MINUTE ITEM
This Calendar Item No. C74 was approved as Minute Item No. 74 by the California State Lands Commission by a vote of 3 to 0 at its 4-26-05 meeting.

CALENDAR ITEM
C74

A 2

S 4

PRC 8604

04/26/05
W 40907
M. LeClair

CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE, SACRAMENTO RIVER, COLUSA AND SUTTER COUNTIES

APPLICANTS:

Matris Exploration Company
2202 Timberloch Place, Suite 230
The Woodlands, TX 77380

Orchard Petroleum, Inc.
56 E. Main Street, Suite 200
Ventura, CA 93301

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease is on about 16.28 acres in the Sacramento River, Colusa and Sutter Counties, California.

BACKGROUND:

Matris Exploration Company (designated lease operator) and Orchard Petroleum, Inc. have submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease on about 16.28 acres in the Sacramento River, Colusa and Sutter 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 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.

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 agreement, all of the private property adjacent to the State land described in Exhibit A, attached hereto, and because the Applicants have 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 (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. 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 as a categorically exempt project. The project is exempt under Class 3, New Construction of Small Structures: Title 14, California Code of Regulations, section 15303.

   Authority: Public Resources Code section 21084 and Title 14, California Code of Regulations, section 15300.

2. 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 state school lands 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.

3. Drilling term of five (5) 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 $20 per acre ($340.00 for approximately 16.28 acres).

5. Royalty of 20 percent on gas and oil.

6. Performance bond or other security in the sum of $10,000.00.

PERMIT STREAMLINING ACT DEADLINE:
June 17, 2005.

EXHIBITS:
A. Land Description
B. Site Map

RECOMMENDED ACTION:
IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:
1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUNT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 AS A CATEGORICALLY EXEMPT PROJECT, CLASS 3, NEW CONSTRUCTION OF SMALL STRUCTURES; TITLE 14, CALIFORNIA CODE OF REGULATION, SECTION 15303.

OTHER FINDING:
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.

AUTHORIZATION:

1. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE WITH MATRIX EXPLORATION COMPANY AND ORCHARD PETROLEUM, INC. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO, (APPROXIMATELY 16.28 ACRES), A DRILLING TERM OF FIVE (5) YEARS, ANNUAL RENTAL OF $20.00 PER ACRE ($340.00 FOR APPROXIMATELY 16.28 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF $10,000.

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

EXHIBIT A **W 40907**

LAND DESCRIPTION

A parcel of submerged land in the bed of the Sacramento River situated in Colusa and Sutter Counties, California, said parcel being more particularly described as follows:

BEGINNING at a point on the right bank of the Sacramento River, from which the Northwest corner of Lot 223 of River Garden Farms Subdivision No.4, as said lot is shown on the official map filed March 3, 1913 in the Colusa County Recorder's Office, in Book 1 of Records of Surveys, at Page 91, bears North 1,205 feet, more or less from said point, thence South along the prolongation of the West line of said Lot 223 to a point on the left bank of the Sacramento River, thence East, northeasterly along the left bank of said river 2,806 feet, more or less to a point that intersect the southeasterly prolongation of the northeasterly line of said Lot 220, thence northwesterly along said line to a point on the left bank of the Sacramento River, thence southwesterly along said bank to the point of beginning.

EXCEPTING THEREFROM any land lying landward of the Ordinary Low Water Mark of said Sacramento River.

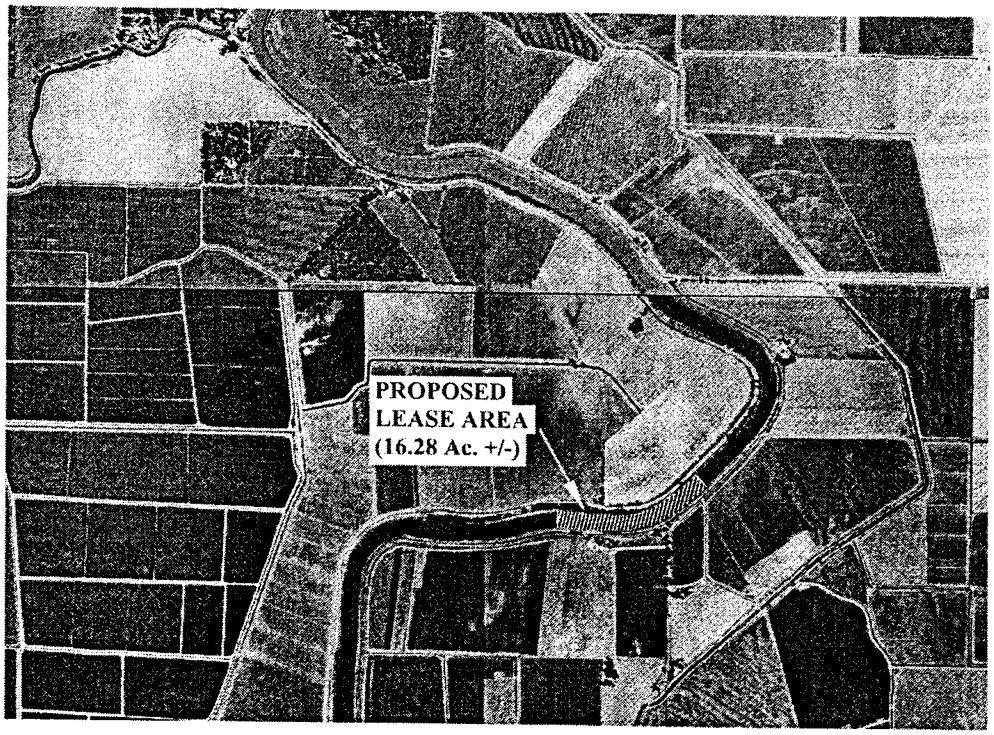
END OF DESCRIPTION

Prepared 3-24-2005 by the Boundary Unit of the California State Lands Commission.

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

NO SCALE

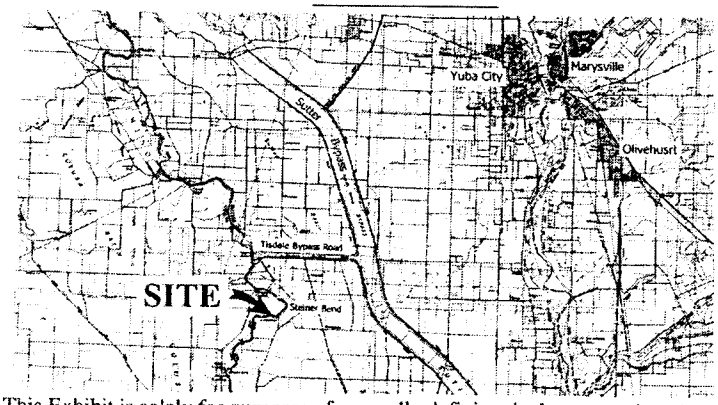
SITE



Proposed Oil and Gas Lease on the
Sacramento River, Southwest of Yuba City

NO SCALE

LOCATION



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.

MAP SOURCE: USGS QUAD

Exhibit B

W 40907
MATRIS
EXPLORATION
OIL AND GAS LEASE
COLUSA AND SUTTER
COUNTIES

RAB 03/05