

23. REQUEST FOR APPROVAL OF GAS SALES AGREEMENT, STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC COMPANY; SACRAMENTO, SOLANO, CONTRA COSTA AND SAN JOAQUIN COUNTIES; W 9738.

After consideration of Calendar Item 21 attached, and upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION AUTHORIZES THE APPROVAL OF THE LETTER AGREEMENT MODIFICATIONS DATED DECEMBER 2, 1974, TO GAS SALES AGREEMENTS BETWEEN STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC COMPANY, AS A BASIS FOR THE SALE AND DELIVERY BY STANDARD OIL COMPANY OF THE GAS PRODUCED FROM GAS LEASE EASEMENT 415, GAS LEASES PRC 714, AND PRC 729, OIL AND GAS LEASES PRC 3743, AND PRC 3896, AND COMPENSATORY GAS AGREEMENTS PRC 3238 AND PRC 2966, SUBJECT TO FURTHER WRITTEN APPROVAL OF ALL PRICES AGREED UPON FOR THE PERIOD COMMENCING JULY 1, 1976, AND FURTHER SUBJECT TO THE EXPRESS CONDITION THAT THIS APPROVAL SHALL NOT BE CONSTRUED TO MODIFY OR TO AFFECT IN ANY MANNER ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL THE TERMS AND CONDITIONS OF THE LEASES AND AGREEMENTS AND THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION.

Attachment:
Calendar Item 21 (2 pages)

CALENDAR ITEM

10/75
WFY
W 9738

21.

REQUEST FOR APPROVAL OF GAS SALES AGREEMENT
STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC
GAS AND ELECTRIC,
SACRAMENTO, SOLANO, CONTRA COSTA AND SAN JOAQUIN COUNTIES

Standard Oil Company of California has negotiated price increases with Pacific Gas and Electric Company for gas sold to it under contracts with Standard. Some of the contracts cover gas produced from State leases and gas allocated to State land under compensatory agreements. Standard Oil Company has submitted for approval, Letter Agreements, dated December 2, 1974, between Standard and PG&E that will modify the price provisions of the Gas Sales Agreements covering the State leases and agreements. These and corresponding price changes are listed below:

<u>LEASE</u>	<u>FIELD</u>	<u>PG&E CONTRACT DATE</u>	<u>CURRENT PRICE MCF</u>	<u>NEW PRICE MC</u>
LSE 415 CH-5 1938	Decker Island	6-30-67	46.5¢	77.0¢
PRC 3238	Liberty Island	9-4-68	36.5¢	62.0¢
LSE 415 CH-5 1938	Rio Vista and Isleton	1-1-56	47.0¢	75.0¢
LSE 415 CH-5 1938	Rio Vista Deep	9-22-67	45.0¢	75.0¢
PRC 714 & PRC 729	River Island	1-1-61	42.0¢	71.0¢
PRC 3743 & PRC 3896	Ryer Island	11-26-68	47.0¢	78.5¢
PRC 2966	West Thornton	7-18-57	43.5¢	72.0¢

The new prices will be adjusted as provided for in the agreements listed above, based on the average heating value of the gas in BTU's per cubic foot. The new contract prices are, in general, significantly in excess of the "border price", i.e., the price paid by California utilities to out-of-state gas suppliers at the California-Nevada-Arizona borders, currently 63.2 cents per MCF. Estimated increase in income to the State attributable to the price increase will amount to approximately one million dollars per year.

The effective date of the modified agreements is July 1, 1975, to July 1, 1976 with a price to be mutually agreed upon for each succeeding period, commencing July 1, 1976 as specified in the agreements.

The State leases subject to the sales agreement have been reviewed by the Office of the Attorney General with the following comments:

A 5, 9, 10, 12
S 4, 6, 7

Revised 1-20-76

1257

CALENDAR ITEM NO. 21. (CONTD)

1. State lease PRC 415, which produces in excess of 82% of the gas to be sold pursuant to the subject agreements, does not provide for the State to take its royalty share of the gas in kind.
2. Whatever power the State may have to defer production in anticipation of future rises pursuant to PRC 6830 is abridged by the provision of the unit agreement governing PRC 415 as provided in PRC 6832. Amendment to all leases would be required to defer production of the State's royalty share of the gas.
3. The Commission's approval of the subject sales agreements would not prevent the State from requiring the payment of royalties based upon a higher price, if it were determined that such higher price was the reasonable market value of the gas. The reasonable market value of the gas can be determined by the Commission at any time during the lease.
4. The staff does not have any objective data which would support a higher price, at this time, than the prices contained in the subject contracts.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE APPROVAL OF THE LETTER AGREEMENT MODIFICATIONS DATED DECEMBER 2, 1974, TO GAS SALES AGREEMENTS BETWEEN STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS AND ELECTRIC COMPANY, AS A BASIS FOR THE SALE AND DELIVERY BY STANDARD OIL COMPANY OF THE GAS PRODUCED FROM GAS LEASE EASEMENT 415, GAS LEASES PRC 714, AND PRC 729, OIL AND GAS LEASES PRC 3743, AND PRC 3896, AND COMPENSATORY GAS AGREEMENTS PRC 3238 AND PRC 2966, SUBJECT TO FURTHER WRITTEN APPROVAL OF ALL PRICES AGREED UPON FOR THE PERIOD COMMENCING JULY 1, 1976, AND FURTHER SUBJECT TO THE EXPRESS CONDITION THAT THIS APPROVAL SHALL NOT BE CONSTRUED TO MODIFY OR TO AFFECT IN ANY MANNER ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL THE TERMS AND CONDITIONS OF THE LEASES AND AGREEMENTS AND THE RULES AND REGULATIONS OF THE STATE LANDS COMMISSION.