

This Calendar Item No. C65 was approved as Minute Item No. 65 by the California State Lands Commission by a vote of 3 to 0 at its 4-17-06 meeting.

**CALENDAR ITEM
C65**

A 15

04/17/06

S 5

W 40920

J. L. Smith

**CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE
(NO SURFACE USE) OIL AND GAS LEASE,
MOKELUMNE RIVER,
SACRAMENTO AND SAN JOAQUIN COUNTIES**

APPLICANT:

Towne Exploration Company
Attn.: Mr. Clifford L. Conkle, Agent
P. O. Box 520
San Francisco, CA 94104-0520

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease is on about 5.13 acres in the Mokelumne River, Sacramento and San Joaquin counties, California.

BACKGROUND:

Towne Exploration Company (Towne) has submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease on about 5.13 acres in the Mokelumne River, Sacramento and San Joaquin 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.

In addition to the right to prospect for, drill for, produce and take oil, gas and other hydrocarbon substances from the leased lands, Towne is requesting a non-exclusive right of way to drill one or more "pass-through" well(s) into and through the lease lands. A "pass-through well" is a well that is drilled through the leased lands and produced from an interval in the reservoir not closer to the

CALENDAR ITEM NO. C65 (CONT'D)

lease lands than 1,489 feet, provided however, that a pass-through well may produce from an interval within 1,489 feet of the leased lands with the written consent of the State, upon a determination by the State that a closer production interval will not subject the State land to uncompensated drainage of oil or gas. As consideration for the Pass-Through Agreement, the State would be compensated by the payment of an overriding royalty in the amount of four percent (4%) of all production from the pass-through well(s).

Towne has acquired two private upland oil and gas leases lying adjacent to a portion of the lands in the proposed Lease. Towne intends to drill a well, designated as the "TEC Shark" well. This proposed well will be drilled from a surface location northwest of the Mokelumne River. The well will be directionally drilled southwest, passing through State sovereign land under the river and bottom under Stanton Island on their limited surface use Pacific Realty Associates, L.P. lease.

Under the terms of the proposed negotiated subsurface (no surface use) Oil and Gas Lease, the Lessee is required to pay an annual rental of \$35.00 per net acre (\$180.00 for 5.13 acres) and to commence drilling operations on the leased lands within three years.

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 Applicant controls, by lease and agreement, all of the private property adjacent to the State land described in Exhibit A, attached hereto, and because the Applicant has Sacramento 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 Applicant 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 it is in the economic best interest of the State to allow Towne to develop natural gas reserves unreachable except from proposed wells drilled on the adjacent private property that may drain State oil and gas resources.

CALENDAR ITEM NO. C65 (CONT'D)

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 4, Minor Alterations To Land; Title 14, California Code of Regulations, section 15304.

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

2. This activity affects the subsurface only, but the surface lands have been identified as possessing significant environmental values pursuant to Public Resources Code section 6370, et seq. Based upon the staff's consultation with the persons nominating such lands and through the CEQA review process, it is the staff's opinion that the project, as proposed, is consistent with its use classification.
3. Drilling term of three (3) 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 \$35 per acre (\$180 for approximately 5.13 acres).
5. Royalty of 20 percent on gas and oil.
6. Performance bond or other security in the sum of \$10,000.

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

CALENDAR ITEM NO. C65 (CONT'D)

REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 AS A CATEGORICALLY EXEMPT PROJECT, CLASS 4, MINOR ALTERATIONS TO LAND; TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15304.

2. FIND THAT THIS ACTIVITY IS CONSISTANT WITH THE USE CLASSIFICATION DESIGNATED BY THE COMMISSION FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

OTHER FINDINGS:

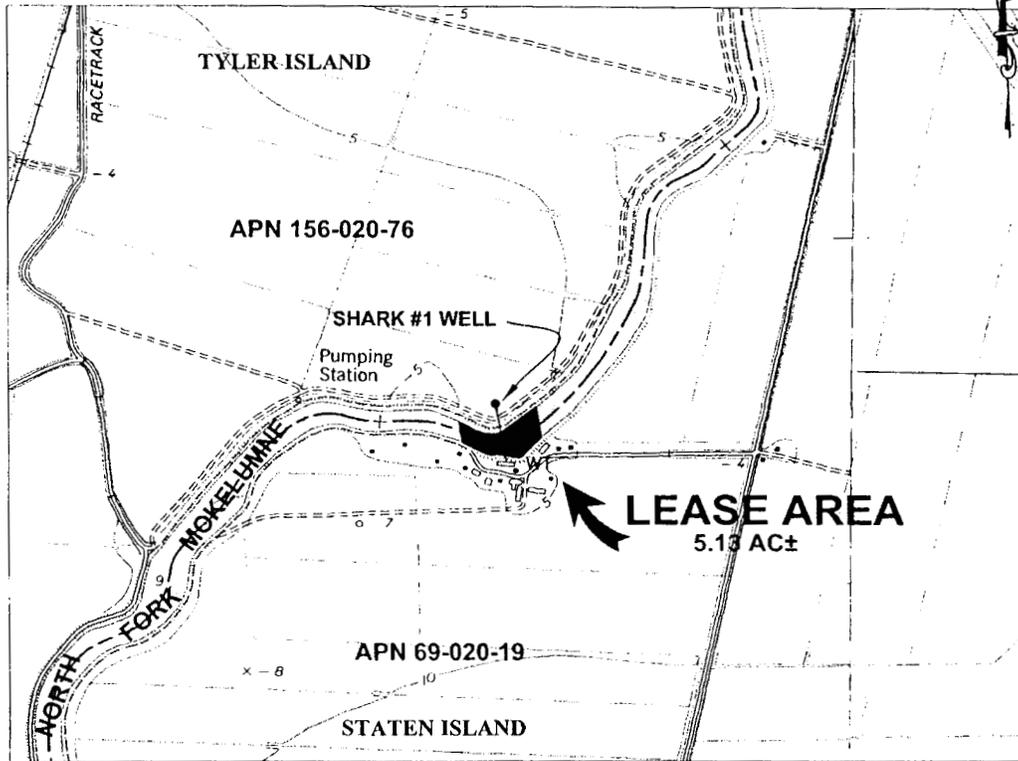
1. DETERMINE THAT THE CRITERIA OF PUBLIC RESOURCES CODE SECTION 6815(a) HAVE BEEN MET, THAT A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE IS THE BEST INSTRUMENT TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO, AND THAT 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 TOWNE EXPLORATION COMPANY. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO, (APPROXIMATELY 5.13 ACRES), A DRILLING TERM OF THREE (3) YEARS, ANNUAL RENTAL OF \$35.00 PER ACRE (\$180 FOR APPROXIMATELY 5.13 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.

NO SCALE

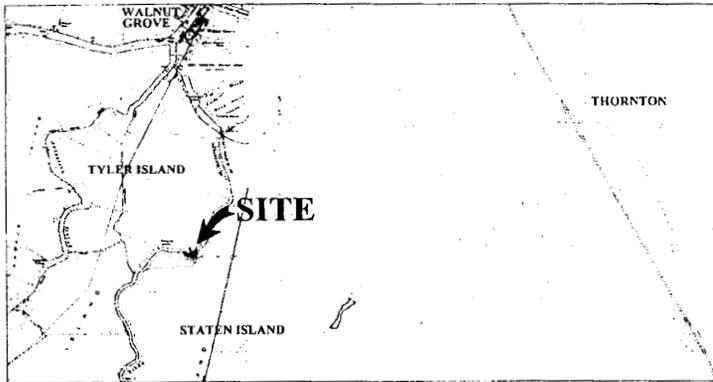
SITE



TYLER AND STATEN ISLAND
NORTH FORK OF THE MOKELUMNE RIVER

NO SCALE

LOCATION



MAP SOURCE: USGS QUAD

Exhibit A

W 40920
OIL AND GAS LEASE
TOWNE EXPLORATION
MOKELUMNE RIVER
SACRAMENTO CO
SAN JOAQUIN CO.



SCL 3-13-06

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.

000359

CALENDAR PAGE

000919

MINUTE PAGE

EXHIBIT B

W40920

LAND DESCRIPTION

A 800 feet wide strip of tide and submerged land in the bed of the North Fork of the Mokelumne River situated in Sacramento and San Joaquin Counties, California, adjacent to those parcels of land as described in Oil, Gas and Mineral Lease on Tyler Island recorded in document number 200602101376 Sacramento County Records and Oil, Gas and Mineral Lease on Staten Island recorded in document number 2005-174721 San Joaquin County Records, the centerline of said strip described as follows:

Beginning at a point on Tyler Island having a CCS 83, Zone 3 coordinates of North = 2262239 feet, East = 6270450 feet, thence across the North Fork of the Mokelumne River South 09°55'40" East, 606 feet more or less to a point on Staten Island also being the left bank of said River.

The sidelines of said strip shall be extended or shortened at the right and left ordinary high water marks within said River

END OF DESCRIPTION

