

MINUTE ITEM

This Calendar Item No. 21  
was approved as Minute Item  
No. 21 by the State Lands  
Commission by a vote of 3  
to 0 at its 1-26-81  
meeting.

CALENDAR ITEM

21

1/81  
PRC 5107  
Reese

AUTHORIZE EXECUTION OF A  
SUPPLEMENTARY LETTER OF UNDERSTANDING

BACKGROUND:

At its meeting on April 28, 1976, the Commission approved an Industrial Lease for pipeline purposes to Shell Oil Company. Paragraph 2, of Section 2 of the subject Lease PRC 5107.1 states: "Lessee covenants that the pipelines covered by this lease shall be used solely for the transportation of natural gas controlled by Lessee in the Sacramento Basin to Lessee's refinery located in Martinez, California. The gas transported through the subject pipelines will be used solely as process feed and process fuel for Lessee's Martinez Refinery."

CURRENT SITUATION:

Shell Oil Company, by letter dated December 9, 1980, has requested the deletion of Paragraph 2 of Section 2 of Lease PRC 5107.1. Shell's basis to justify the deletion of the above-mentioned provision is as follows:

"Under the present conditions, the use of such pipeline is limited by the amount of gas which the Shell Martinez Refinery can use at any particular time. This factor inhibits future development by Shell and others in the area served by such pipeline. If the subject pipeline were more available as a market to other producers, such factor would encourage drilling by such producers and could also eliminate the need for additional pipeline construction and more efficiently use the scarce resources which would be used for such construction."

"If at any time, for reasons of maintenance, the demand for gas at the Martinez Refinery is restricted, then the wells supplying such gas to such pipeline must also be restricted. If such wells could be produced at a relatively continuous rate, such procedure would allow greater production efficiency

A 4, 5, 10

S 3, 4, 7

-1-

CALENDAR PAGE	<u>105</u>
MINUTE PAGE	<u>123</u>

CALENDAR ITEM NO. 21. (CONTD)

and extend the commercial life of the gas reserves."

Staff has reviewed Shell's proposal and is recommending that a supplementary letter of understanding be prepared which provides for the deletion of Paragraph 2 of Section 2 of Lease PRC 5107.1 and additionally providing that the Lessor reserves the right to fix a volumetric rental as set forth in Title 2, Division 3, Article 2 of the California Administrative Code upon any increase in the projected annual volume of commodities submitted by Shell for the period of April 1, 1981 through May 31, 1986.

This activity is not a project under CEQA and does not require the preparation of environmental documents.

EXHIBITS: A-1 and A-2. Site Maps.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN EIR HAS NOT BEEN PREPARED FOR THIS ACTIVITY AS SUCH DOCUMENT IS NOT REQUIRED UNDER THE PROVISIONS OF P.R.C. 21065, 14 CAL. ADM. CODE 15037 AND 15060 AND 2 CAL. ADM. CODE 2903(d).
2. AUTHORIZE ISSUANCE OF A SUPPLEMENTAL LETTER OF UNDERSTANDING TO SHELL OIL COMPANY WHICH PROVIDES FOR THE DELETION OF PARAGRAPH 2 OF SECTION 2 OF LEASE PRC 5107.1 AND NOTWITHSTANDING PARAGRAPH 2 OF SECTION 5 OF LEASE PRC 5107.1, LESSOR RESERVES THE RIGHT TO FIX A VOLUMETRIC RENTAL AS SET FORTH IN TITLE 2, DIVISION 3, ARTICLE 2 OF THE CAL. ADM. CODE UPON ANY INCREASE IN THE PROJECTED ANNUAL VOLUME OF COMMODITIES SUBMITTED BY SHELL FOR THE PERIOD OF APRIL 1, 1981 THROUGH MAY 31, 1986.
3. SAID AUTHORIZATION IS CONDITIONED ON A SUBSEQUENT DETERMINATION BY THE EXECUTIVE OFFICER THAT SHELL OIL COMPANY AND THE STATE LANDS COMMISSION HAVE ENTERED INTO AN AGREEMENT ACCEPTABLE TO BOTH PARTIES PROVIDING FOR ACCEPTANCE INTO SAID PIPELINE OF GAS OWNED BY THE STATE OF CALIFORNIA TO THE EXTENT OF EXCESS CAPACITY IN SUCH LINE.

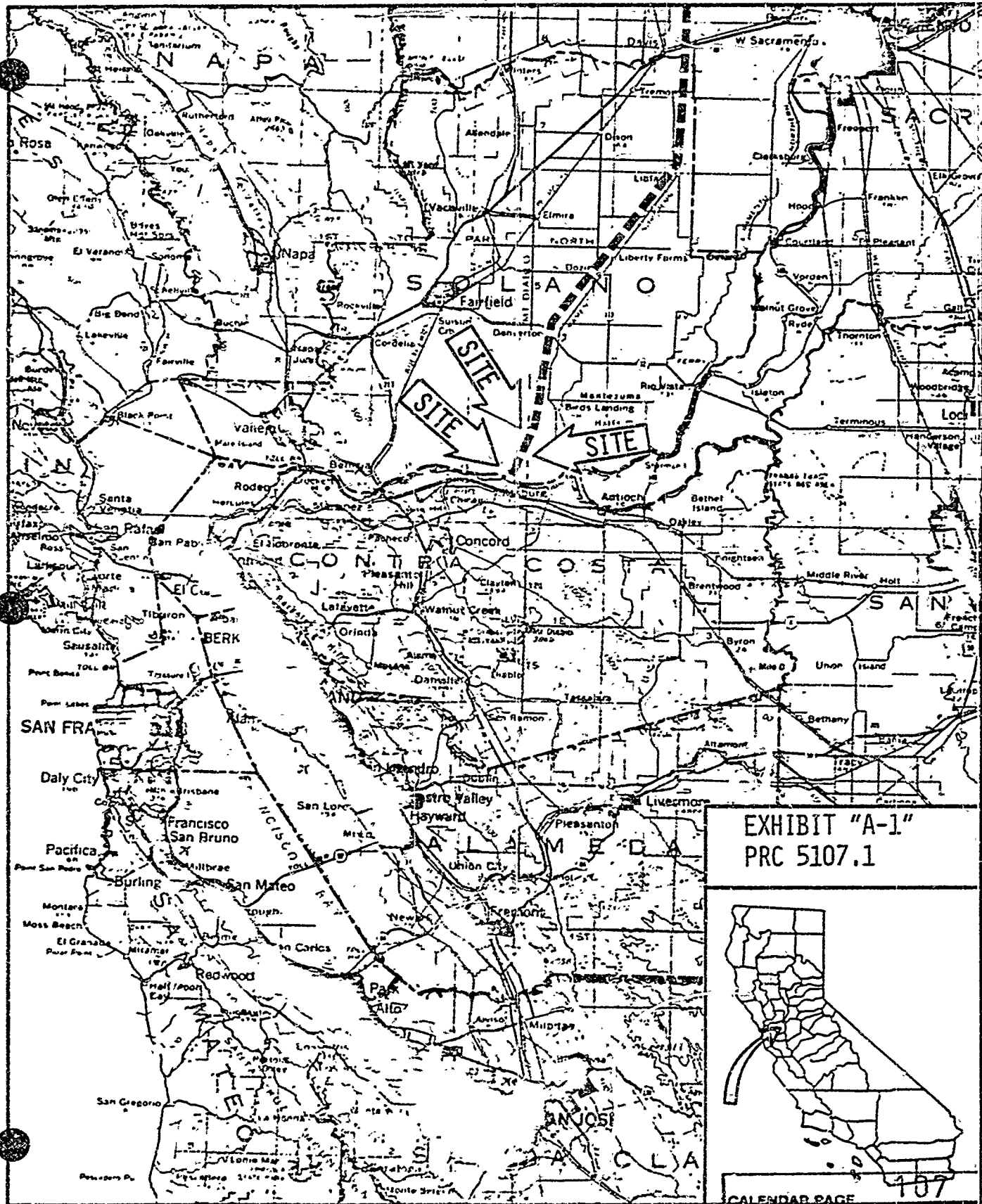


EXHIBIT "A-1"  
 PRC 5107.1



CALENDAR PAGE 107  
 MINUTE PAGE 125



EXHIBIT "A-2"  
 PRC 5107.1



CALENDAR PAGE 108  
 MINUTE PAGE 126