

MINUTE ITEM
This Calendar Item No. C79 was approved as
Minute Item No. 79 by the California State Lands
Commission by a vote of 3 to 0 at its
4-26-05 meeting.

**CALENDAR ITEM
C79**

A 15

S 5

04/26/05
PRC 8573
M. Le Clair

**CONSIDER AMENDMENT OF THE LEASE DOCUMENTS
TO SHOW THE CORRECT ACREAGE OF THE LEASE AND
CONSENT TO THE POOLING OF THE LEASED LANDS UNDER
NEGOTIATED SUBSURFACE (NO SURFACE USE)
OIL AND GAS LEASE NO. PRC 8573,
GEORGIANA SLOUGH,
SACRAMENTO COUNTY**

LESSEE/OPERATOR:

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

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8573 contains approximately 10.65 acres of tide and submerged lands in the bed of Georgiana Slough in Sacramento County, California.

BACKGROUND:

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8573 (Lease) was entered into on October 6, 2004, between the California State Lands Commission (Commission) and Towne Exploration Company (Lessee). The 'original Exhibit B' (Exhibit A, attached hereto) of the lease listed the leased land as 8.99 acres; recent calculations have shown the correct acreage to be 10.65 acres. There will be no change to the legal description. However, Lessee has agreed to an increase in the rent from the current one hundred and eighty dollars (\$180.00) per year to two hundred and twenty dollars (\$220.00) per year. The royalty and bonding requirements shall remain unchanged. The above changes will be reflected in the 'amended Exhibit B' (Exhibit B, attached hereto) for Lease No PRC 8573.

-1-

000433

CALENDAR PAGE

000779

MINUTE PAGE

CALENDAR ITEM NO. C79 (CONT'D)

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 part of the leased lands with lands held by the Lessee or others.

Towne Exploration Company has drilled and completed the Mello 3-10 well. The well is capable of commercial natural gas production. Lessee has formed an operating unit containing approximately 124.37 acres of State and private leased land (Exhibit C, attached hereto). The proposed unit would be called "Mello 3-10 Unit" and would be created for the development and production of natural gas. The Lessee has requested that the entire 10.65 acres of State land (PRC 8573) be included in the unit. The State's unit share represents approximately 8.56 percent (8.56%) of the unit.

The Lessee has requested that the Commission consent to the pooling of the entire 10.65 acres of leased lands under Oil and Gas Lease No. PRC 8573 by approving Towne Exploration Company's Declaration of Pooling effective December 9, 2004 and the pooling map (Exhibit C, attached hereto). Staff has evaluated the geology and reviewed the proposed unit and has determined that the share of the State's pooled acreage appears to be fair and equitable. Commission staff has determined that it will be economically advantageous to the State to share in the production from the proposed unit

BASIS FOR CONSIDERATION:

- A. Public Resources Code section 6829.2, Public Resources Code section 6832 and Paragraph 22(b) of the Oil and Gas Lease No. PRC 8573.

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.

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

CALENDAR ITEM NO. C79 (CONT'D)

EXHIBITS:

- A. Original Lease Document (Exhibit B of the lease)
- B. Amended Lease Document (Exhibit B of the lease)
- C. Declaration of Pooling effective December 9, 2004
- D. Pooling Map of Mello 3-10 Unit

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

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. AMEND THE LEASE DOCUMENTS TO CORRECT THE ACREAGE OF LEASED LANDS TO BE 10.65 ACRES AND AMEND THE RENTAL TO TWO HUNDRED AND TWENTY DOLLARS (\$220.00) PER YEAR.
2. CONSENT TO THE POOLING OF THE ENTIRE 10.65 ACRES OF LEASED LANDS OF OIL AND GAS LEASE NO. PRC 8573 WITH PRIVATE LANDS HELD BY TOWNE EXPLORATION COMPANY AND APPROVE TOWNE EXPLORATION COMPANY'S DECLARATION OF POOLING EFFECTIVE DECEMBER 9, 2004, WHICH CREATES THE MELLO 3-10 UNIT DESCRIBED IN EXHIBIT C, ATTACHED HERETO, THE UNITIZED LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF OIL AND GAS LEASE NO. PRC 8573, ANY CONDITIONS IN THE DECLARATION OF POOLING TO THE CONTRARY NOTWITHSTANDING.

**EXHIBIT A
ORIGINAL LEASE DOCUMENT**

**LEASE PRC 8573
EXHIBIT B
RENTAL, ROYALTY PERCENTAGE AND BOND REQUIREMENTS**

1. RENTAL

The annual rental for this lease shall be twenty dollars (\$20.00) per acre or fraction of an acre for a total of two hundred and twenty dollars (\$180.00) for approximately 8.99 acres.

2. ROYALTY PERCENTAGE

The royalty percentage on gas substances shall be fixed at twenty percent (20%). The royalty percentage on oil shall be fixed at twenty percent (20%).

3. BOND

The performance bond or other security to be furnished and maintained by the Lessee shall be in the sum of ten thousand dollars (\$ 10,000.00). The State may review, from time to time, the sufficiency of the bond and modify its amount and its terms as it deems necessary to ensure performance by the Lessee of all of the covenants and obligations under this lease.

**EXHIBIT B
AMENDED LEASE DOCUMENT**

**LEASE PRC 8573
EXHIBIT B
RENTAL, ROYALTY PERCENTAGE AND BOND REQUIREMENTS**

1. RENTAL

The annual rental for this lease shall be twenty dollars (\$20.00) per acre or fraction of an acre for a total of two hundred and twenty dollars (\$220.00) for approximately 10.65 acres.

2. ROYALTY PERCENTAGE

The royalty percentage on gas substances shall be fixed at twenty percent (20%). The royalty percentage on oil shall be fixed at twenty percent (20%).

3. BOND

The performance bond or other security to be furnished and maintained by the Lessee shall be in the sum of ten thousand dollars (\$ 10,000.00). The State may review, from time to time, the sufficiency of the bond and modify its amount and its terms as it deems necessary to ensure performance by the Lessee of all of the covenants and obligations under this lease.

EXHIBIT C

Recording Requested by and
when recorded return to:

Towne Exploration Company
582 Market Street, Suite 515
San Francisco, CA 94104

**Declaration of Pooling
Mello 3-10 Unit
Sacramento County, California**

THIS DECLARATION OF POOLING, is made and declared effective December 9, 2004, by Towne Exploration Company, a California limited partnership, hereinafter called "Towne".

WITNESSETH:

THAT WHEREAS, Towne is the Lessee under those certain Oil, Gas and Mineral Leases described on Exhibit "A" herein and by reference made a part hereof ("said Leases");

WHEREAS, said leases cover lands within the area outlined on the plat on Exhibit "A, covering 124.37 acres, more or less;

WHEREAS, pursuant to the terms and provisions of said Leases, Towne desires to create a pooled unit for the production and development of gas, gas distillate or condensate and all liquid hydrocarbons, except oil, therefrom;

NOW THEREFORE, Towne hereby exercises the right to pool and combine said Leases so as to form in accordance with the terms and provisions contained therein, an operating unit for the production and development of gas, gas distillate or condensate and all liquid hydrocarbons, except oil therefrom.

IN WITNESS WHEREOF, Towne Exploration Company makes this Declaration of Pooling effective _____, 2005.

TOWNE EXPLORATION COMPANY

By: _____
Edward B. Towne, General Partner

000438
CALENDAR PAGE

000731
MINUTE PAGE

EXHIBIT "A"

Attached to that certain Declaration of Pooling for the Mello Farms 3-10 Unit

1. Oil, Gas and Mineral Lease by and between Mello Farms Inc., Lessor, and Towne Exploration Company, a California limited partnership, Lessee, dated August 4, 2004 , a Memorandum of which was recorded on August 18, 2004 in Book 20040818 Page 2635 in the Official Records of Sacramento County, California, insofar as said lease covers the following described lands, to wit;

That portion of Swamp and Overflowed Land Survey No. 340, in the County of Sacramento and State of California, described as follows

Beginning at the Northeasterly corner of Swamp and Overflowed Land Survey No. 571, located on the West or right bank of Georgiana Slough, on Andrus Island in the County of Sacramento and State of California, thence South 69° East 250 feet, more or less to the East bank of said Georgiana Slough and the TRUE POINT OF BEGINNING for the lands described herein; thence from said TRUE POINT OF BEGINNING, South 69° East 437.00 feet; thence South 12° 46' 38" East 1962.27 feet, to the Southerly line of the land conveyed to Mello Farms, Inc., a corporation, in Deed Recorded April 8, 1993 in Book 930408, page 154 of Official Records; thence, along said Southerly line, North 89° 24' West 640.61 feet to a point on the Easterly high water line of Georgiana Slough; thence upstream along said high water line following the meanderings thereof to the TRUE POINT OF BEGINNING, containing 28.39 acres, more or less;

2. Oil and Gas Lease between the State of California, Lessor, and Towne Exploration Company, a California limited partnership, Lessee, State Serial Number PRC 8573, dated and effective October 6, 2004, covering lands more particularly described as follows:

That certain parcel of land lying within Georgiana Slough, in unincorporated area in the County of Sacramento and State of California, more particularly described as follows:

Beginning at a point on the Westerly bank of said Georgiana Slough at the Northeast corner of Swamp and Overflowed Land Survey No. 571 of said County and State; thence South 69° East, along the Easterly prolongation of the North line of said Survey, a distance of 250 feet, more or less, to the Easterly bank of said Slough and the Westerly line of Swamp and Overflowed Land Survey No. 340, of said County and State; thence Southerly, along said Easterly bank of Georgiana Slough and the Westerly line of said Survey No. 340, a distance of 1924.61 feet, to the Southwesterly corner of said Swamp Land Survey 340; thence North 69° West 250 feet, more or less, to a point on the Westerly bank of said Slough and the Easterly line of said Survey No. 571; Thence Northerly along said Westerly bank 1924 feet, more or less, to the point of beginning, containing 10.35 acres, more or less;

EXCEPTING THEREFROM, that portion of said land lying landward of the ordinary high water mark of said Georgiana Slough.

000439
CALENDAR PAGE

000795
MINUTE PAGE

3. Oil, Gas and Mineral Lease between Patricia Hinkle Mehosky and Dorothy Hinkle Uhlig, Individually and as Successor Co-Trustees of The Hinwick Trust as Designated Under the Will of Edward Harbison Hinkle, Deceased, Lessor, and Towne Exploration Company, a California limited partnership Lessee, dated March 15, 2004, a Memorandum of which was recorded on May 25, 2004 in Book 20040525 at Page 1108 in the Official Records of Sacramento County, California, covering the following described lands:.

A strip of land 75 feet in width lying contiguous to the right bank of Georgiana Slough and along the entire Easterly boundary of Swamp Land Survey No. 571, located on Andrus Island, said Survey No. 571 being more particularly described in the field survey thereof, as follows:

Beginning at a stake on the West bank of Georgiana Slough marked Altermatt, said stake is the corner of Survey No. 358; thence meander down stream South 18° 45' West 10.00 chains; South 2° 45' East 10.89 chains; South 15° East 9.00 chains to a stake at the Northeast corner of Survey No. 360; thence North 87° 15' West 32.99 chains to the quarter Section line; thence North with said line 40.23 chains to the Southwest corner of Survey No. 358; thence South 69° East 35.68 chains to the place of beginning, containing 3.57 acres, more or less;

4. Oil, Gas and Mineral Lease between Edward B. Towne, a single man, as Lessor, and Towne Exploration Company, a California limited partnership, Lessee, dated October 28, 2004, a Memorandum of which was recorded on November 2, 2004 in Book 20041102 at Page 2232 in the Official Records of Sacramento County, California, insofar as said lease covers the following described lands, to wit:

Swamp Land Survey No. 571, located on Andrus Island, and lying within projected Sections 9, 10, 15 and 16 of Township 4 North, Range 4 East, M.D.B. & M., and more particularly described in the field survey thereof, as follows:

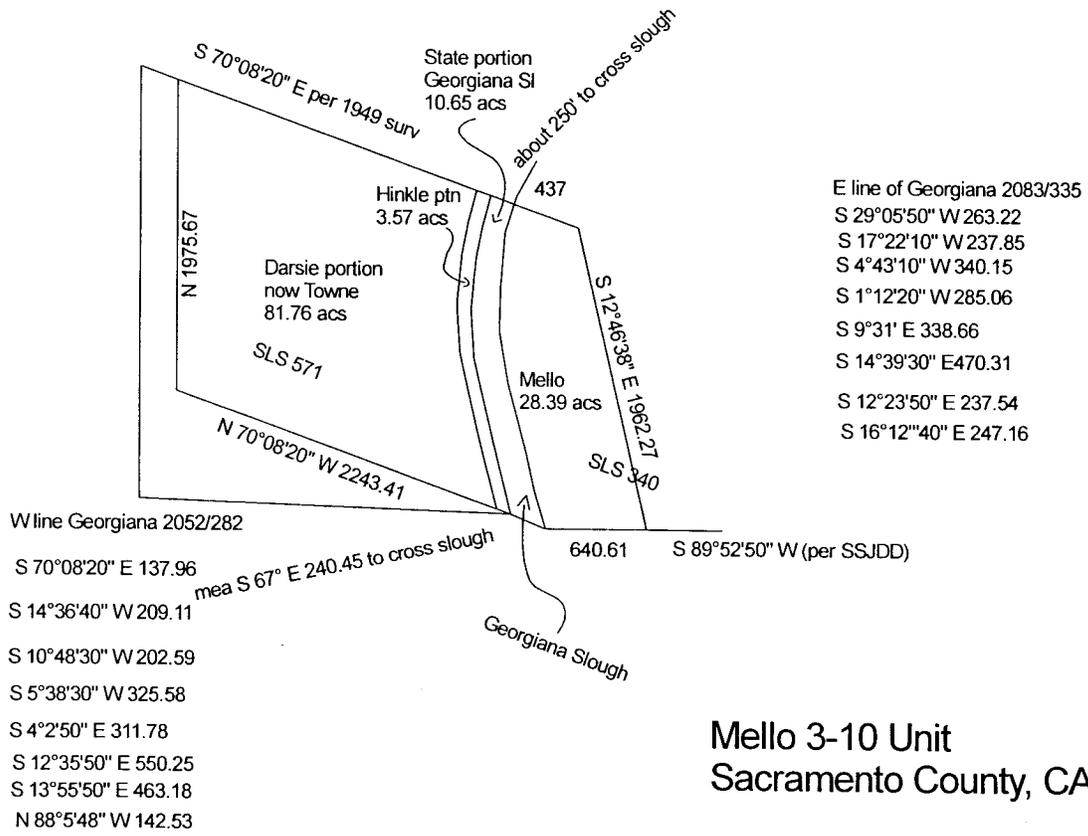
Beginning at a stake on the West bank of Georgiana Slough marked Altermatt, said stake is the corner of Survey No. 358; thence meander down stream South 18° 45' West 10.00 chains; South 2° 45' East 10.89 chains; South 15° East 9.00 chains to a stake at the Northeast corner of Survey No. 360; thence North 87° 15' West 32.99 chains to the quarter Section line; thence North with said line 40.23 chains to the Southwest corner of Survey No. 358; thence South 69° East 35.68 chains to the place of beginning, containing 82.06 acres, more or less.

EXCEPTING THEREFROM, that portion of said land lying Southwesterly and Westerly of a line which begins at the most Southerly corner of said land and extends North 70° 08' 20" West 2243.41 feet and thence North 1975.67 feet to a point on the Northerly line of said land.

ALSO EXCEPTING THEREFROM that certain strip of land 75 feet in width lying contiguous to the right bank of Georgiana Slough and along the entire Easterly boundary of said survey.

Mello 3-10 Unit

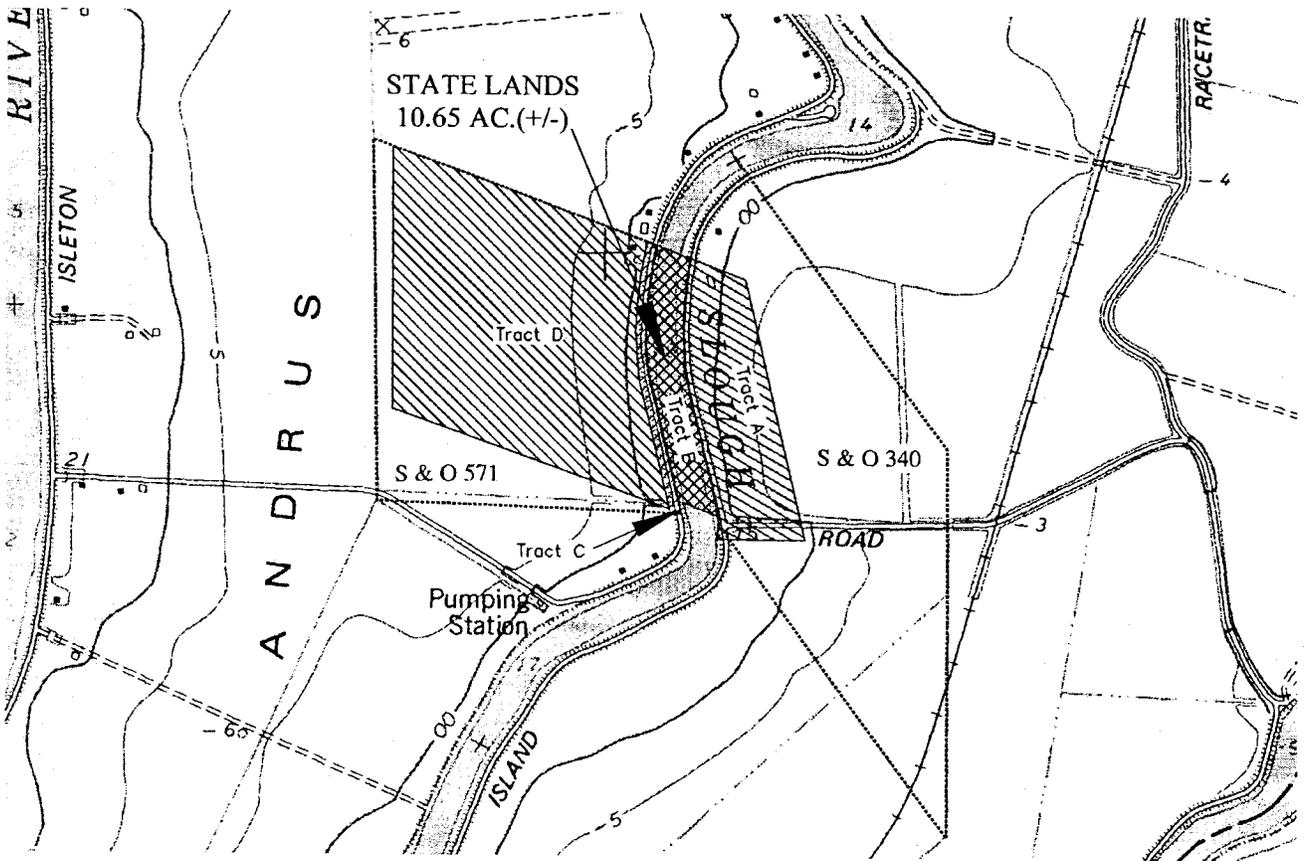
Lessor	Acres	Percent
Mello Farms, Inc	28.39	22.827%
State of California PRC 8573	10.65	8.563%
Hinwick Trust u/w E Hinkle	3.57	2.870%
Edward B. Towne	81.76	65.740%
Total	124.37	100%



**Mello 3-10 Unit
Sacramento County, CA**

NO SCALE

SITE



PROPOSED 124.37 ACRES (+/-) POOL AREA
 GEORGIANA SLOUGH, APN 156-020-012 and 156-020-024

NO SCALE

LOCATION

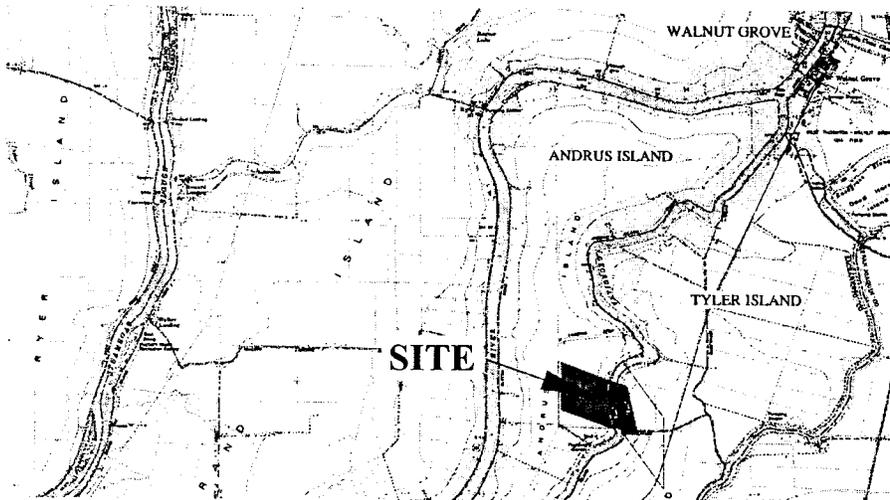


Exhibit D
 PRC 8573
 TOWNE EXPLORATION
 COMPANY
 OIL AND GAS LEASE
 SACRAMENTO COUNTY



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

RAB 02/05

000442

CALENDAR PAGE

000788

MINUTE PAGE