survive this surrender of lease as an accrued obligation under the lease for as long as either well continues to produce. Towne has also represented to staff that it will seek a new lease with the State, and include the newly leased State lands in a unit where appropriate, if it makes any new discoveries of oil or gas where production will drain State lands.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code, Division 6, Part 2, and Lease Paragraph 5.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

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Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

EXHIBITS:

- A. Location Map
- B. Quitclaim Deed with Legal Description

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

AUTHORIZATION:

1. ACCEPT FROM TOWNE EXPLORATION COMPANY, A CALIFORNIA LIMITED PARTNERSHIP (LESSEE) THE (FULL) QUITCLAIM DEED FOR OIL AND GAS LEASE DATED OCTOBER 10, 2003, WHEREIN THE LESSEE QUITCLAIMS BACK TO THE STATE ALL RIGHT, TITLE AND INTEREST IN THE LEASED LANDS DESCRIBED IN EXHIBIT A, ATTACHED HERETO, OF OIL AND GAS LEASE NO. PRC 729.1, DATED JUNE 30, 1952.
2. RELEASE TOWNE EXPLORATION COMPANY FROM ALL OBLIGATIONS UNDER OIL AND GAS NO. LEASE PRC 729.1 ACCRUING AFTER OCTOBER 18, 2003, THE FILING DATE OF THE QUITCLAIM DEED EXCEPT AS TO ACCRUED OBLIGATIONS THEREUNDER, INCLUDING THE PAYMENT OF ROYALTY ON FUTURE PRODUCTION, IF ANY, FROM THE "CAPITOL COMPANY D3 WELL" AND THE "GARDINER IMPROVEMENT #1 WELL".

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

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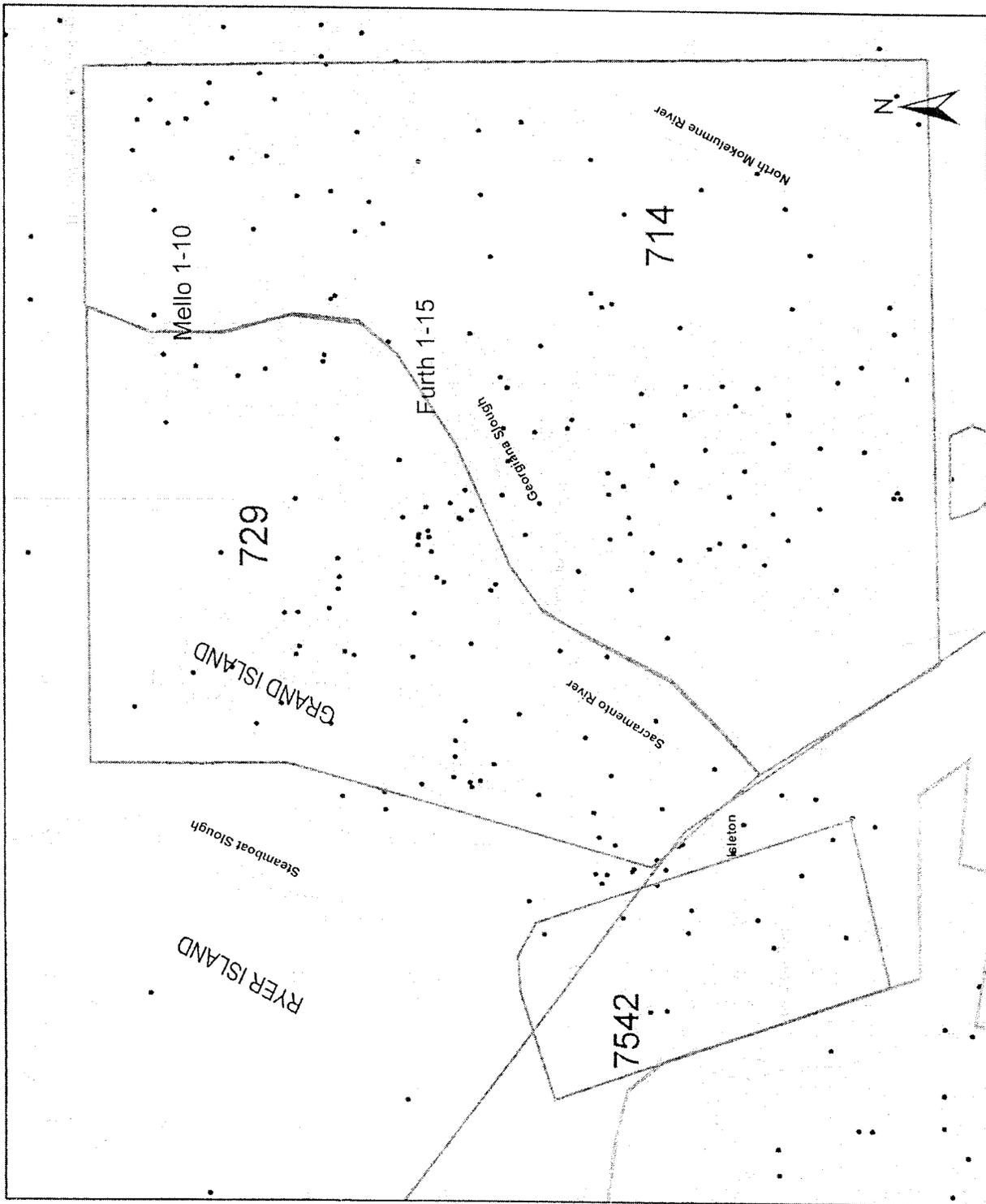
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EXHIBIT A
LOCATION MAP

PRC 729.1



Legend

- Lease outline
- Well
- Rio Vista Gas Unit
- Field outline

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RECORDING REQUESTED BY
AND WHEN RECORDED RETURN TO

STATE OF CALIFORNIA
STATE LANDS COMMISSION
100 HOWE AVENUE, SUITE 100-SOUTH
SACRAMENTO, CA 95825-8202
ATTN: TITLE UNIT

STATE OF CALIFORNIA
OFFICIAL BUSINESS
DOCUMENT ENTITLED TO FREE RECORDATION
PURSUANT TO GOVERNMENT CODE SECTION 27383

SPACE ABOVE THIS LINE FOR RECORDER'S USE

LEASE QUITCLAIM DEED
FOR STATE OIL AND GAS LEASE

State Oil and Gas Lease PRC No. 729.1 (Lease), covering certain State lands in Sacramento County, State of California, was issued by the State of California, acting through the California State Lands Commission (State), on June 30, 1952.

Towne Exploration Company, a California limited partnership (Lessee) is the present holder of the Lease.

Acting in accordance with such terms, the Lessee does hereby release, remise and forever quitclaim unto the State of California all of its right, title and interest in and to the State lands or that portion of the State Lands held by virtue of the Lease, which lands are or portion is described in the attached Exhibit A.

IN WITNESS WHEREOF, this Quitclaim Deed is executed this 9th day of January, 2004, but made effective October 18, 2003.

TOWNE EXPLORATION COMPANY


By: Edward B. Towne, General Partner

EXHIBIT A

All of those tide and submerged lands lying northerly and westerly of a line drawn midway between the centerlines of the existing channels of the Sacramento River and Georgiana Slough within the limits of the following described tract:

Beginning at a point at the southwest corner of Section 31, Township 5 North, Range 4 East, M.D.B.& M., thence east a distance of approximately 18,300 feet to the southeast corner of Section 34, Township 5 North, Range 4 East, M.D.B.& M., thence south a distance of approximately 33,625 feet to a point (on the projection of the east line of Section Section 34, Township 5 North, Range 4 East, M.D.B.& M.), thence west a distance of approximately 18,300 feet to the intersection with the boundary of State Easement No. 415 (this point is also the intersection of the east boundary of State Easement No. 415 and the projection of the west line of Township 5 North, Range 4 East, M.D.B.& M.), thence northwesterly along the boundary line of State Easement No. 415 a distance of approximately 10,700 feet to a point marked Pier 8 U.S.E.D., thence northeasterly a distance of approximately 14,300 feet to a point on the projection of the west line of Township 5 North, Range 4 East, M.D.B.& M, thence north a distance of approximately 10,800 feet to the southwest corner of Section 31, Township 5 North, Range 4 East, M.D.B.& M, being the point of beginning.

ACKNOWLEDGEMENT

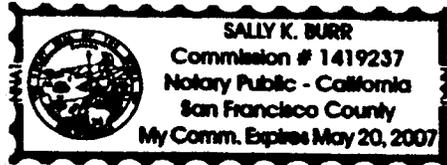
STATE OF CALIFORNIA }
COUNTY OF SAN FRANCISCO } ss.

On this 9th day of JANUARY, 2004, before me, Sally K. Burr, a Notary Public in and for said County and State, personally appeared Edward B. Towne, General Partner, personally known to me, or proved to me on the basis of satisfactory evidence, to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument, the person, or the entity upon behalf of which the person acted executed the instrument.

WITNESS my hand and official seal.

Sally K. Burr

SALLY K. BURR, NOTARY PUBLIC
My commission expires May 20, 2007



STATE OF CALIFORNIA }
COUNTY OF _____ } ss.

On this _____ day of _____, 2004, before, the undersigned, a Notary Public in and for said County and State, personally appeared _____, personally known to me, or proved to me on the basis of satisfactory evidence, to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity (ies), and that by his signature (s) on the instrument, the person(s), or the entity upon behalf of which the person acted executed the instrument.

WITNESS my hand and official seal.

NOTARY PUBLIC
My commission expires _____

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