

MINUTE ITEM

8/21/75
WFY

14, REQUEST FOR APPROVAL OF GAS SALES AGREEMENT, STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS & ELECTRIC COMPANY; SACRAMENTO, SOLANO, CONTRA COSTA AND SAN JOAQUIN COUNTIES - W 9738, PRC 3238, E 415, PRC 3743, PRC 3896, PRC 2966.

During consideration of Calendar Item 15 attached, Mr. D. J. Everitts, Manager, Energy and Mineral Resources Development, summarized the transaction. He indicated that based on the heating value, the prices that Standard Oil Company of California and Pacific Gas and Electric Company are offering under this Gas Sales Agreement are equivalent to controlled oil prices. Chairman Kenneth Cory asked if the Commission had the option of not approving the item and leaving the gas in the ground until the price goes up and then selling it. Messrs. Ed Taaffe and T. N. Finical, Jr., representing Standard Oil Company of California, appeared. They stated that the proposed price is the only one that Standard can get. However, they indicated that they did not think, according to the terms of the contract, that the Commission could tell Standard whether it can or cannot accept a price.

After a lengthy discussion, the matter was deferred. The staff was instructed to review the pricing situation and investigate whether there was a possibility of either 1) taking our gas in kind and selling it, or 2) not selling our gas and just telling Standard to store the gas in the reservoir until such time as more equitable prices can be obtained.

Attachment:

Calendar Item 14 (2 page)

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

CALENDAR ITEM

14.

8/75
WFY
W 9738

REQUEST FOR APPROVAL OF GAS SALES AGREEMENT
STANDARD OIL COMPANY OF CALIFORNIA AND PACIFIC GAS & 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/MCF</u>
LSE 415.1 Ch. 5-1968	Decker Island	6-30-67	46.5¢	77.0¢
PRC 3238.1	Liberty Island	9-4-68	36.5¢	62.0¢
PRC 415.1	Rio Vista and Isleton	1-1-56	47.0¢	75.0¢
PRC 415.1	Rio Vista Deep	9-22-67	45.0¢	75.0¢
PRC 714.1 & PRC 729.1	River Island	1-1-61	42.0¢	71.0¢
PRC 3743.1 & PRC 3896.1	Ryer Island	11-26-68	47.0¢	78.5¢
PRC 2966.1	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.

CALENDAR ITEM NO. 14. (CONTD)

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 415.1, GAS LEASES PRC 714.1 AND PRC 729.1, OIL AND GAS LEASES PRC 3743.1 AND PRC 3896.1, AND COMPENSATORY GAS AGREEMENTS PRC 3238.1 AND PRC 2966.1, 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.