

**CALENDAR ITEM
C58**

A 15

06/01/09
PRC 2839.1
E 412.1
M. Hamilton

S 5

**CONSIDER QUITCLAIM OF
COMPENSATORY AGREEMENT EASEMENT 412.1,
MCDONALD ISLAND GAS FIELD AREA,
SAN JOAQUIN COUNTY**

OPERATOR:

Pacific Gas and Electric Company
Technical & Land Services
Attn.: Mr. Bob Jones
P.O. Box 930
Stockton, CA 95201

SUMMARY:

McDonald Island is located about ten miles west of the City of Stockton in San Joaquin County. In the 1930s, the McDonald Island Gas Field was discovered by Standard Oil Company of California. On March 1, 1940, the California State Lands Commission (Commission) entered into Compensatory Agreement Easement 412.1 with Standard Oil Company of California for the payment of royalty on natural gas removed (drained) from beneath sovereign State lands (a portion of Whiskey Slough) located on McDonald Island. Compensatory Agreement Easement 412.1 only allowed for the payment of royalty on the State's share of native gas withdrawn from the McDonald Island Gas Field. It does not allow for any use of the State lands (surface or subsurface), nor does it allow for any mineral development of, or entitlement to, the State lands.

In March 1958, after producing over 150 billion cubic feet of natural gas, the reservoir pressure of the McDonald Island Gas Field declined to a point where wells no longer could be produced without compression. Consequently, the McDonald Island Gas Field was shut-in and no more native gas was produced. In April 1958, Pacific Gas and Electric Company (PG&E) began injecting natural gas into the McDonald Island Sand (Eocene series gas sand located within the McDonald Island Gas Field) to test its capability as an underground gas storage reservoir. After determining that the partially depleted formation could be used to

CALENDAR ITEM NO. **C58** (CONT'D)

store gas, PG&E proceeded to acquire all of the properties in the McDonald Island Gas Field and acquired Compensatory Agreement Easement 412.1 through an assignment approved by the Commission on March 17, 1960.

Because Compensatory Agreement Easement 412.1 only allowed for the payment of royalty on produced native gas and does not allow for any use of State lands, the Commission and PG&E entered into Gas Storage Lease PRC 2839.1 McDonald Island Gas Field on January 25, 1962. The purpose of the lease was to allow PG&E to store gas in and withdraw gas from the State's share (pore space) of the underground reservoir or McDonald Island Sand. The lease also required PG&E to pay the State the sum of \$127,420.74 as full compensation for all in-place native gas and required the continuation of Compensatory Agreement Easement 412.1.

On January 29, 2009, the Commission issued Replacement Lease for Gas Storage Lease PRC 2839.1, McDonald Island Gas Field, San Joaquin County, to replace the expiring Gas Storage Lease PRC 2839.1. Paragraph 14 of the Replacement Lease requires PG&E to provide within sixty days after full execution of the Replacement Lease, a quitclaim of all of its rights in Compensatory Agreement Easement 412.1 issued March 1, 1940, as amended by agreement effective June 1, 1950. The acceptance of this quitclaim by the Commission shall constitute a termination of Compensatory Agreement Easement 412.1 pursuant to paragraph 15 of that Agreement.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section 6815.
- B. Compensatory Agreement Easement 412.1 paragraph 15.
- C. Replacement Lease for Gas Storage Lease PRC 2839.1 paragraph 14.

OTHER PERTINENT INFORMATION

- 1. On April 8, 2009, the document entitled "Quitclaim of Compensatory Agreement Easement 412.1" was received in the Commission's Long Beach office. This document was dated March 27, 2009, and terminates Compensatory Agreement Easement 412.1 by mutual consent.
- 2. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, Section 15060)©(3)], the staff has determined that this activity is not subject to the provisions of CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

CALENDAR ITEM NO. **C58** (CONT'D)

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 © (3) and 15278.

3. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code sections 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.

EXHIBITS:

- A. Location Map
- B. Quitclaim of Compensatory Agreement Easement 412.1

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act)

RECOMMEND ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

1. FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060 © (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.
2. FIND THAT THIS ACTIVITY IS CONSISTENT WITH THE USE CLASSIFICATION DESIGNATED BY THE COMMISSION FOR THE LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

AUTHORIZATION:

1. ACCEPT FROM PACIFIC GAS AND ELECTRIC COMPANY THE QUITCLAIM OF COMPENSATORY AGREEMENT EASEMENT 412.1 DATED MARCH 27, 2009, WHEREIN PACIFIC GAS AND ELECTRIC COMPANY TERMINATED COMPENSATORY AGREEMENT EASEMENT 412.1 ISSUED MARCH 1, 1940 (AS

CALENDAR ITEM NO. **C58** (CONT'D)

AMENDED BY AGREEMENT EFFECTIVE JUNE 1, 1950),
EFFECTIVE APRIL 8, 2009, THE FILING DATE OF THE
QUITCLAIM.

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