This Calendar Item No. 27
was approved as Minute Item
No. 27 by the State Lands
Commission by a vote of 3
to 0 at its 12/15/76
meeting.

MINUTE ITEM

12/15/76
W 3738 DJE

27. PUBLIC HEARINGS ON VALUE OF NATURAL GAS PRODUCED FROM STATE LEASES.

During consideration of Calendar Item 27, attached Douglas McCloud, Manager, Pacific Gas & Electric Company, appeared. In summary, Mr. McCloud stated that P.G.&E. is not opposed to holding public hearings to determine the price of gas. However, it is his opinion the good resulting from the hearings will be either minimal or detrimental.

Upon motion duly made and carried, the resolution was presented in Calendar Item 27 was adopted by a vote of 3-0.

Attachment: Calendar Item 27 (2 pages)

A 5, 9, 10, 12

S 4, 6, 7

CALENDAR ITEM 12/76
DJE

27.

PUBLIC HEARINGS ON VALUE OF NATURAL GAS PRODUCED FROM STATE LEASES

On September 30, 1976, the State Lands Commission approved an interim price for its royalty gas from State leases produced by Standard Oil Company of California, of $1.20 per mmbtu, for a period of six months commencing July 1, 1976, with the understanding that such approval would not be deemed a determination by the State of the current reasonable market value of the royalty gas. The approval was to be subject to the right of the State at the end of the six month period or any time thereafter, to make a determination of the reasonable market value of the royalty gas, for the purpose of establishing the price to be paid the State for the royalty gas, beginning January 1, 1977. Purusant to the various lease agreements, the reasonable market value of the gas may be determined by the Commission at any time during the lease.

Factors in the consideration of the value of natural gas in northern California should include:

(1) The market value of northern California gas production for direct industrial use. This is essentially based on the present and forecast price of natural gas and alternative fuel deliveries for industrial use in northern California taking into account the extent of forecast curtailment of natural gas supplies, less the cost of pipe line transportation for these industrial gas supplies from the field to the industry involved.

(2) The cost of alternative fuels in northern California. This is essentially the cost of such alternate fuels as LPG (propane), diesel fuel (kerosene) and residual fuel oil, depending upon the adaptability of individual industries to the use of each of these alternate fuels.

Pacific Gas and Electric Company has reported that 45 percent of their supplies (from El Paso out-of-state and Pacific Gas Transmission Canadian Gas) will cost at lease $1.60 per mmbtu on the first of the year; California Gas Producers Association reports that the price for industrial natural gas purchases in northern California will increase to over $1.75 per mmbtu at the wellhead; and newspaper reports indicate that, at least in southern California, contracts have been entered into for large volumes of propane at a price equavalent to $3.26 per mmbtu.

An increase in the interim gas price from $1.20 per mmbtu to $1.50 per mmbtu would result in an increased annual royalty revenue to the State of approximately $750,000.

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

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE, TO CONDUCT PUBLIC HEARINGS WHERE THE CONCERNED PARTIES MAY PRESENT EVIDENCE FOR THE RECORD TO SERVE AS A BASIS FOR THE COMMISSION'S DETERMINATION OF THE REASONABLE MARKET VALUE OF STANDARD'S DELIVERIES OF NORTHERN CALIFORNIA DRY GAS TO P.G.&E.