

MINUTE ITEM
This Calendar Item No. C46 was approved as
Minute Item No. 46 by the California State Lands
Commission by a vote of 3 to 0 at its
6-20-05 meeting.

**CALENDAR ITEM
C46**

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S 4, 5

PRC 8619

06/20/05
W 40909
M. LeClair

**CONSENT TO THE POOLING OF THE LEASED LANDS
UNDER OIL AND GAS LEASE NO. PRC 8349 AND LEASE NO. E-415.1,
GEORGIANA SLOUGH AND MOKELUMNE RIVER,
SACRAMENTO AND SAN JOAQUIN COUNTIES**

LESSEE/OPERATOR:

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

Calpine Natural Gas Company
Attn.: Roxy Blu
1200 17th Street, Suite 770
Denver, CO 80202

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8349 and Lease No. E-415.1 contain approximately 58.59 acres and 2,827 acres respectively of tide and submerged lands in the beds of Georgiana Slough and the Mokelumne River in Sacramento and San Joaquin Counties, California.

BACKGROUND:

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8349 (Lease) was entered into on November 8, 2001, between the California State Lands Commission (Commission) and Towne Exploration Company (Towne). Easement 415.1 was issued to Standard Oil Company of California on June 3, 1940. A gas lease between the Commission and Standard Oil Company of California was issued in exchange for Easement 415.1, effective December 20, 1963. Through a series of assignments, the present lessee of Lease No. E-415.1 is Calpine Natural Gas Company (Calpine). Paragraph 22(b) of Lease

-1-

000232
CALENDAR PAGE

001091
MINUTE PAGE

CALENDAR ITEM NO. C46 (CONT'D)

No. PRC 8349 and Paragraph 2 of Lease No. E-415.1 allow the lessee(s), 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 has drilled the Tyler Island 5-2 well from a location on Lease No. PRC 8349 and completed it under Lease No. E-415.1. The well is capable of commercial natural gas production. Towne and Calpine have formed an operating unit that contains a total of 27.747 acres of State and private leased lands (described in Exhibit A, attached hereto). This unit is called the "Tyler Island Farms 5-2 Unit" and was created for the development and production of natural gas. Towne and Calpine have requested that the Commission consent to the pooling of 9.351 acres of leased lands under Oil and Gas Lease No. PRC 8349 and 9.888 acres of leased lands under Lease No. E-415.1 by approving Towne's Declaration of Pooling, and pooling map, dated March 1, 2005, which will be called the "Tyler Island Farms 5-2 Unit." The State's unit share which includes a combined 19.239 acres represents approximately 69.337 percent (69.337%) of the Unit. .

The "Tyler Island Farms 5-2 Unit" will contain portions of two separate State leases with different royalty rates. The Lessee will be responsible for making payments for the share of the pool in each lease in accordance with the terms of the applicable lease.

Gas Lease No. PRC 8349 has a fixed rate of 20 percent (20%) on all gas substances and a fixed rate of 20 percent (20%) on all oil.

Lease No. E-415.1 requires the following payments:

- A) As a minimum, a sum representing the "market value" of thirty (30) percent of all gas produced from the State lands during the preceding calendar month;
- B) An additional sum equal to the amount by which fifty-one percent (51%) of the cumulative "net profits" derived from the operations in State lands up to the end of such calendar month exceeds the aggregate of:

CALENDAR ITEM NO. C46 (CONT'D)

- 1) All sums previously paid to the State, plus
- 2) The minimum amount currently payable to the State.

Production for the month of March 2005 for the "Tyler Island Farms 5-2" well was 21,084 MCF, and the leases paid an estimated royalty of \$8,228.83 for the portion Gas Lease PRC 8349 and \$22,188.54 for the portion allocated to Lease PRC 415.1, for a total of \$30,417.37. These royalty numbers were estimated by Towne based on the acreage proposed to be unitized.

Commission 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.

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 8349.

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.

EXHIBITS:

- A. Declaration of Pooling dated March 1, 2005
- B. Location Map of negotiated subsurface Oil and Gas Lease No. PRC 8349 and Lease No. E-415.1

PERMIT STREAMLINING ACT DEADLINE:

N/A

CALENDAR ITEM NO. C46 (CONT'D)

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:

CONSENT TO THE POOLING OF THE LEASED LANDS (19.239 ACRES UNDER OIL AND GAS LEASE NO. PRC 8349 and LEASE NO. E-415.1) WITH PRIVATE LANDS HELD BY TOWNE EXPLORATION COMPANY AND CALPINE NATURAL GAS COMPANY. CONSENT IS GIVEN BY APPROVING TOWNE'S DECLARATION OF POOLING DATED MARCH 1, 2005, WHICH CREATES THE "TYLER ISLAND FARMS 5-2" UNIT " DESCRIBED IN EXHIBIT A, ATTACHED HERETO (APPROXIMATELY 27.747 ACRES, INCLUDING 19.239 ACRES OF LEASED LANDS UNDER OIL AND GAS LEASE NO. PRC 8349 AND GAS LEASE E-415.1). THE UNITIZED LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF OIL AND GAS LEASE NO. PRC 8349 AND LEASE NO. E-415.1, ANY CONDITIONS IN THE DECLARATION OF POOLING TO THE CONTRARY NOTWITHSTANDING.

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

Exhibit A

RECORDING REQUESTED BY
AND WHEN RECORDED RETURN TO
TOWNE EXPLORATION COMPANY
582 MARKET STREET, SUITE 515
SAN FRANCISCO, CA 94104

(AGREEMENT/DECLARATION)

DECLARATION OF POOLING

TYLER ISLAND FARMS 5-2 UNIT

000236
CALENDAR PAGE

001033
MINUTE PAGE

DECLARATION OF POOLING

KNOW ALL MEN BY THESE PRESENTS:

TOWNE EXPLORATION COMPANY, a California limited partnership, hereinafter referred to as "Towne", is the present owner of the Lessee's interests in, to and under the following Oil and Gas Leases ("Towne Leases"):

1. Oil, Gas and Mineral Lease dated November 22, 2000 recorded in the Official Records of Sacramento County August 21, 2001 in Book 20010821 at Page 0509, between Tyler Island Farms, a Corporation, Lessor, and Towne Exploration Company, a California limited partnership, Lessee, covering lands more particularly described therein ("TIF Lease");

2. State Oil and Gas Lease made effective November 8, 2001, between the State of California, acting through the State Lands Commission, and Towne Exploration Company as Lessee, identified as State Oil and Gas Lease PRC 8349, covering lands more particularly described therein ("State Lease");

3. Oil, Gas and Mineral Lease dated , a Short Form of which was recorded in the Official Records of Sacramento County , between Edward B. Towne, Lessor, and Towne Exploration Company, Lessee, covering lands more particularly described therein;

CALPINE CORPORATION, a California corporation, ("Calpine") is the present owner of the Lessee's interests in, to and under the following Oil and Gas Lease ("Calpine Lease"):

That certain Gas Lease issued in Exchange for Gas Lease Easement No. 415.1 entered into December 20, 1963 by and between the State of California, acting by and through the State Lands Commission, as "State", and Standard Oil Company of California, a Delaware corporation, as "Lessee", covering lands more particularly described therein;

WHEREAS, the Towne and Calpine Leases cover land situated in Sacramento County, California, the particular parcel or parcels covered by said leases being particularly described therein;

WHEREAS, by consent or by virtue of the provisions of each of said leases, the Lessee therein has the right to combine all or any part of the land covered thereby with other lands so as to form one or more operating units upon certain terms and conditions; and

WHEREAS, Towne and Calpine deem it advisable to pool and combine certain of the lands covered by said leases in order to operate the premises for exploration for and production therefrom of natural gas and associated hydrocarbons substances;

NOW THEREFORE, Towne and Calpine, each to the extent of its interests in said leases or any of them and by virtue and in exercise of rights thereunder, hereby consolidate, pool, unitize and combine each and every of said leases into an operating unit for exploration for and production of natural gas and associated hydrocarbon substances comprised of said lands **insofar and only insofar as** the same cover those lands bounded and described as set out in Exhibit "A" attached hereto and incorporated herein by reference; **insofar and only insofar as** the same lies between those depths lying between 5,300 feet and the total depth drilled as encountered in the Towne Exploration Company Tyler Island Farms 5-2 Well; **and excluding** that portion of the described 5-2 Unit lying within the previously formed Tyler Island Farms 5-1, insofar as the same lies from the surface to a depth of 5,300 feet, and below the total depth drilled in the Tyler Island Farms 5-2 Well.

IN WITNESS WHEREOF, Towne and Calpine respectively have executed this Declaration of Pooling as of the dates set forth below.

TOWNE EXPLORATION COMPANY

CALPINE CORPORATION

By: Edward B. Towne, General Partner

By: _____

Dated: _____

Dated: _____

000238

CALENDAR PAGE

001180

MINUTE PAGE

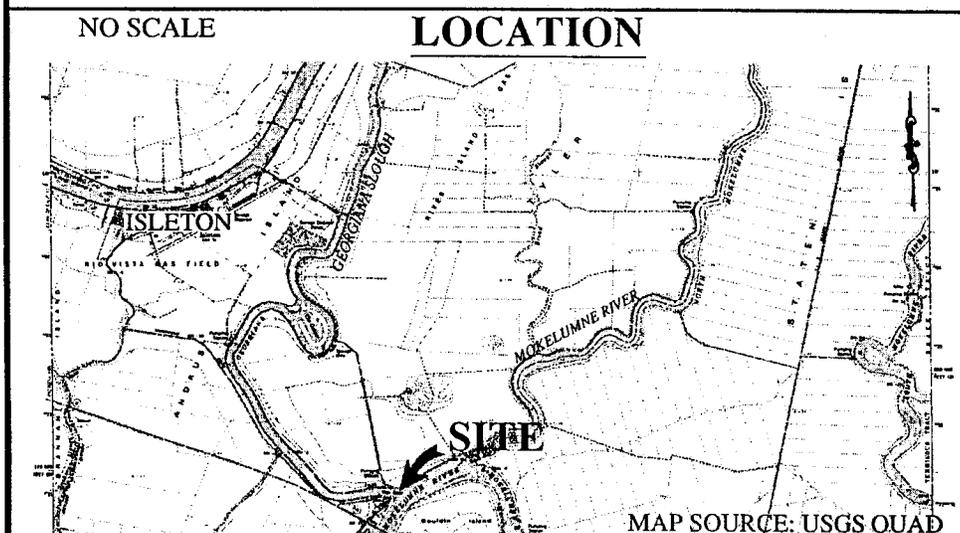
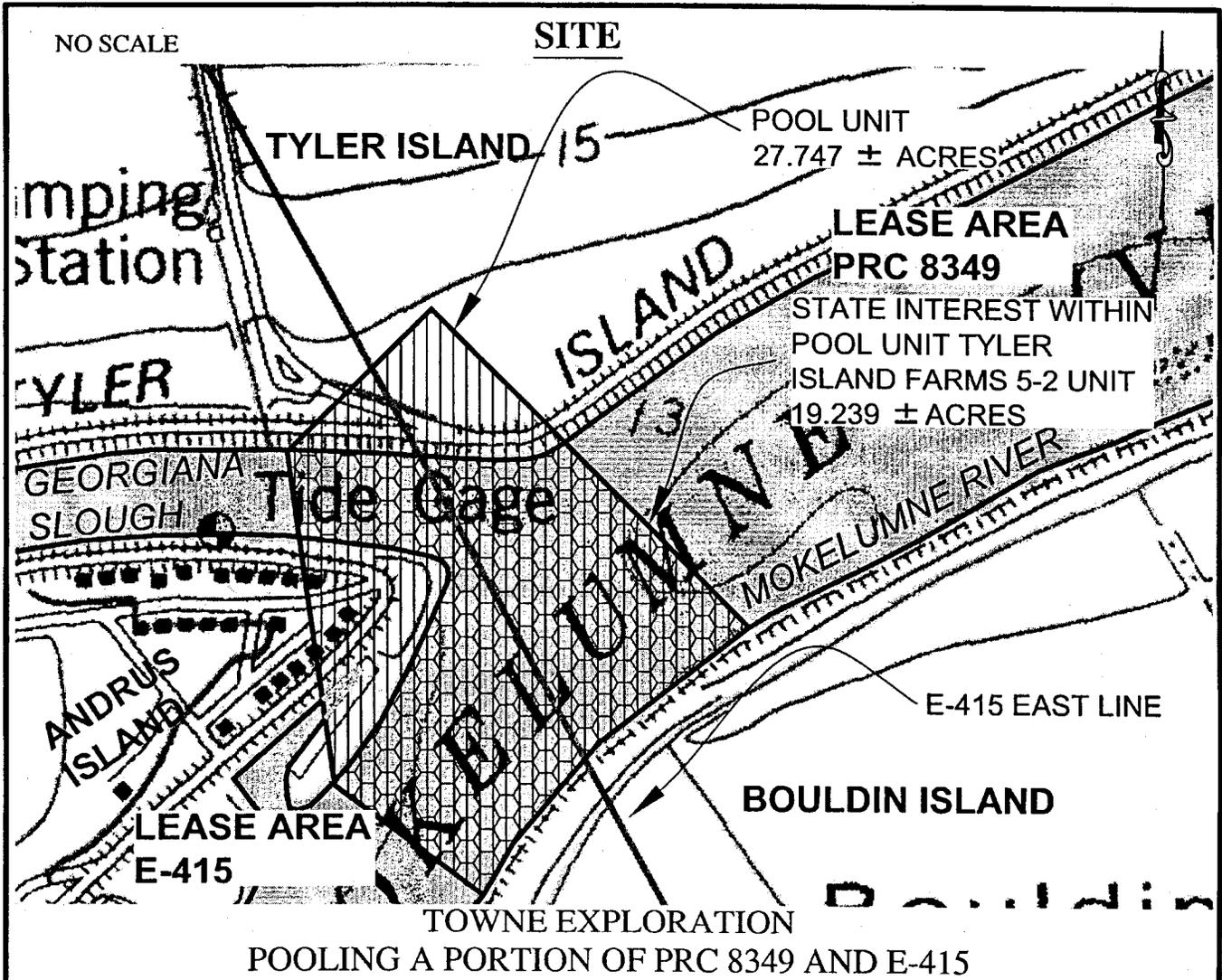


Exhibit B
 PRC 8349/E-415
 OIL & GAS LEASE
 SACRAMENTO & SAN
 JOAQUIN COUNTIES



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.