MINUTE ITEM
This Calendar Item No. 39
was approved as Minute Item
No. 39 by the State Lands
Commission by a vote of 3
to 0 at its 3/26/87
meeting.

CALENDAR ITEM

39

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03/26/87
PRC 5995
Gonzalez

APPROVAL OF AMENDED GAS SALES AGREEMENT
STATE OIL AND GAS LEASE PRC 5995
SOLANO COUNTY

LESSEE:
Casex Company
P. O. Drawer 2667
Truckee, California 95734

AREA, TYPE LAND AND LOCATION:
A 238-acre parcel of tide and submerged land, located within the bed of Lindsay Slough, Solano County.

APPROVALS REQUESTED:
Approval of gas sales agreements between Casex Company, the State's Lessee, and Pacific Gas and Electric Company (PG&E), the major buyer of gas production in the area.

BACKGROUND INFORMATION:

1. Casex Company is operator for Casex and Seahawk International, Inc. who are joint Lessees under PRC 5995 at Lindsay Slough. The lease provides for 16 2/3 percent royalty and 80 percent of the net profits to the State. Casex has submitted for Commission approval amended sales agreements with PG&E for natural gas produced from two existing wells on the State Lease.

   On March 28, 1985, the Commission approved an amended gas sales contract between Casex and PG&E, which provided for a sales price of $3 per MMBtu and one-third load factor (minimum purchase is 33 1/3 percent of the

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(ADDED 03/18/87)

wells maximum deliverability) for the calendar year 1985.

PG&E later requested Casex to agree to reductions in prices paid it under the prior gas sales agreement from $3 per MMBtu effective January 1, 1985, to $2.92 per MMBtu effective October 1, 1985, to $2.66 per MMBtu effective November 1, 1985, to $2.50 per MMBtu effective January 1, 1986, and to $2.23/MMBtu effective April 1, 1986.

PG&E advised at each price change that the amendments were required to permit PG&E to comply with the California Public Utilities Commission (CPUC) approved average cost sequencing guidelines, and would preserve Casex's then current sales sequencing position (i.e., for discretionary purchases Casex's gas would have priority over interstate gas). PG&E further advised that under the CPUC mandate, PG&E would honor the minimum purchase requirements of the prior agreement and make discretionary purchases only from those sellers who agreed to the load factor of 33 1/3 percent and the proposed sales price.

On June 30, 1986, El Paso Natural Gas Company, one of PG&E's out-of-state gas suppliers, filed with the Federal Energy Regulatory Commission a request to reduce its commodity price for gas entering PG&E's system effective July 1, 1986. This drop in price by El Paso reflected current market conditions which created the need for California gas producers to lower their price to compete with low-cost spot and discount priced gas available to PG&E. PG&E again notified its California producers, including Casex, that they agree to lower their wellhead price to $2.05 per MMBtu effective August 1, 1986, if they were to maintain a preferential position in PG&E's gas purchase sequencing (PG&E's take of preferentially sequenced priced gas had been less than 50 percent for the months of August, September and October 1986 inclusive).

As an alternative to the CPUC mandated sequencing program, PG&E offered Casex and other California gas producers, selectively by contract, the option to participate in the new California Gas Market Retention Program (MRP). The MRP offered the gas producer an opportunity to maximize gas deliveries by matching PG&E's average gas cost on a monthly basis in which spot and discount gas was purchased. The contract period for this program was initially to be from August 1, 1986 through October 31, 1986. The MRP price for the month of August 1986 was $1.89 per MMBtu and for the months of September and October 1986, $1.88 per MMBtu; PG&E's take of MRP priced gas was stated at 100 percent for the contract period.

On August 1, 1986, Casex agreed to amend its gas purchase and sales agreements and accepted PG&E's price reduction in order to participate in PG&E's new MRP, to maximize deliverabilities and production and increase income including royalty income. Under a Letter Amendment dated October 13, 1986, PG&E offered the California natural gas producers the extension of PG&E's MRP from November 1, 1986 to December 31, 1986. This program required the seller (Casex) to adjust the cost of its produced gas to compete with out-of-state lower-cost gas available to PG&E. The adjusted MRP price for November and December 1986 was $1.84 and $1.80 per MMBtu, respectively. Gas deliveries under this extended program were at 100 percent gas well deliverability, subject to PG&E system constraints.

LATEST AMENDMENT TO EXISTING GAS PURCHASE AND SALES AGREEMENT:
In a letter dated December 12, 1986, PG&E offered the California natural gas producers three pricing program alternatives which PG&E represents to be the "Fair Market Value" (FMV) price for gas sold at the wellhead in Northern California. Each program has a different price and term. However, the effective date of each

pricing program is January 1, 1987, and the term is that period of time which must elapse before Casex or PG&E may again redetermine the FMV purchase price pursuant to existing gas purchase and sales agreements. The three FMV pricing program alternatives are:
(1) $1.70 per MMBtu for the 1987 contract year; (2) $1.75 per MMBtu for the 1987 and 1988 contract years; and (3) $1.80 per MMBtu for the 1987, 1988 and 1989 contract years. These programs are based on a 33 1/3 percent take of each well deliverability.

Casex has selected a different program for each of two producing wells on the lease: the $1.70/MMBtu for Well 1-1 and the $1.80/MMBtu for Well 1-2. These selections are based on the wells respective production pressures which indicate their probable productive lives. It is likely that Well 1-1 may last two or three years and advantage can be taken of any price increase that may occur in 1988 or beyond. Well 1-2 may only be productive for another year, so the highest price offered has been agreed to by Casex.

Staff has reviewed PG&E's pricing adjustments, preferential purchase sequencing program, market retention program and fair market value pricing program as applicable to Casex and finds that the State's best interest has been served in maximization of production and income from the Casex lease through the several price changes. Staff also finds it is in the State's best interest to approve PG&E's fair market value alternatives of $1.70/MMBtu for Casex Well 1-1 for the 1987 contract year and $1.80/MMBtu for Casex Well 1-2 for the 1987, 1988 and 1989 contract years.

AB 884: N/A.

OTHER INFORMATION INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Adm. Code 15061), the staff has determined that this activity is exempt

from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

Authority: P.R.C. 21065 and 14 Cal. Adm. Code 15378.

EXHIBIT: A. PG&E Price Adjustments.

IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. ADM. CODE 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. ADM. CODE 15378.

2. APPROVE THE PRIOR GAS PRICE ADJUSTMENTS MADE BY PG&E, AS LISTED IN EXHIBIT "A" AND BY REFERENCE MADE A PART HEREOF, AND AGREED TO BY CASEX COMPANY;

3. APPROVE THE GAS PURCHASE AND SALES AGREEMENT BETWEEN PG&E AND CASEX COMPANY, EFFECTIVE JANUARY 1, 1987, FOR A PURCHASE PRICE OF $1.70/MMBTU FOR GAS PRODUCED FROM CASEX WELL 1-1 FOR THE CONTRACT YEAR 1987 AND A PURCHASE PRICE OF $1.80/MMBtu FOR GAS PRODUCED FROM CASEX WELL 1-2 FOR THE CONTRACT YEARS 1987, 1988 AND 1989.

EXHIBIT "A"

PRC 5995.1

PG&E PRICE ADJUSTMENTS

(Under Preferential Gas Purchase Sequencing Program)

From	To	Amount
	December 31, 1984	$3.84
January 1, 1985	September 30, 1985	$3.00
October 1, 1985	October 31, 1985	$2.92
November 1, 1985	December 31, 1985	$2.66
January 1, 1986	March 31, 1986	$2.50
April 1, 1986	July 31, 1986	$2.23
August 1, 1986	October 31, 1986	$2.05
November 1, 1986	December 31, 1986	$1.93

(Under California Market Retention Program

From	To	Amount
August 1, 1986	August 31, 1986	$1.89
September 1, 1986	September 30, 1986	$1.88
October 1, 1986	October 31, 1986	$1.88
November 1, 1986	November 30, 1986	$1.84
December 1, 1986	December 31, 1986	$1.80

"FAIR MARKET VALUE PROGRAM"

Program Alternative	Proposed Fair Market Value Price	Term
1	$1.70/MMBtu	1987 Contract Year
2	$1.75/MMBtu	1987 and 1988 Contract Years
3	$1.80/MMBtu	1987,1988 and 1989 Contract Years

(ADDED 03/18/87)

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