MINUTE ITEM

This Calendar Item No. C56 was approved as Minute Item No. 56 by the California State Lands Commission by a vote of 3 to 0 at its 04-05-04 meeting.

CALENDAR ITEM
C56

A 8

S 2

PRC 8525

04/05/04
W 40861
J. Planck

CONSIDER APPROVAL OF A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE, CACHE SLOUGH, SOLANO COUNTY

APPLICANTS:

Castle Minerals, Inc.
Attn: Mr. Jeff E. Stiles
45 Main Street
Rio Vista, CA 94571

Calpine Natural Gas, L.P.
Attn: Roxy Blu
Tabor Center
1200 17th Street, Suite 770
Denver, CO 80202

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease is on about 103 acres in the Cache Slough, Solano County, California.

BACKGROUND:

Castle Minerals, Inc. and Calpine Natural Gas, L.P. have submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease on about 103 acres in the Cache Slough, Solano County (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 California State Lands Commission's negotiated subsurface (no surface use) Oil and Gas Lease which would permit Commission-approved directional drilling from a County-approved drill site and would permit inclusion of the leased lands in a Commission-approved pooled area or unit.

On February 9, 2004, Solano County issued conditional permit WD-03-30 for the drilling of the gas well from private property within the vicinity of Cache Slough.

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 Applicants control, by lease and agreements, all of the private property suitable for use as a drill site adjacent to the State land described in Exhibit A, attached hereto, and because the Applicants have County (CEQA 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 (no surface use) Oil and Gas Lease with the Applicants 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.

OTHER PERTINENT INFORMATION:

1. On February 9, 2004, the County of Solano, acting as the Lead Agency under the provisions of the CEQA, determined that the approval and use of the upland drill site and subsequent drilling operations were exempt from the CEQA as a Class 3 Exemption, Minor Alterations to Land. Such exemptions may only be applied where it has been determined that the proposed activity will not have a significant effect on the environment.

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 which have not been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq. However, the Commission has declared that all tide and submerged lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since such declaration of significance is not based upon the requirements and criteria of Public Resources Code sections 6370, et seq., use classifications for such lands have not been designated. Therefore, the finding of the project's consistency with the use classification as required by Title 2, California Code of Regulations, section 2954 is not applicable.

4. The proposed lease will have the following key provisions:

   a. 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.

   b. Annual rental of $40 per acre ($4,120 for approximately 103 acres).

   c. Royalty of 25 percent on gas and oil.

   d. Performance bond or other security in the amount of $10,000.

PERMIT STREAMLINING ACT DEADLINE:
September 17, 2004

EXHIBITS:
A. Land Description
B. Site Map

RECOMMENDED ACTION:
IT IS RECOMMENED THAT THE COMMISSION:

CEQA FINDING:
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).

AUTHORIZATION:

1. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE WITH CASTLE MINERALS, INC., AND CALPINE NATURAL GAS, L.P, EACH AS TO AN UNDIVIDED FIFTY PERCENT (50%) INTEREST. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO, (APPROXIMATELY 103 ACRES), A DRILLING TERM OF THREE YEARS, ANNUAL RENTAL OF $40 PER ACRE ($4,120 FOR APPROXIMATELY 103 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 25 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE AMOUNT OF $10,000.

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

LAND DESCRIPTION

A parcel of tide and submerged land lying within protracted Sections 31 and 32, T5N, R3E, MDM, and protracted Section 5, T4N, R3E, MDM, County of Solano, State of California, more particularly described as follows:

BEGINNING at a point having California Coordinate System 1983, Zone 2 North y-coordinate = 1,848,630.00 feet and East x-coordinate = 6,655,385.00 feet; thence the following four (4) courses:

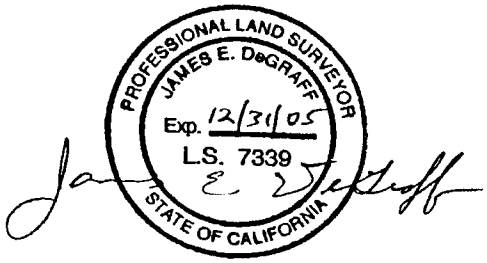
1. N90°00'00"W 4325.00 feet;
2. S24°30'03"E 4593.63 feet;
3. N90°00'00"E 2420.00 feet;
4. N00°00'00"E 4180.00 feet to the point of beginning.

EXCEPTING THEREFROM any portion lying landward of the ordinary high water mark.

This description is based on the California Coordinate System of 1983, Zone 2.

END OF DESCRIPTION

Prepared by the California State Lands Commission Boundary Unit January 15, 2004



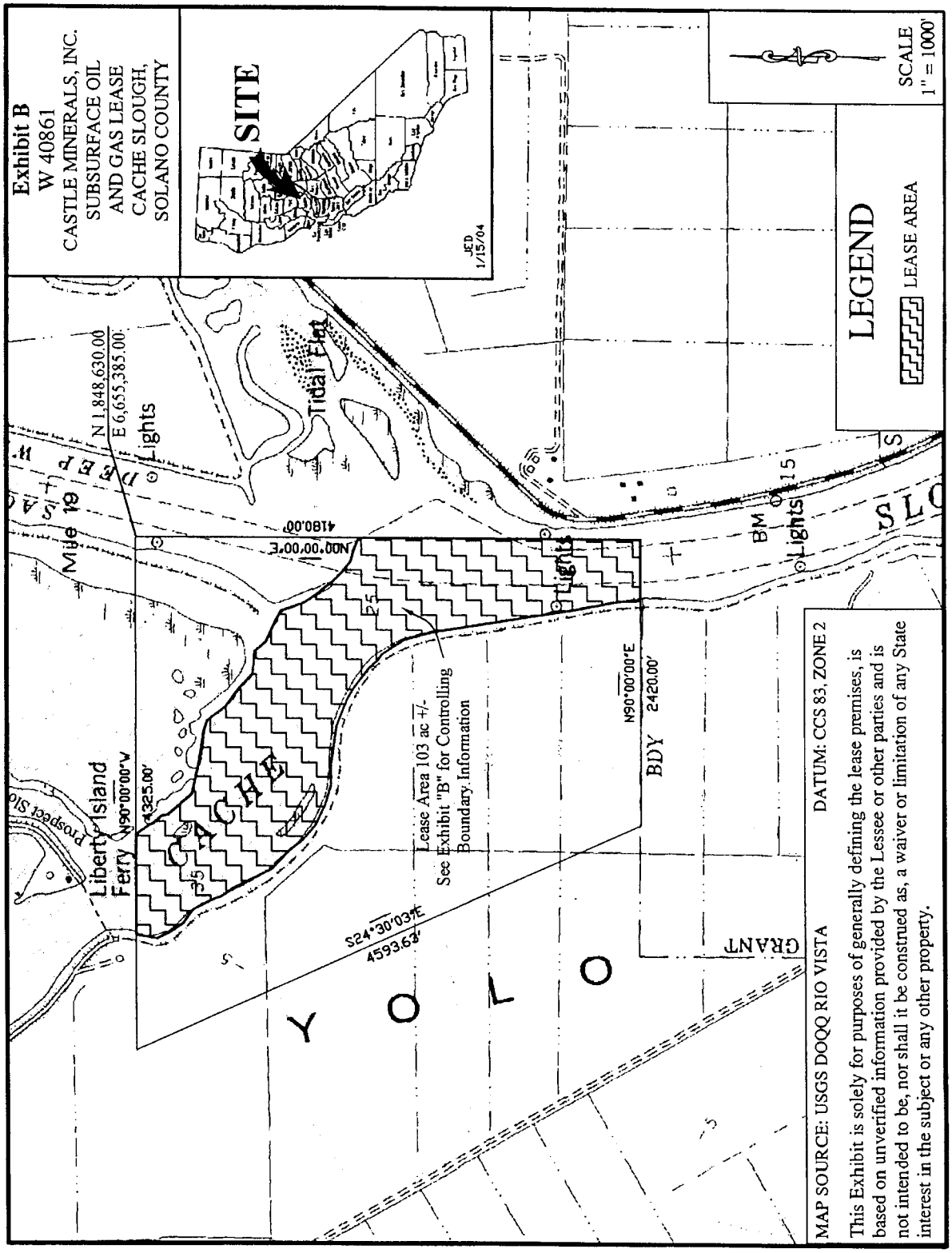


Exhibit B
W 40861
CASTLE MINERALS, INC.
SUBSURFACE OIL
AND GAS LEASE
CACHE SLOUGH,
SOLANO COUNTY
SITE
JED
1/15/04
SCALE
1" = 1000'
LEGEND
LEASE AREA
N 1,848,630.00
E 6,655,385.00
Lights
Tidal Flat
Mile 19
4180.00'
N00°00'00"E
Lights
BM
Lights
Lease Area 103 ac +/-
See Exhibit "B" for Controlling
Boundary Information
N90°00'00"E
2420.00'
BDY
Liberty Island
Ferry
N90°00'00"W
4325.00'
CACHE
S24°30'03"E
4593.63'
GRANT
YOLO
MAP SOURCE: USGS DOQQ RIO VISTA
DATUM: CCS 83, ZONE 2
This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties 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.