

**CALENDAR ITEM
C84**

A 25, 29, 31

06/28/10

W 40948

W 26343

J. Smith

S 12, 14, 16

M. Hamilton

**CONSIDER ISSUANCE OF AN UNDERGROUND
NATURAL GAS STORAGE LEASE,
FRESNO AND MADERA COUNTIES**

APPLICANTS:

Gill Ranch Storage, LLC
Attn.: Mr. Denny Henderson
220 NW Second Avenue, 11th Floor
Portland, OR 97209

Pacific Gas and Electric Company
Attn.: Mr. Glen M. Lubcke
Land and Environmental Management
1455 E. Shaw Avenue
Fresno, CA 93710

AGENT:

PPC Land Consultants
Attn: Mr. Douglas Pollak
P.O. Box 1060
Dixon, CA 95620

AREA, LAND TYPE, AND LOCATION:

About 71.6 acres of sovereign lands lying several thousand feet below the San Joaquin River in Sections 21, 22 and 28, T13S, R16E, MDM, in Fresno and Madera Counties (see Exhibit A, attached hereto).

SUMMARY:

Gill Ranch Storage, LLC (75%) (Operator) and Pacific Gas and Electric Company (PG&E) (25%), collectively referred to as the Company, propose to develop an

CALENDAR ITEM NO. **C84** (CONT'D)

underground natural gas storage facility at a location about twenty miles west of the city of Fresno in Fresno and Madera Counties within the depleted Gill Ranch Gas Field. The storage facility lies several thousand feet below the surface with a portion of the facility extending beneath the San Joaquin River. Staff is requesting that the California State Lands Commission (Commission) enter into the Gill Ranch Natural Gas Storage Lease, attached as Exhibit C, to permit the Company to inject, store and withdraw natural gas from the storage reservoir that lies beneath the state lands as described in Exhibit A (attached hereto).

PROPOSED ACTION:

The Company has requested the use of the depleted reservoir underneath a portion of the San Joaquin River to inject, store and withdraw natural gas. Commission staff has reviewed the request and has negotiated the Gill Ranch Natural Gas Storage Lease (Exhibit C, attached hereto) that contains the following provisions:

1. The State's ownership share of the storage reservoir shall be 1.433 percent (1.433%). The ownership share of the storage reservoir has been determined according to the best judgment of the State and the Company.
2. For each annual rental period beginning on January 1 of each succeeding year during the term of the Lease, the Company shall pay to the State in advance, as rent for the next 12-month period, the greater of Ten Thousand Dollars (\$10,000.00) (the "Minimum Rent") or 1.433 percent (1.433%) of four percent (4%) of projected gross income for that next 12-month period.
 - (a) The Minimum Rent shall be adjusted upward on each anniversary of the Rental Payment Date by five percent (5%).
 - (b) The rental for each 12-month rental period shall be due and payable no later than March 15 for each annual rental period for which it is assessed. At the end of each 12-month rental period, the Company shall adjust the rent for that previous 12-month period to reflect the actual gross income for that period.
3. The Company shall pay a royalty of one-sixth (1/6th) of the value of all Excess Gas withdrawn from the Storage Reservoir. Excess Gas is that amount of natural gas withdrawn that exceeds 101 percent (101%) of the amount of natural gas injected during the preceding five (5) year period.

CALENDAR ITEM NO. **C84** (CONT'D)

4. The Lease shall be effective at 12:00 a.m. on July 1, 2010, and shall continue in effect for a term of 49 years until 12:00 a.m., July 1, 2059.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section 6815.

OTHER PERTINENT INFORMATION:

1. In addition to the Gill Ranch Natural Gas Storage Lease (underground component), there is a surface component (not on State-owned land) that entails the construction and operation of a compressor station, up to 15 new injection/withdrawal wells at four well pads, and up to eight observation/monitoring wells at five well pads, an approximately 27-mile underground pipeline that will connect the storage reservoir with PG&E's transmission system, and an approximately nine-mile electric power line to deliver electricity to the compressor site. This surface component has been reviewed and approved by the California Public Utilities Commission (Lead Agency) on October 29, 2009 and reviewed by Commission staff on November 17, 2009 (W 26343).
2. A Mitigated Negative Declaration (MND), SCH #2009071057, was prepared and adopted for this project on October 29, 2009, by the California Public Utilities Commission. The California State Lands Commission's staff has reviewed the document.
3. A Mitigation Monitoring Program was adopted by the California Public Utilities Commission on October 29, 2009 (attached as Appendix I to the MND). The California State Lands Commission's staff has reviewed the document.
4. 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 lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since the 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.

CALENDAR ITEM NO. **C84** (CONT'D)

5. In addition, a portion of the Gill Ranch Field lies within the jurisdiction of the Sacramento and San Joaquin Drainage District (SSJDD). The SSJDD plans to model its lease after the lease that is Exhibit C (attached hereto).

EXHIBITS:

- A. Legal Description
- B. Location Map
- C. Gill Ranch Natural Gas Storage Lease

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDINGS:

1. Find that a Mitigated Negative Declaration (MND), SCH #2009071057, and a Mitigation Monitoring Program were prepared and adopted for this project by the California Public Utilities Commission on October 29, 2009, and that the Commission has reviewed and considered the information contained therein.
2. Adopt the Mitigation Monitoring Program, Appendix I to the MND, as contained on file in the Sacramento office of the California State Lands Commission.

AUTHORIZATION:

1. Approve the issuance of a Natural Gas Storage Lease to the Gill Ranch Storage, LLC, and Pacific Gas and Electric Company for a term of 49 years beginning July 1, 2010, as more particularly set forth in Exhibit C, attached hereto.
2. Authorize the Executive Officer or his designee to execute any documents necessary to implement the Commission's action.

EXHIBIT A

W 40948

W 26343

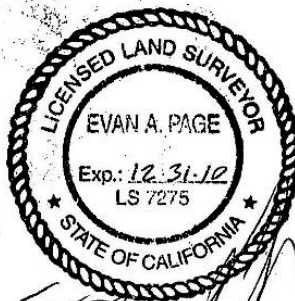
LAND DESCRIPTION

Those portions of Sections 21, 22, and 28, Township 13 South, Range 16 East, MDM, in Madera County, California, lying westerly of the West line of the East $\frac{1}{2}$ of the East $\frac{1}{2}$ of said Section 22 and northerly of the South line of the North $\frac{1}{2}$ of the Northwest $\frac{1}{4}$ of said Section 28, being portions of or adjacent to Swamp and Overflowed Lands Surveys 174, 175, 288, 350, 381, 382, 383, 519, 522, 527, 532, 710, and Swamp and Overflowed Lands Location 3372, all within the previously stated sections, more particularly described as follows:

BEGINNING at a point on the left (southeasterly) bank of the San Joaquin River, being its intersection with the southerly line of Swamp and Overflowed Lands Location 3372, said Swamp and Overflowed Lands Location being adjacent to Government Lot 2 of said Section 28; thence northerly, northeasterly, and easterly, upstream along the left bank of the San Joaquin River, approximately 12,500' to its intersection with the easterly line of Swamp and Overflowed Lands survey 382, being adjacent to Government Lot 6 of said Section 22 at this point; thence northerly along the easterly line of Swamp and Overflowed Lands Survey 382 and the east line of Swamp and Overflowed Lands Survey 527 to a point on the right (northwesterly) bank of the San Joaquin River, being adjacent to Government Lot 3 of said Section 22 at this point; thence westerly, southwesterly, and southerly along the right bank of the San Joaquin River, approximately 12,800' to its intersection with the southerly line of the protracted Northeast $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of said Section 28; thence easterly along the south line of the protracted Northeast $\frac{1}{4}$ of the Northwest $\frac{1}{4}$, and along the south line of the protracted Northwest $\frac{1}{4}$ of the Northeast $\frac{1}{4}$ of said Section 28, being also the South line of Swamp and Overflowed Lands Location No. 3372 to the POINT OF BEGINNING.

EXCEPTING therefrom any portion lying landward of the ordinary low water mark of the San Joaquin River.

END DESCRIPTION

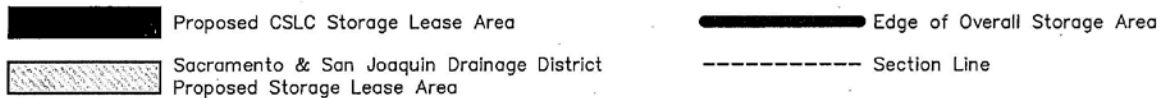
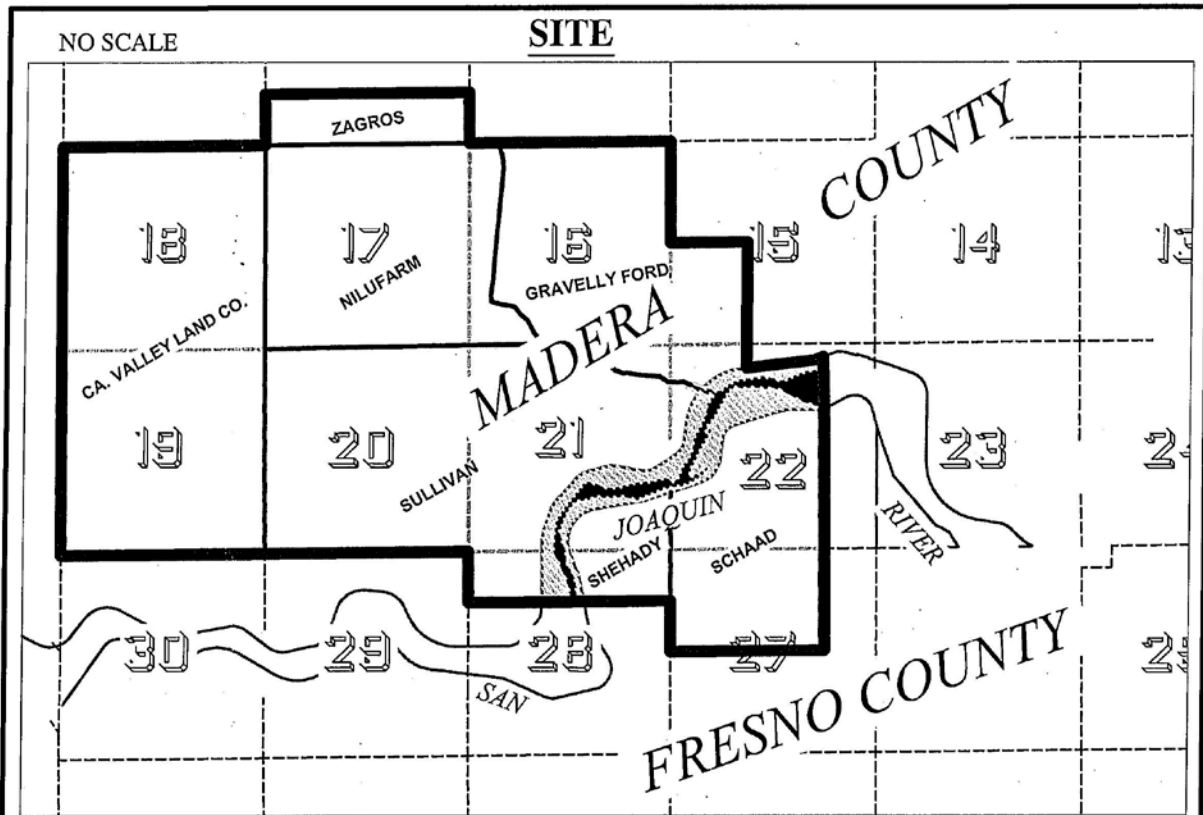


JUNE 9 2010

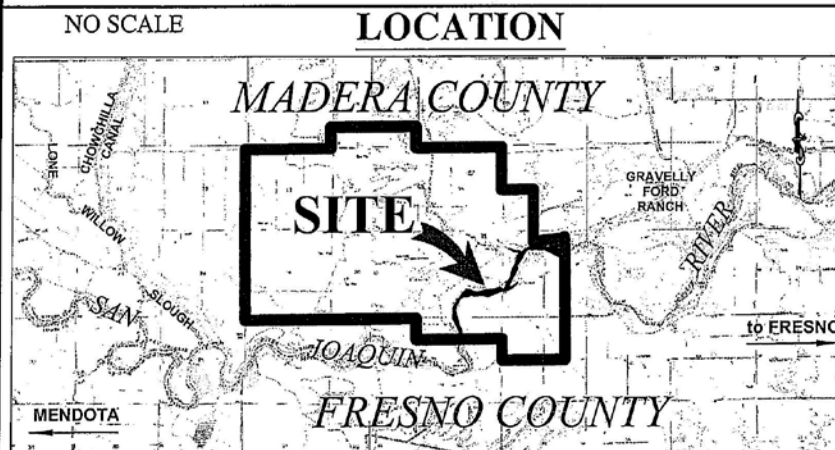
EXHIBIT B

W 40948

W 26343



GILL RANCH STORAGE LLC, SUBSURFACE NATURAL GAS STORAGE



MAP SOURCE: USGS QUAD

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.

Exhibit B

W 40948
GILL RANCH STORAGE LLC
SUBSURFACE GAS
STORAGE LEASE
FRESNO & MADERA
COUNTIES



EAP 03/10

GILL RANCH NATURAL GAS STORAGE LEASE

Fresno and Madera Counties, California

This Lease is made and entered into effective as of July 1, 2010, by and among the STATE OF CALIFORNIA, acting through the STATE LANDS COMMISSION, hereafter sometimes referred to as the "State," and GILL RANCH STORAGE, LLC, an Oregon limited liability company, as to an undivided 75% interest and PACIFIC GAS AND ELECTRIC COMPANY, a California corporation, as to an undivided 25% interest, hereafter sometimes collectively referred to as the "Company."

In consideration of the mutual covenants and conditions in this Lease, the State and the Company agree as follows:

For the purposes of this Lease the following terms shall have the following meanings:

Gill Ranch Gas Field: That certain gas field area where the Company is the owner of the lessee's interest under gas storage leases. as set forth in Exhibit A, of lands lying within portions of Sections 8, 15, 16, 17, 18, 19, 20, 21, 22, 27 & 28, Township 13 South, Range 16 East, MDB&M, in Fresno and Madera Counties, California. All or a portion of the lands subject to the leases lie within the heavy black line demarcating the Gill Ranch Gas Field, as shown on the attached map marked Exhibit B.

Storage Formations: Those certain gas sands in the Gill Ranch Gas Field known as the First and Second Starkey Formations existing between the stratigraphic equivalents of the depths of 5,500 feet to 7,500 feet subsurface as found in the Phillips Petroleum Gill Ranch Deep A No. 3 Well drilled in Section 18, T.13S., R.16E., MDB&M, and the Moreno D-1 Sand as found in the Vern Jones Gill Ranch No. 1-21 Well over measured depths of 5,585 feet to 5,657 feet subsurface, or the stratigraphic equivalent thereof.

Storage Reservoir: That portion of the Storage Formations in the Gill Ranch Gas Field shown on the attached map marked Exhibit B that will store injected natural gas.

Native Gas: Natural or other gaseous hydrocarbons present in commercially producible quantities within the Storage Reservoir.

State lands: All lands belonging to the State located within the Gill Ranch Gas Field as described in Exhibit C and containing approximately 71.6 acres.

State Ownership Share: The State's ownership share of the Gill Ranch Gas Field shall be 1.4330 percent (1.4330%). The State's ownership share of the Gill Ranch Gas Field has been determined according to the best judgment of the State and the Company. If the Company quitclaims or otherwise disposes of any of its leases of lands in the Gill Ranch Gas Field, as set forth in Exhibit A, the State and the Company shall redetermine the State's ownership share according to their best judgment, to be effective as of the date and time of the quitclaim or other disposition.

1. The Company shall pay to the State the sum of One Thousand Dollars (\$1,000.00) per month on or before the first day of each month commencing on July 1, 2010, as rental for the period prior to the Rental Commencement Date as defined in Paragraph 4(a) of this Lease. If no injection has occurred prior to the one year anniversary date, the Rental Commencement Date will be July 1, 2011. The Company maintains that there are no remaining reserves of Native Gas in the Storage Reservoir. The Company shall have the right at any time to commingle injected gas with any natural gas which may now exist in the Storage Reservoir and extract, produce, remove, market, use or dispose of any natural gas within the Storage Reservoir free of any claim or demand by the State. Notwithstanding the above, the Company shall pay to the State, in money, royalty of one-sixth (1/6th) of the value of all Excess Gas it withdraws from the Storage

Reservoir. Excess Gas is that amount of cumulative natural gas withdrawn that exceeds one hundred one percent (101%) of the cumulative amount of natural gas that the Company has injected since the inception of the Lease. Excess Gas will be initially determined on March 31, 2011 and thereafter on each succeeding fifth anniversary date of this initial determination (March 31), and finally on the expiration or termination date of this Lease. Payment of the royalty on Excess Gas shall be made within thirty (30) days of each period of measurement. The royalty on Excess Gas shall be valued at a price equal to the PG&E City Gate Price as published in the Natural Gas Intelligence first of month index (or such reasonably equivalent index as the Company may designate, subject to the State Lands Commission staff approval, should such index cease to be published) in effect at the time of measurement.

2. The Company shall have the exclusive right during the term of this Lease to inject and store gas (with any water vapors absorbed), whether produced from the State lands or from other lands, in and withdraw such injected gas (with any water vapors absorbed) from the Storage Reservoir.

3. The State reserves from the operation of this Lease, all crude oil, natural gasoline and other liquid hydrocarbons and Native Gas in the Storage Formations in any of the State lands. These substances shall remain the sole property of the State, and no rights to them are granted to the Company by this Lease. The State further reserves the right to grant easements or rights of way in, upon and under the State lands, except as provided below. Nothing in this Lease shall be construed as limiting the power of the State to lease, convey or otherwise transfer or encumber any or all of the State lands for any purpose that will not interfere with the rights or privileges granted to the Company by this Lease; provided that the State shall not drill into the Storage Reservoir or permit others to drill into the Storage Reservoir to produce hydrocarbons

therefrom, and will not drill through or permit others to drill through the Storage Reservoir without taking such reasonable measures as the Company may require to protect the Storage Reservoir.

4. (a) Rent for Storage Rights. On the day when the Company commences the injection of natural gas into the Storage Reservoir (the Rental Commencement Date), the Company shall pay to the State, in advance, for the period from the Rental Commencement Date to the next January 1, rent in the amount of 1.4330 percent (1.4330%) (the State's ownership share of the Gill Ranch Gas Field) of four percent (4%) of projected gross income to the Company from conducting gas storage operations for the rental period. For each annual rental period beginning on January 1 of each succeeding year during the term of this Lease, Company shall pay to the State on or before the following March 15 (the "Rental Payment Date"), as rent for the next rental period, Ten Thousand Dollars (\$10,000.00) (Minimum Rent) or 1.4330 percent (1.4330%) of 4% of gross income for the prior rental period (or projected rental period for the second such rental payment if the initial period of operations is less than 12 months), whichever is greater. The Minimum Rent shall be adjusted upward on each anniversary of the Rental Payment Date by five percent (5%). The Rent for each 12-month rental period following the initial January 1 shall be due and payable on or before the following March 15, at which time the Company shall adjust the rent for that previous 12-month period to reflect the actual gross income for that period. The payment of rent shall be for the privilege of keeping this Lease in full force and effect until it expires or is terminated pursuant to the provisions of Paragraph 14. Gross income from the conduct of gas storage operations shall mean monetary compensation received by the Company for the use of or right to use the Storage Reservoir, including both capacity and usage charges, but shall not include: (i) the proceeds of sale of all or any portion of

the gas storage project or (ii) the proceeds of any type of financing for the project. If the Company fails to pay the appropriate annual rental or incremental gas fee for any lease year, the State may terminate this Lease upon giving ninety (90) days notice to the Company, or may continue this Lease with the right to exercise any legal or equitable remedy that the State might otherwise have.

(b) State's Audit Right. The State shall have the right, not more often than once in any twelve (12) month period, to audit the books and records of the Company to ascertain whether the Company has properly calculated the rent payable to the State under this Lease. Each of the owners of the gas storage project in the Gill Ranch Gas Field shall make all of its relevant books and records available to the State during normal business hours upon written request from the State, subject to the State's and its auditors' written agreement to maintain all such information confidential. If the audit discloses an underpayment of rent, the Company shall make the applicable rent payment adjustment within sixty (60) days of the State's invoicing. If the audit discloses an overpayment of rent, that overpayment shall be credited to the next payment due from the Company to the State. If Rent was underpaid or overpaid by an amount greater than 5%, the Company shall reimburse the cost of the audit to the State; otherwise the audit costs shall be borne by the State.

(c) All late rental payments are subject to interest and penalty charges as specified in Title 2, California Code of Regulations, Section 1911.

5. All equipment, devices and materials required to measure the volume of gas injected into and withdrawn from the Storage Reservoir shall be installed, maintained, operated or furnished by the Company at the Company's expense. The unit of volume for purposes of measurement shall be one (1) cubic foot of gas at a temperature of sixty degrees (60°) Fahrenheit

and at the pressure of fourteen and seventy-three one-hundredths (14.73) pounds per square inch absolute. The volumes of gas injected into the Storage Reservoir and withdrawn from the Storage Reservoir shall be metered by one or more ultrasonic meters installed and maintained, and volumes shall be measured in accordance with the methods prescribed in American Gas Association (AGA) Report No. 9, Measurement of Gas by Multipath Ultrasonic Meters (2007) and any subsequent revision acceptable to the Company. Flow computer calculations shall be governed by the equations described in AGA Report No. 7, Measurement of Natural Gas by Turbine Meters (2006) or subsequent revisions. The State, by its duly authorized representative, shall have the right to check and inspect measuring equipment installed or furnished by the Company and measurement data at all times during business hours, but the reading, calibration and adjustment of such equipment and collecting of data shall be done only by the Company. A Company representative shall be present when any such check or inspection is made by the State. Alternate standards, methods or equipment described in this paragraph may be employed by the Company, subject to State Lands Commission staff approval.

6. The Company shall pay when due any and all taxes lawfully assessed and levied under the laws of the United States of America, the State of California or any of its political subdivisions, upon improvements installed or maintained on the State lands in the Gill Ranch Gas Field pursuant to the provisions of this Lease. Payment of any and all taxes lawfully assessed and levied on gas or other hydrocarbon substances injected into the Gill Ranch Gas Field shall be the responsibility of the owners thereof.

7. The Company shall not assign this Lease without the prior written consent of the State.

8. Within thirty (30) days after State approval of this Lease, the Company shall furnish to the State and maintain during the term of this Lease a bond, certificate of deposit, letter of credit or other security acceptable to the State in the amount of Twenty-five Thousand Dollars (\$25,000.00) in favor of the State guaranteeing faithful performance by the Company of the terms, covenants and conditions of this Lease.

9. The Company shall be liable to the State for all damage to any reservoir underlying the State lands to the extent that the damage is caused by the negligence of, the breach of any provision of this lease by, or noncompliance with any applicable statutes or regulations by the Company, its employees, servants, agents, contractors or independent contractors. Nothing in this lease shall diminish any other rights or remedies the State may have in connection with any such negligence or breach.

10. The Company shall procure and maintain at the Company's sole cost and expense a commercial general liability policy of insurance applying to the State lands and to the operations of the Company under this Lease whether or not occurring on the State lands. The insurance shall include broad form contractual liability coverage and name the State as an additional insured. Such coverage shall have liability limits of at least two million dollars (\$2,000,000) per occurrence and a general aggregate limit of at least five million dollars (\$5,000,000); however, such liability limits may be provided through a combination of primary and excess (i.e., umbrella) insurance policies. Any liability insurance policy shall apply to all bodily injury, property damage, personal injury and other covered loss, however occasioned, during the policy term and shall provide that the coverage shall be primary. The insurance shall provide for severability of interests, shall provide that an act or omission of any one of the named or additional insureds shall not reduce or avoid coverage to the other named or additional

insureds and shall afford coverage of all claims based on acts, omissions, injury and damage, which claims occurred or arose (or the onset of which occurred or arose) in whole or in part during the policy period. All policies shall be issued by insurers authorized to transact business in California and having a rating of at least B+ in the then-current edition of Best's Insurance Guide. The Company shall deliver a certificate of insurance to the State as soon as practicable after securing the insurance. The Company shall give the State at least thirty (30) days prior written notice of any cancellation or termination of the policy or voluntary reduction in insured limits. The Company shall furnish the State with proof of renewal or binders for new insurance at least thirty (30) days before the expiration date of each policy. The Company may self-insure all or part of its risk with the approval of the State, such approval not to be unreasonably withheld, delayed or conditioned.

11. The Company shall exercise reasonable diligence in the operation of the lands used as a Storage Reservoir for natural gas and carry on all operations under this Lease in a good and worker-like manner in accordance with approved methods, having due regard for the health and safety of workers and employees. The Company shall hold the State, its officers, agents and employees, at all times, free and harmless from all claims and liabilities on account of any breach of this Lease or negligent maintenance or operation by the Company or its officers, agents, employees or independent contractors.

12. With the written agreement of the parties, this Lease may be terminated at any time and any provisions of this Lease may be modified or amended. As provided by section 6804.1 of the Public Resources Code and in a form prescribed by the State, the Company may quitclaim its interest in this Lease at any time by recording the prescribed quitclaim deed in the Official Records of Fresno and Madera County, California and furnishing a copy to the State;

provided that the quitclaim shall not relieve the Company of any obligations already accrued under this Lease.

13. In addition to the annual rental, the Company shall reimburse the State for the actual, reasonable and necessary costs incurred for the administration and implementation of this Lease, including but not limited to, elevation monitoring, equipment inspection, engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews, and for any other staff time or expenses incurred or expended to ensure such operations conform to all the terms of this Lease and to the State's rules and regulations, now or hereafter promulgated. The lease management fee shall not exceed Five Thousand Dollars (\$5,000.00) per lease year commencing May 1, 2010, but such maximum amount shall be increased in the amount of 3% per year, such increase to take effect annually on July 1 of each year. The Company and the State shall each execute and deliver a State Standard Reimbursement Agreement, substantially in the form of Exhibit D, containing more detailed provisions pertaining to the lease management fee. The State shall provide to the Company a statement setting forth the amount of the lease management fee for each lease year during the remaining term of the Lease, together with detailed documentation to identify and support the amounts claimed.

14. If the Company assigns this Lease without the consent of the State, fails to comply with the applicable provisions of Divisions 3 and 6 of the Public Resources Code, or defaults in the performance or observance of any of the terms, covenants and conditions of this Lease or of any applicable rules and regulations, now or hereafter promulgated by the State or any agency having jurisdiction over the activities under this Lease including the California Division of Oil, Gas and Geothermal Resources' field rules for the Gill Ranch Gas Field, and the

default continues for at least thirty (30) days after written notice to the Company and no steps shall have been taken within that time to remedy the default, then the State shall have the right to terminate this Lease (provided that any termination for failure to pay any adjusted rate and/or minimum annual rental shall be governed by the provisions of Paragraph 4 of this Lease). This provision shall not be construed to prevent the exercise by the State of any legal or equitable remedy which the State might otherwise have. The waiver or failure of the State to act upon any particular violation shall not prevent the termination of this Lease for any other cause or for the same cause occurring at another time.

15. This Lease shall be effective at 7:00 a.m. on July 1, 2010, and shall continue in effect for a term of forty-nine (49) years until 7:00 a.m. on July 1, 2059. If this Lease is terminated pursuant to the provisions of Paragraphs 4, 12 or 14 of this Lease, the Company shall have the right for a period of five (5) years after any such termination to withdraw from the Storage Reservoir all gas injected by the Company and all Native Gas. If the Company exercises this right, it shall continue to be responsible for payment to the State of the annual rental through the end of the lease year in which the Lease is terminated. While the Lease is in effect, including any extension or renewal of the Lease, and until five (5) years after termination of the Lease or when the Company has withdrawn all injected gas and Native Gas from the Storage Reservoir, whichever is sooner, the State shall not permit others to drill or produce any well for the production of gas within the Storage Reservoir. The State, however, may permit at any time others to drill or produce a well or wells for the production of gas from other State Lands within the Gill Ranch Gas Field; provided that no drilling shall be allowed through the Storage Reservoir without taking measures reasonably required by the Company to protect the Storage Reservoir as long as the Lease is in effect.

16. The address of each party for the purpose of service of notices provided under this Lease, until changed by either party by written notice to the other, is:

Gill Ranch Storage, LLC

220 NW Second Avenue

Portland OR 97209

State Lands Commission

200 Oceangate 12th Floor

Long Beach CA 90802-4331

Pacific Gas and Electric Company

Manager, Land Asset Management

PG&E Technical and Land Services

P.O. Box 770000, Mail Code N10A

San Francisco, CA 94177

The parties have executed, or caused this Lease to be executed, by their duly authorized officers. This lease shall be effective May 1, 2010.

Gill Ranch Storage, LLC

By:_____

Name:_____

Title:_____

Date:_____

State Lands Commission

By:_____

Name:_____

Title:_____

Date:_____

Pacific Gas and Electric Company

By:_____

Name:_____

Title:_____

Date:_____

All signatures must be acknowledged.

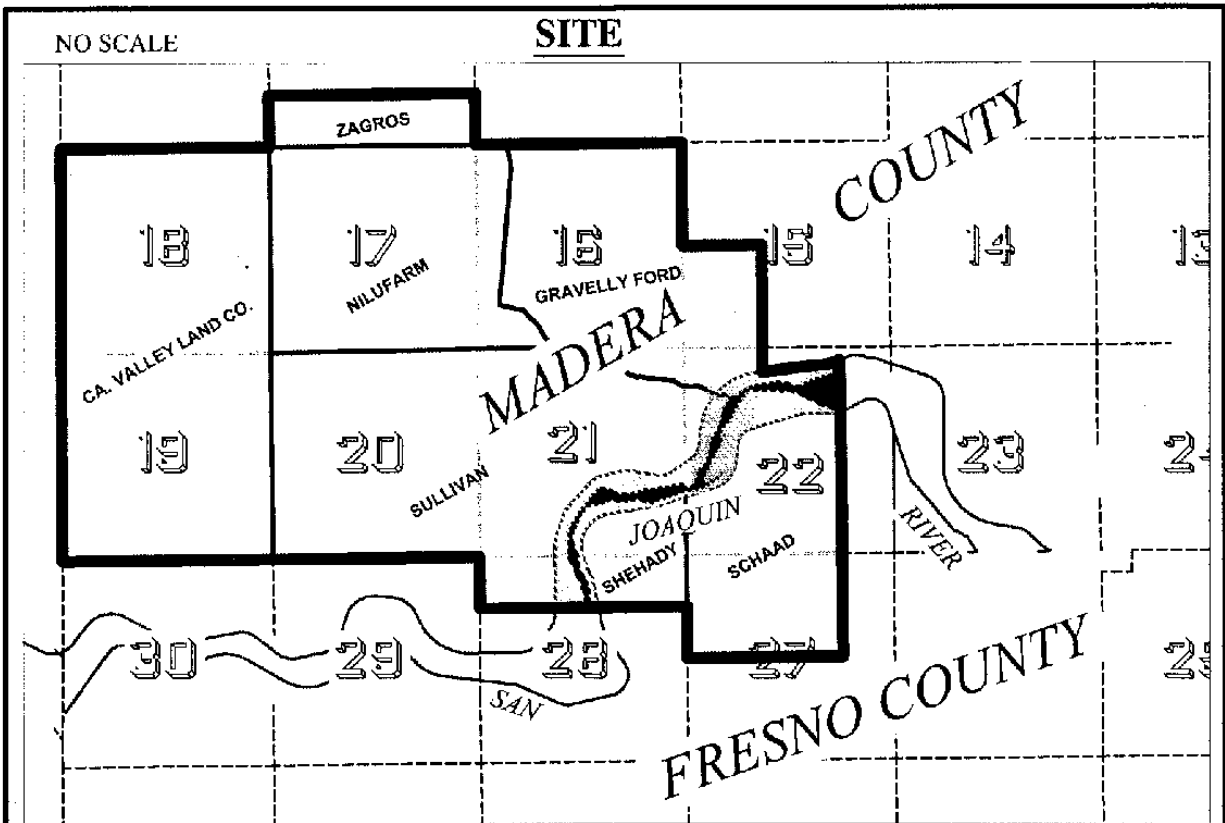
Exhibit A

Gill Ranch Storage

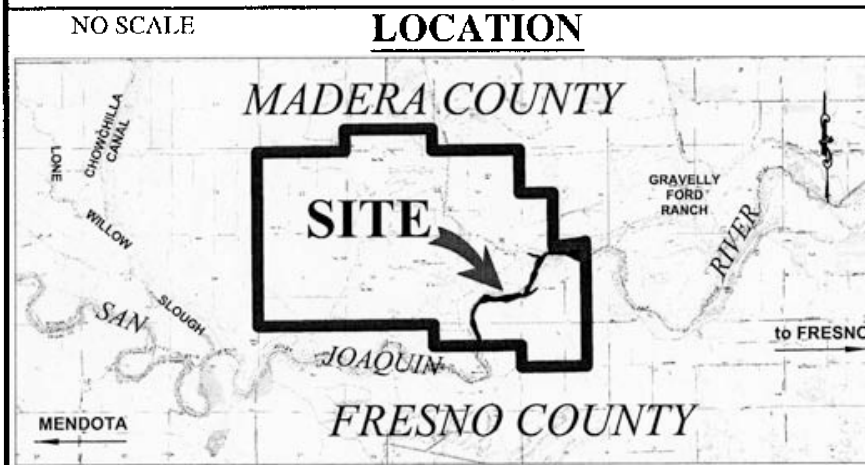
Underground Gas Storage Lease and Agreements

No.	Grantor(s):	Document Type:	APN:	Dated:	Recording Information:
1	Larry Sullivan and Betty Sullivan, etal	Memorandum of Underground Gas Storage Lease and Agreement	04-213-006; 040-215-011; 040-216-07(ptn)	22-May-07	July 10, 2007 / Inst. No. 2007-026025
2	California Valley Land Co. Inc.	Memorandum of Underground Gas Storage Lease and Agreement	040-152-03; 040-211-07	18-Jun-08	October 7, 2008 / Inst. No. 2008-035840
3	Giffen Ranch, a General Partnership	Memorandum of Underground Gas Storage Lease and Agreement	040-153-004 (Ptn)	27-Jun-07	September 17, 2007 / Inst. No. 2007-034815
4	Gravelly Ford, LLC	Memorandum of Underground Gas Storage Lease and Agreement	040-156-002 (ptn) & 040-221-005 (ptn)	21-Sep-09	December 28, 2009 / Inst. No. 2009-042747
5	Nilufarm, LLC a California Limited Liability Company	Memorandum of Underground Gas Storage Lease and Agreement	040-154-02	11-Mar-08	April 3, 2008 / Inst. No. 2008-010971
6	Steven D. Schaad and Barbara L. Schaad	Memorandum of Underground Gas Storage Lease and Agreement	015-030-16 (ptn); 015-030-18, 015-070-28, 015-070-35 (ptn) 015-070-36 (ptn)	31-May-07	July 23, 2007 / Inst. No. 2007-0140168
7	Larry Shehadey Farms, Ltd., a California Limited Partnership	Memorandum of Underground Gas Storage Lease and Agreement	015-060-19; 015-060-41 (ptn); 015-190-10	5-Sep-07	November 6, 2007 / Inst. No. 2007-0202120
8	Zagros Farms, LLC a California limited liability company, Fadak Orchards, LLC, a California limited liability company; Niki Farms, LLC, a California limited liability company; and Dena Orchards, LP, a California limited partnership	Memorandum of Underground Gas Storage Lease and Agreement	040-153-05(ptn)		
9	Sac-San Joaquin Drainage District (SSJDD)				
10	California - State Lands Commision				

EXHIBIT B



GILL RANCH STORAGE LLC, SUBSURFACE NATURAL GAS STORAGE



MAP SOURCE: USGS QUAD

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.

Exhibit B
W 40948
GILL RANCH STORAGE LLC
SUBSURFACE GAS
STORAGE LEASE
FRESNO & MADERA
COUNTIES



EAP 03/10

EXHIBIT C**LAND DESCRIPTION**

Those portions of Sections 21, 22, and 28, Township 13 South, Range 16 East, MDM, in Madera County, California, lying westerly of the West line of the East $\frac{1}{2}$ of the East $\frac{1}{2}$ of said Section 22 and northerly of the South line of the North $\frac{1}{2}$ of the Northwest $\frac{1}{4}$ of said Section 28, being portions of or adjacent to Swamp and Overflowed Lands Surveys 174, 175, 288, 350, 381, 382, 383, 519, 522, 527, 532, 710, and Swamp and Overflowed Lands Location 3372, all within the previously stated sections, more particularly described as follows:

BEGINNING at a point on the left (southeasterly) bank of the San Joaquin River, being its intersection with the southerly line of Swamp and Overflowed Lands Location 3372, said Swamp and Overflowed Lands Location being adjacent to Government Lot 2 of said Section 28; thence northerly, northeasterly, and easterly, upstream along the left bank of the San Joaquin River, approximately 12,500' to its intersection with the easterly line of Swamp and Overflowed Lands survey 382, being adjacent to Government Lot 6 of said Section 22 at this point; thence northerly along the easterly line of Swamp and Overflowed Lands Survey 382 and the east line of Swamp and Overflowed Lands Survey 527 to a point on the right (northwesterly) bank of the San Joaquin River, being adjacent to Government Lot 3 of said Section 22 at this point; thence westerly, southwesterly, and southerly along the right bank of the San Joaquin River, approximately 12,800' to its intersection with the southerly line of the protracted Northeast $\frac{1}{4}$ of the Northwest $\frac{1}{4}$ of said Section 28; thence easterly along the south line of the protracted Northeast $\frac{1}{4}$ of the Northwest $\frac{1}{4}$, and along the south line of the protracted Northwest $\frac{1}{4}$ of the Northeast $\frac{1}{4}$ of said Section 28, being also the South line of Swamp and Overflowed Lands Location No. 3372 to the POINT OF BEGINNING.

EXCEPTING therefrom any portion lying landward of the ordinary low water mark of the San Joaquin River.

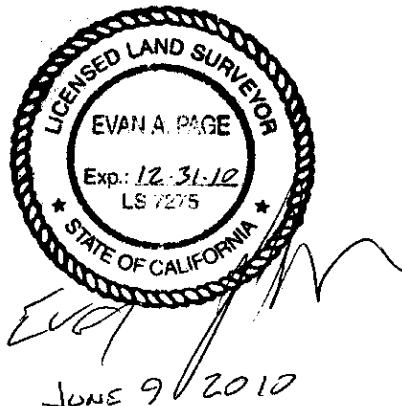
END DESCRIPTION

EXHIBIT D

STATE OF CALIFORNIA
STANDARD AGREEMENT
 STD.213 (new 06/03)

AGREEMENT NUMBER R
REGISTRATION NUMBER

- This Agreement is entered into between the State Agency and the Contractor named below:
 STATE AGENCY'S NAME
 California State Lands Commission (State)
 CONTRACTOR'S NAME
 (Applicant)
- The term of this Agreement is:
- The maximum amount of this Agreement is: \$
- The parties agree to comply with the terms and conditions of the following exhibits which are by this reference made a part of the Agreement:

Exhibit A – Scope of Work	1	Page(s)
Exhibit B – Budget Detail and Payment Provision/Definitions and Terms	2	Page(s)
Exhibit C – General Terms and Conditions	2	Page(s)
Check mark one item below as Exhibit D:	0	Page(s)
<input type="checkbox"/> Exhibit D – Special Terms and Conditions (attached hereto as part of this Agreement) <input type="checkbox"/> Exhibit D* – Special Terms and Conditions		

Items shown with an Asterisk (*) are hereby incorporated by reference and made part of this Agreement as if attached hereto. These documents can be viewed at <http://www.ols.dgs.ca.gov/Standard+Language/default.htm>.

IN WITNESS WHEREOF, this Agreement has been executed by parties hereto.

CONTRACTOR		CALIFORNIA Department of General Services Use only
CONTRACTOR'S NAME (if other than individual, state whether a corporation, partnership, etc.)		
BY (Authorized Signature)	DATE SIGNED	
PRINTED NAME AND TITLE OF PERSON SIGNING		
ADDRESS		
STATE OF CALIFORNIA		
AGENCY NAME		
California State Lands Commission		
BY (Authorized Signature)	DATE SIGNED	
PRINTED NAME AND TITLE OF PERSON SIGNING		
David W. Brown, Chief, Administrative & Information Services Division		
ADDRESS		
100 Howe Avenue, Suite 100 South, Sacramento, California 95825-8202		<input type="checkbox"/> Exempt per _____

CONTRACT REVIEW AND APPROVAL
 RECOMMENDED BY LEGAL:

Jim Frey, Staff Counsel

EXHIBIT A

SCOPE OF WORK

1. **Work to be Performed** – Applicant submitted an application for a new Oil and Gas Lease with the State identified as Work Order No. _____. The State hereby agrees to perform the following services:
 - A. **Application Processing**: The State shall process the Applicant's project application. Processing shall include, but not be limited to, document preparation, negotiation of terms and conditions, review of project impacts on the Public Trust when necessary, field inspections, preparation of field reports, office technical review services, boundary services, appraisals and coordination with other governmental agencies; but shall not include preparation of an environmental analysis or mitigation monitoring program.
 - B. **Mutual Understanding**: This agreement is entered into by the parties hereto with the express understanding that the State cannot assure: 1) final approval of the permit of lease for the proposed project; 2) that permits from other State or local permitting agencies are obtainable; 3) that either the State or the Applicant by entering into this Agreement is representing that the project will go forward as proposed; and 4) that either the State or the Applicant is irrevocably committed to proceeding with this project.
2. **Parties' Agents**
 - B. The State's Project Officer shall be:
 - C. The Applicant's Project Manager shall be:
2. **Notices and Authorities**
 - A. Any notice or other written communications required or permitted under this Agreement may be personally delivered in writing to the Project Officer or Project Manager, or may be sent by certified mail, return receipt requested, to the address stated above and shall, based on such delivery or sending, be deemed to have been effectively communicated. Either party may change such address by written notice to the other party.

Any notice given other than as provided above, shall not be deemed to be effectively communicated until received in writing.
 - B. The Project Manager shall have full authority to act on behalf of the Applicant for administration of the project. All communications given to the Project Manager shall be as binding as if given to the Applicant.
 - C. The State may change its Project Officer at any time by written notice to the Applicant. The Applicant may change its Project Manager at any time by written notice to the State's Project Officer.

EXHIBIT B

BUDGET DETAIL AND PAYMENT PROVISION/DEFINITIONS AND TERMS

1. **Invoicing and Payment** Applicant agrees to reimburse the State for all reasonable costs associated with the processing of its application according to this Standard Agreement whether prior or subsequent to the execution of this Agreement. Processing costs shall include, but not be limited to, 1) actual costs of the State staff time to conduct the following: document processing, negotiation of terms and conditions, field inspections (travel and per diem), preparation of field reports, technical and legal reviews, boundary services, and consultation and coordination; 2) consultant contracts or preparation of any portion of the project application, should the State deem such work or any additional work to be necessary; 3) any other associated activity involved in processing the application described in Exhibit A. Staff costs shall be computed in accordance with Section 8752 of the State Administrative Manual and shall include salaries and wages, related staff benefits and administrative overhead.

The invoice shall be mailed to the Applicant's Project Manager. Payments shall reference the Agreement number assigned to this project and must be mailed to the following address:

State Lands Commission
100 Howe Avenue, Suite 100 South
Sacramento, CA 95825-8202
Attn: Fiscal Services

2. **Estimated Reimbursable Costs** – The initial estimated costs are based on the information and contracts existent as of the date of this Agreement, it is estimated that the itemized reimbursable costs for Work To Be Performed will be:

Approximate Total Cost **\$** _____

Estimated costs above are based on the initial processing of the application. Additional costs will be determined upon defining of the scope of the project and cost of consultant contracts.

3. **Expense Deposits and Billings** – Staff costs incurred by the State shall be charged on a monthly basis and applied against the deposit until processing is completed or deposit is exhausted. Additional staff costs incurred by the State pursuant to this Agreement shall be billed in arrears on a monthly basis. All payments are due 30 days from date of the invoice. The State reserves the right to request additional expense deposits for staff costs at its discretion.
4. **Additional Costs or Services** – Applicant will be advised of any estimated cost increase in writing in accordance with this Agreement should the need for additional services become known or as costs previously estimated exceed the above estimate by ten percent (10%).

Upon notification of the need for additional funds, the Applicant shall have the right to terminate this Agreement in accordance with the Termination clause; or dispute the change. The Applicant shall have the option to dispute or accept the increase with all the terms and conditions of this Agreement being unchanged and in effect. Applicant shall notify the State within five (5) days of notice of any intent to terminate the Agreement or dispute the change. Non-response shall be acknowledged as acceptance of the additional charges and Applicant will be billed for the balance in accordance with the terms above.

5. **Definitions and Terms** - Wherever the following abbreviations and terms (or pronouns in place of them) are used, the intent and meaning shall be interpreted as provided in this section. Working titles having a masculine gender, and pronouns referring to such said titles, are utilized in this Agreement for the sake of brevity and are not intended to refer to either sex or the neuter. All references to the singular shall refer also to the plural. All references to the plural shall refer also to the singular.

A. The term "Agreement" refers to this document as executed by the Applicant and the State. This document includes Standard Form and any attached Exhibits.

Applicant
R _____
Work Order No. _____

- B. The term "Application Processing" refers to all staff services necessary to process an Applicant's proposed project application but shall not include staff services for environmental analysis or project mitigation monitoring pursuant to CEQA.
- C. The term "Project" means that activity which is the subject of the application for a permit, lease or other entitlement from the State.
- D. The term "Project Manager" refers to that person appointed or designated by the Applicant to administer the project for the Applicant.
- E. The term "Project Officer" refers to that person appointed by the State to process the project application.

EXHIBIT C

GENERAL TERMS AND CONDITIONS

1. **Indemnification** – Applicant shall defend, indemnify and hold harmless the State, and any and all agencies thereof, against any and all claims, liabilities, charges, losses, expenses and costs that may arise from, or by reason of, any action or inaction by the State or any of its officers, employees or agents in connection with the issuance or denial of any lease, permit or other entitlement, or as a result of approvals or authorizations given by the State to the Applicant pursuant to or as a result of Applicant's project application, whether it involves provisions of the issued lease or permit, provisions or certification or adoption of an environmental impact report or other document prepared pursuant to the California Environmental Quality Act, or provisions of some other regulations, requirements or programs by the State, except for any such liability, claims, damage or injury caused solely by the active negligence of the State, its officers, agents and employees.

This obligation of the Applicant to indemnify, defend and hold harmless the State shall not apply to the extent that any such obligation to indemnify, defend and hold harmless the State is void or otherwise unenforceable under applicable law in effect on or validly retroactive to the date of this agreement; and further, the provisions of the preceding sentence shall not apply to any claims, litigation or other actions which may be brought by the Applicant against the State in relation to any of the matters in connection with the Applicant's application or this agreement.

2. **Assignment** – Without the written consent of the State, this Agreement is not assignable by Applicant either in whole or in part.
3. **Timeliness** – Time is of the essence in this Agreement.
4. **Deviations** – Any alteration or variation of the terms of this Agreement shall be invalid unless made in writing and signed by the parties hereto, and no oral understanding or agreement not incorporated herein, shall be binding on any of the parties hereto.
5. **Governing Law** – This Agreement shall be governed by the laws of the State of California, both as to interpretation and performance.
6. **Amendments** – Amendments to this Agreement may be proposed by either party and shall be effected by issuance of a written instrument executed by both parties. The Agreement price may be equitably adjusted to reflect any additional costs or new savings resulting from such amendment(s).
7. **Termination** – Either party may elect to terminate this Agreement by written notice at any time prior to referral of the project to the Commission upon ten (10) days written notice to the other party. The Applicant agrees that in the event of termination of this agreement by either party as provided above, it shall reimburse the State upon its written request one hundred percent (100%) of all costs incurred by the State in the performance of its obligations as described in this Agreement.
8. **Records** – Upon five (5) business days notice, the State's records relating to its costs shall be available for the Applicant's audit in the State's office in Sacramento. Said audit shall take place only during regular business hours of the State. Payment of costs by the Applicant shall not constitute a waiver of its rights to audit nor an acknowledgment by the Applicant of the validity of the costs that have been paid. Nothing herein shall be deemed to require the State, its consultants, other contractors and subcontractors to maintain books, records, or documents other than those usually maintained by them, provided that such books, records and documents reasonably segregate and identify the costs for which reimbursement is required hereunder. As used herein, "State's records" include any audit of the consultant by the State or its designated representative as authorized in this Agreement.

Applicant
R _____
Work Order No. _____

9. **Disputes** – Except as otherwise provided in this Agreement, any dispute concerning a question of fact arising under or relating to the performance of this Agreement which is not disposed of by agreement shall be decided by the Project Officer, who shall reduce his decision to writing in regard to the dispute and shall transmit a copy thereof to the Applicant within thirty (30) days. The decision of the Project Officer shall be final and conclusive, unless within thirty (30) days from the date of receipt of such copy, the Applicant transmits to the State a written appeal. Said appeal shall be supported with specificity.

In connection with any appeal proceeding under this clause, the Applicant shall be afforded an opportunity to be heard before the State Lands Commission within sixty (60) days of the receipt by the State of the Applicant's written appeal and to offer evidence in support of its appeal. Pending the final decision of any such dispute, the Applicant shall proceed diligently with the performance of the Agreement and in accordance with the written decision of the Project Officer which is the subject of the Applicant's appeal including the payment of invoices to the State.

The procedure described herein shall not prejudice or deny the Applicant his remedies at law. However, the Applicant agrees to exhaust the procedure described herein before pursuing his remedies at law. All amounts paid to the State under protest shall be held by the State in trust until the dispute is resolved.

10. **Unenforceable Provisions** – In the event that any provision of this Agreement is unenforceable or held to be unenforceable, then the parties agree that all other provisions of this Agreement have force and effect and shall not be affected thereby.