

MINUTE ITEM

This Calendar Item No. 25
was at the meeting of the
No. 25
Commission on 3
to 3/24/77
at its
meeting.

MINUTE ITEM

2/24/77
AHL

25. RENEWAL OF GAS STORAGE LEASE PRC 2839.1 - W 6901, PRC 2839.1.

During consideration of Calendar Item 25 attached, Mr. Sid McCausland, Commission-alternate, asked staff to submit a report to the Commission on the history of volumetric thru-put so that the Commissioners will have it on record.

Mr. R. C. Hight, staff counsel, then explained the item, and without objection it was approved as presented.

Upon motion duly made and carried, the resolution as presented in Calendar Item 25 was approved as presented by a vote of 3-0.

Attachment: Calendar Item 25 (2 pages)

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CALENDAR ITEM

25.

2/77
W 6901
PRC 2839.1
AHJ

RENEWAL OF GAS STORAGE LEASE PRC 2839.1

On February 27, 1962 (Minute Item 22, pp. 7707-09), the State Lands Commission approved the Gas Storage Lease, McDonald Island Field, PRC 2839.1, granting to the Pacific Gas and Electric Company the sole and exclusive right to inject and store gas within the State portion of the McDonald Island Sand in McDonald Island Gas Field. McDonald Island Sand is a gas reservoir zone within the State Compensatory Agreement E 412.1.

E 412.1 was entered into on March 1, 1940, with Standard Oil Company of California to compensate the State for drainage of gas from land underlying Whiskey Slough, San Joaquin County, through wells drilled on the adjoining lands. In 1958 (after producing approximately 150,000,000 Mcf of gas), lease E 412.1, covering the partially depleted reservoir, was shut in. During that period (1940-1958) the State received approximately \$224,000 as compensation for gas drained from State-owned lands. On January 19, 1959 (Minute Item 12, pp. 4438-39), the Commission approved the assignment of E 412.1 to Pacific Gas and Electric Company for evaluation of the McDonald Island Sand zone as a gas storage reservoir.

Gas Storage Lease PRC 2839.1, was issued for a period of 15 years from March 1, 1962, with the lessee's preferential right to renew the agreement for two successive periods of 15 years each under such reasonable terms and conditions as the State may prescribe. The State's proportionate ownership of Whiskey Slough overlying the McDonald Island Sand has been determined as 12.193%.

The storage agreement provided for an annual rental of \$20,000 or 1 cent per Mcf of gas injected, whichever is greater, during the first five years of the lease. From the sixth through fifteenth year the rental was subject to a yearly increase of 2%. In 15 years P.G.&E. has injected 28 million Mcf of gas and paid to the State approximately \$400,000.

Pacific Gas and Electric has submitted a letter application for renewal of the Gas Storage Lease PRC 2839.1 for a period of 15 years, beginning March 1, 1977. Negotiations between the State and the lessee have been in progress for several months and involve various considerations including changes in the evaluation of the total extent of the McDonald Island gas sands, changes in the system of royalty accounting, and rental increases. The final form of the revised lease will also be subject to the approval by the State Attorney General's Office.

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CALENDAR ITEM NO. 25. (CON'D)

In view of the above-stated reasons and in order to assure the continuity of the McDonald Island storage and withdrawal operations;

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE AN INTERIM EXTENSION OF GAS STORAGE LEASE PRC 2839.1 UNDER ITS PRESENT TERMS AND CONDITIONS FOR A PERIOD OF SIX MONTHS FROM MARCH 1, 1977, TO AUGUST 31, 1977, TO PERMIT COMPLETION OF NEGOTIATIONS FOR A RENEWAL LEASE, THE TERMS AND CONDITIONS OF THE RENEWAL LEASE TO BE EFFECTIVE FROM MARCH 1, 1977.

EXHIBITS: A. & B. Site Maps.