MINUTE ITEM
This Calendar Item No. 25
was approved as Minute Item
No. 25 by the State Lands
Commission by a vote of 3
to 0 at its 8/31/78
meeting.

MINUTE ITEM

8/78
Willard

25. DETERMINATION OF THE REASONABLE MARKET VALUE OR CURRENT MARKET PRICE OF NATURAL GAS FOR THE PURPOSE OF ESTABLISHING ROYALTY DUE THE STATE UNDER STATE GAS LEASES IN NORTHERN CALIFORNIA - W 9738

During consideration of Calendar Item 25, attached, Mr. William F. Northrop, Executive Officer, introduced for the record the arbitration award in the proceedings entitled Texaco, Inc., Aminoil U.S.A., Inc., and the Superior Oil Company v. Pacific Gas and Electric Company.

Commission-Alternate Sid McCausland stated since this Commission had had many hearings on this matter and had built an extensive record, he moved that the resolution as presented in Calendar Item 25 be approved. Commission-Alternate Betty Jo Smith seconded this motion. Chairman Kenneth Cory noted for the record that the staff's recommendation, as set forth in Calendar Item 25, was unanimously approved by a vote of 3-0.

At the close of the meeting, Mr. McCausland (now Acting Chairman) clarified that the Commission's action at this meeting set the price of natural gas for last year. However, as to prices the Commission is willing to accept for the current year, he pointed out the entire issue must be readdressed in terms of the total mix of gas utilized within the State and the true market value of the resource. He indicated this review might entail going through the same lengthy hearing process, but with a resource as precious as this is, it is important that it be priced at an appropriate level.

Attachment

A 5, 9, 10, 12

S 4, 6, 7

CALENDAR ITEM

25.

8/78
W 9738
Willard

DETERMINATION OF THE REASONABLE MARKET VALUE OR CURRENT MARKET PRICE OF NATURAL GAS FOR THE PURPOSE OF ESTABLISHING ROYALTY DUE THE STATE UNDER STATE GAS LEASES IN NORTHERN CALIFORNIA

On September 30, 1976, the State Lands Commission approved an interim price for its royalty gas from State leases in the Rio Vista, River Island and Ryer Island gas fields in Northern California which are operated by Chevron U.S.A., Inc. The interim price was $1.20 per MMBtu, and the approval of this price was for a period of 6 months beginning July 1, 1976. The approval was given on the condition that it shall not be deemed a determination by the State of the reasonable market value of the royalty gas. The approval was subject to the right of the State, at the end of the 6-month period or any time thereafter, to make a determination of the reasonable market value or current market price of the royalty gas for the purpose of establishing the price to be paid to the State beginning January 1, 1977, for its royalty gas from its Rio Vista, River Island and Ryer Island leases.

On December 15, 1976, the Commission delegated to its Executive Officer the powers conferred by Section 6103 of the Public Resources Code and Article 2 of Chapter 2 of Division 3 of Title 2 of the Government Code (Sections 11180, et seq.) to conduct an investigation into the reasonable market value of natural gas in Northern California for the purpose of accumulating data to aid the Commission in its determination of the reasonable market value of gas produced in the Rio Vista, River Island and Ryer Island gas fields. A hearing conducted by the Executive Officer was held in Sacramento on August 11, 1977. Oral and written statements were presented at the hearing by the staff of the State Lands Commission and by a number of interested parties including Pacific Gas and Electric Company, Chevron U.S.A., Inc., and the California Public Utilities Commission. Several written statements were submitted subsequent to the hearing.

A staff recommendation of prices to be used in a determination of the reasonable market value of the State's royalty gas was submitted to the Commission in the form of a calendar item at its meeting on September 29, 1977. Considerable testimony was given by interested parties in opposition to the staff's recommendation, and the subject generated considerable discussion among members of the Commission. At the conclusion of the testimony and discussions, the Commission decided to defer any determination to a later meeting so that it could further investigate the matter and study the record.

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

CALENDAR ITEM 25 (CONTD)

In the course of its further investigation, the Commission issued subpoenas for the production of several sales contracts for gas produced in Northern California, including the contracts and other agreements between PG&E and Union Oil Company and PG&E and Phillips Petroleum Company governing the sale and exchange of gas produced in the Union Island field in San Joaquin County. At its meeting on November 30, 1977, the Commission placed in the investigatory record all documents theretofore and thereafter subpoenaed in the course of its investigation.

A second hearing conducted by the Executive Officer, as delegatee of the Commission's investigatory powers, was held in Sacramento on January 12, 1978. The principal purpose of the hearing was to receive information concerning and analyses of the Union Island agreements. Analyses by the staff of the State Lands Commission, an employee of the Board of Equalization and PG&E were presented. Statements were presented by other interested parties and several written comments were received in the record after the hearing.

The matter again came before the Commission on January 26, 1978. The staff recommendation presented at that meeting was a proposal that the Commission determine the reasonable market value or current market price of natural gas in accordance with the weighted average of the prices paid by PG&E for its purchases of natural gas for use in the Northern California market area. This weighted average price would be composed of the weighted average border price of PG&E's purchases of out-of-state gas, the weighted average price of the deliveries to PG&E at the California border of Canadian gas from the Pacific Gas Transmission Company, and the weighted average of the prices paid by PG&E for California produced gas. The Commission did not adopt this staff recommendation. Instead, it adopted a resolution providing that it would use in its determination of the reasonable market value or current market price of the gas produced from the State leases in the Rio Vista, Isleton, River Island and Ryer Island fields, the prices that would be the result of the then pending arbitration between PG&E and Texaco, Aminoil and Superior, provided that should the Public Utilities Commission regulate and impose a ceiling on the price of gas produced and sold in California, then the State Lands Commission would use that price ceiling as its determination.

At its meeting of March 1978, the Commission on advice from the Office of the Attorney General as to the legal status of its January 26 resolution, acted to reserve the right to take such further action as it deems necessary after the arbitration is completed.

CALENDAR ITEM 25 (CONTD)

The Texaco-Aminoil-Superior and PG&E natural gas pricing arbitration proceedings have concluded, and an award has been issued effective July 28, 1978. The prices provided in the award for deliveries under 33-1/3% load factor contracts are $1.20 per MMBtu for the period of July 1976 through June 1978, $1.57 for the period July 1978 through June 1979, and $2.02 for the period July 1979 through June 1980. These prices are adjusted by 85%, 92.5% and 95.8% for deliveries under contracts at load factors of 100%, 65% and 45-50%, respectively.

Based on the evidentiary record compiled in this proceeding, and using as a guide the Commission's resolution of January 26, 1978, as modified by its March reservation, the staff is proposing that the Commission independently determine the reasonable market value or current market price of natural gas produced and sold from State leases in the Rio Vista, River Island and Ryer Island gas fields in accordance with the price provided in the contracts entered into between PG&E and the State's lessees for sale of the natural gas from the leased lands during the period in question. That price is $1.20 per MMBtu based upon a 33-1/3% load factor and adjusted for the heat content of the gas actually delivered.

IT IS RECOMMENDED THAT THE COMMISSION DETERMINE THAT THE REASONABLE MARKET VALUE OR CURRENT MARKET PRICE FOR ROYALTY GAS PRODUCED UNDER THE FOLLOWING LEASES SHALL BE:

Lease	Field	Load Factor	Reasonable Market Value or Current Market Price ($/MMBtu) Jan.-June 1977	July-Dec. 1977	Jan.-June 1978
E 415	Rio Vista	33%	$1.20	$1.20	$1.20
E 415	Isleton	65%	1.11	1.11	1.11
PRC 714 & 729	River Island	33%	1.20	1.20	1.20
PRC 3743 & 3896	Ryer Island	33%	1.20	1.20	1.20

THE ABOVE VALUES ARE BASED ON GAS DELIVERIES OF 1,000 BTU PER CUBIC FOOT AND WILL BE ADJUSTED FOR THE HEAT CONTENT OF GAS ACTUALLY DELIVERED. FOR THE PERIODS AND LEASES LISTED ABOVE, THESE VALUES SHALL BE USED FOR THE PURPOSE OF DETERMINING ROYALTY PAYMENTS TO THE STATE.

(REV. 8/30/78)