

This Calendar Item No. C73 was approved as
Minute Item No. 73 by the California State Lands
Commission by a vote of 3 to 0 at its
4-26-05 meeting.

CALENDAR ITEM
C73

A 15

04/26/05

S 5

PRC 8604

W 40906

M. LeClair

**CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE
(NO SURFACE USE) OIL AND GAS LEASE,
GEORGIANA SLOUGH,
SACRAMENTO COUNTY**

APPLICANT:

Towne Exploration Company
Attn.: Mr. Edward B. Towne
582 Market Street, Suite 515
San Francisco, CA 94104

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease is on about 9.93 acres in the Georgiana Slough, Sacramento County, California.

BACKGROUND:

Towne Exploration Company has submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease on about 9.93 acres in the Georgiana Slough, Sacramento County (Exhibit A, attached hereto). Because the State land is a waterway, surface locations for oil and gas operations (drill sites) are not available. However, oil and gas resources that may underlie the State land can be developed and protected pursuant to the California State Lands Commission's negotiated subsurface (no surface use) Oil and Gas Lease, which would permit Commission-approved directional drilling from a County-approved drill site and would permit inclusion of the leased lands in a Commission-approved pooled area or unit.

Public Resources Code section 6815(a) authorizes the Commission to negotiate and enter into oil and gas leases on State lands if any of the following exists: wells drilled on private or public lands are draining or may drain oil and gas from the State lands, the Commission determines the State lands to be unsuitable for competitive bidding because of such factors as their small size or irregular

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configuration or their inaccessibility from surface drill sites reasonably available or obtainable, the State owns a fractional mineral interest in the lands, or the Commission determines the lease to be in the best interests of the State.

Because the Applicant controls, by lease and agreement, all of the private property adjacent to the State land described in Exhibit A, attached hereto, and because the Applicant has County (Lead Agency) approval to drill a well near the State land, Commission staff has concluded that the criteria of Public Resources Code section 6815(a) have been satisfied. A negotiated subsurface (no surface use) Oil and Gas Lease with the Applicant will protect oil and gas resources that may underlie the State land, which is unsuitable for competitive bidding because surface drill sites are not available and wells drilled on the adjacent private property may drain State oil and gas resources.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15061), the staff has determined that this activity is exempt from the requirements of the CEQA as a categorically exempt project. The project is exempt under Class 3, New Construction of Small Structures; Title 14, California Code of Regulations, section 15303.

Authority: Public Resources Code section 21084 and Title 14, California Code of Regulations, section 15300.

2. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code section 6370, et seq. However, the Commission has declared that all state school lands and submerged lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since such 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.
3. Drilling term of five (5) years. However, if all or part of the leased lands are included in a Commission-approved pooled area or unit, then drilling operations on and production from lands pooled or unitized with the leased lands shall be deemed to be drilling operations on and production

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from the leased lands that are included in the Commission-approved pooled area or unit.

4. Annual rental of \$25.00 per acre (\$250.00 for approximately 9.93 acres).
5. Royalty of 20 percent on gas and oil.
6. Performance bond or other security in the sum of \$10,000.00.

PERMIT STREAMLINING ACT DEADLINE:

June 13, 2005

EXHIBITS:

- A. Land Description
- B. Site Map

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 AS A CATEGORICALLY EXEMPT PROJECT, CLASS 3, NEW CONSTRUCTION OF SMALL STRUCTURES; TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15303

OTHER FINDINGS:

1. DETERMINE THAT THE CRITERIA OF PUBLIC RESOURCES CODE SECTION 6815(a) HAVE BEEN MET, THAT A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE IS THE BEST INSTRUMENT TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO, AND THAT THE STATE LAND IS UNSUITABLE FOR COMPETITIVE BIDDING BECAUSE SURFACE DRILL SITES ARE NOT AVAILABLE AND WELLS DRILLED ON THE ADJACENT PRIVATE PROPERTY MAY DRAIN STATE OIL AND GAS RESOURCES.

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AUTHORIZATION:

1. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE WITH TOWNE EXPLORATION COMPANY. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO, (APPROXIMATELY 9.93 ACRES), A DRILLING TERM OF FIVE (5) YEARS, ANNUAL RENTAL OF \$25.00 PER ACRE (\$250.00 FOR APPROXIMATELY 9.93 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$10,000.00.

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

EXHIBIT A

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LAND DESCRIPTION

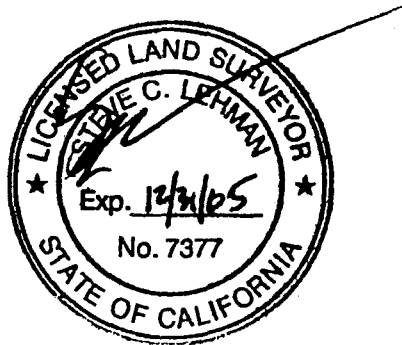
A parcel of tide and submerged land in the bed of Georgiana Slough, County of Sacramento, State of California, and more particularly described as follows:

Said parcel being bounded on the southwest by the southeasterly prolongation of the northeast line of that land conveyed to Andrus Island Co. in Deed Recorded October 15, 1908, in Book 276 of Deed, Page 253, Sacramento County Records; bounded on the northeast by a line lying 1596 feet northeast of and parallel with said northeast line of that land conveyed to Andrus Island Co.; bounded on the northwest by the right back of Georgiana Slough; bounded on the southeast by the left bank of Georgiana Slough.

EXCEPTING THEREFROM any portion lying landward of the ordinary high water mark of said Georgiana Slough.

END OF DESCRIPTION

Prepared by the California State Lands Commission Boundary Unit March 30, 2005



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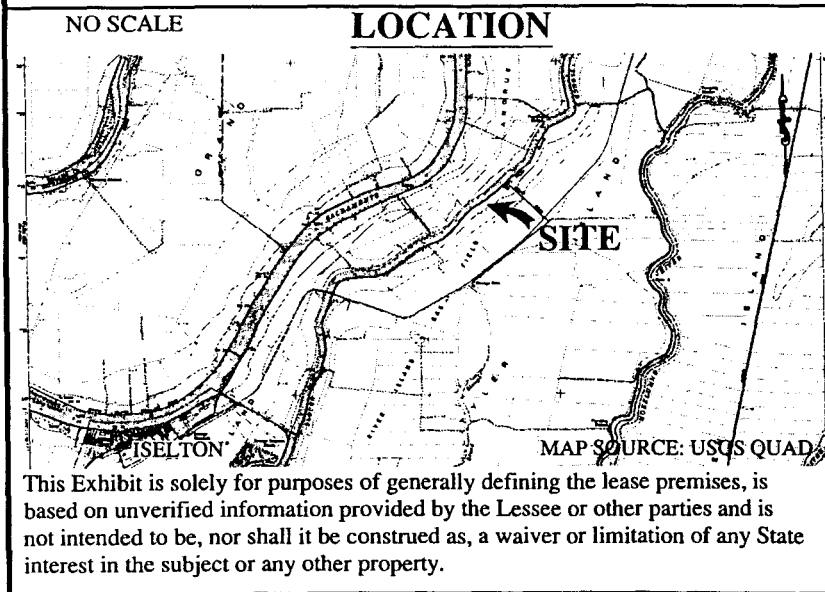
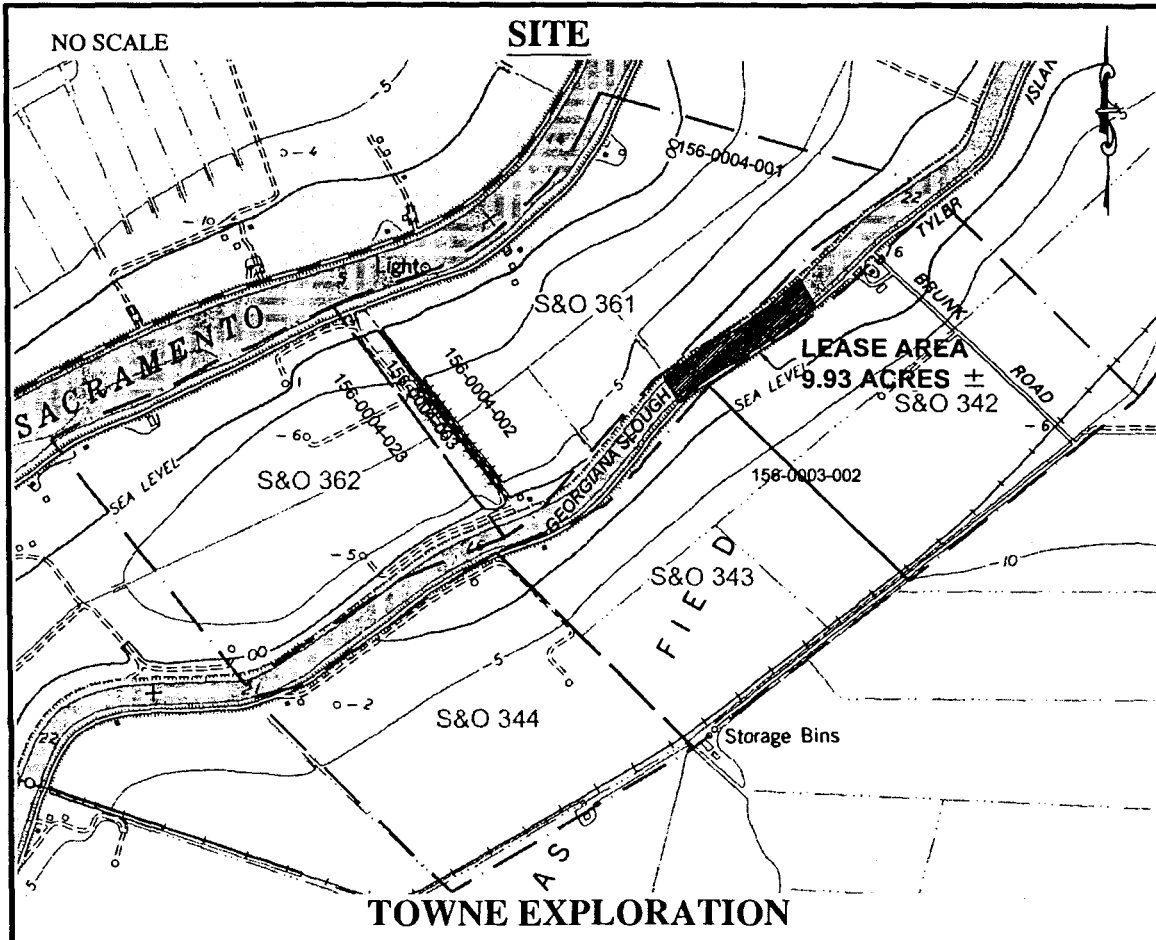


Exhibit B

W 40906
OIL AND GAS LEASE
GEORGIANA SLOUGH
SACRAMENTO COUNTY



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.