

MINUTE ITEM

82

08/21/96
W 40734
A. Nitsche

**CAPITOL OIL CORPORATION
(PROPOSED LESSEE)**

ITEM PULLED PRIOR TO COMMISSION MEETING

Item attached

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CALENDAR ITEM

C82

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**CAPITOL OIL CORPORATION
(PROPOSED LESSEE)**

ITEM PULLED PRIOR TO COMMISSION MEETING

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W 40734
A. Nitsche

**APPROVE A NEGOTIATED SUBSURFACE (NO SURFACE USE)
STATE OIL AND GAS LEASE ON 117 ACRES
IN THE SACRAMENTO RIVER,
SACRAMENTO COUNTY**

PROPOSED LESSEE:

Capitol Oil Corporation
1545 River Park Drive, Suite 501
Sacramento, California 95815

AREA, TYPE AND LOCATION OF STATE LAND:

Capitol Oil Corporation has submitted a complete application for a negotiated subsurface (no surface use) State oil and gas lease on about 117 acres in the Sacramento River, near Vorden, Sacramento County, California (see Exhibit "A" for land description).

LAND USE:

Because the State land, Sacramento River, 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 from drainage pursuant to the Commission's negotiated subsurface (no surface use) State oil and gas lease which would permit Commission-approved slant drilling from a county-approved drill site and would permit inclusion of the leased lands in a Commission-approved pooled area or unit.

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AUTHORITY:

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 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.

The applicant controls, by lease and agreement, private property adjacent to the State land described in Exhibit "A" and has Department of Conservation, Division of Oil, Gas and Geothermal Resources approval to drill a well near the State land. A negotiated subsurface (no surface use) State 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. Commission staff has concluded that the criteria of Public Resources Code Section 6815(a) have been satisfied.

NON-NEGOTIABLE LEASE PROVISIONS:

1. Primary term will be twenty years and for so long thereafter as oil and gas is produced in paying quantities from the leased lands, or so long as the lessee is diligently conducting producing, drilling, deepening, repairing, redrilling or other necessary lease or well maintenance operations in the leased lands.
2. Lessee has right to use any portion of the leased lands to a depth of 500 feet for drilling locations, producing facilities or related oil and gas operations.
3. All development of the leased lands shall be accomplished from surface locations on adjacent lands.

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4. All drilling into the leased lands shall be by slant drilling from surface locations on adjacent lands and shall be on a course and to an objective approved in writing by the Commission's staff prior to the commencement of drilling.
5. Lessee shall comply with all applicable laws, rules and regulations of Federal, State and local governments and shall receive all necessary permits or approvals prior to slant drilling into the leased lands.

NEGOTIATED LEASE PROVISIONS:

1. Drilling term of three 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 from the leased lands that are included in the Commission-approved pooled area or unit.
2. Annual rental of \$2,340 (\$20 per acre for approximately 117 acres).
3. Royalty of 20 percent on gas and oil.
4. Performance bond or other security in the sum of \$5,000.

PREREQUISITE CONDITIONS, FEES AND EXPENSES:

Filing fee, processing costs, first year's rental, Lessee executed State Oil and Gas Lease (Negotiated-Subsurface-Royalty), and the Division of Oil, Gas and Geothermal Resources drilling permit have been received and are on file in the Commission's Long Beach office.

AB 884:

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OTHER PERTINENT INFORMATION:

1. CEQA Guidelines Section 15378(a)(3) identifies an activity involving the issuance to a person of a lease as a "project". However, if the site of the project or area in which the major environmental effects, if any, will occur is located on private property within the county, that county will have jurisdiction by law and will be the Lead Agency over the project pursuant to CEQA Guidelines Section 15366 if it issues a land use permit for the activity. Sacramento County has revised its zoning ordinances and does not require drilling permits on agricultural parcels greater than 20 acres.

2. The Division of Oil, Gas and Geothermal Resources has determined that drilling operations that result only in minor alterations with negligible or no permanent effects to the existing condition of the land are categorically exempt under CEQA (see 14 Cal. Code Regs. Section 1684.2). The drilling permit issued by the Division of Oil, Gas and Geothermal Resources for the well that will produce from the State lands was issued pursuant to this categorical exemption.

EXHIBIT:

- A. Land Description, Site Map and General Location

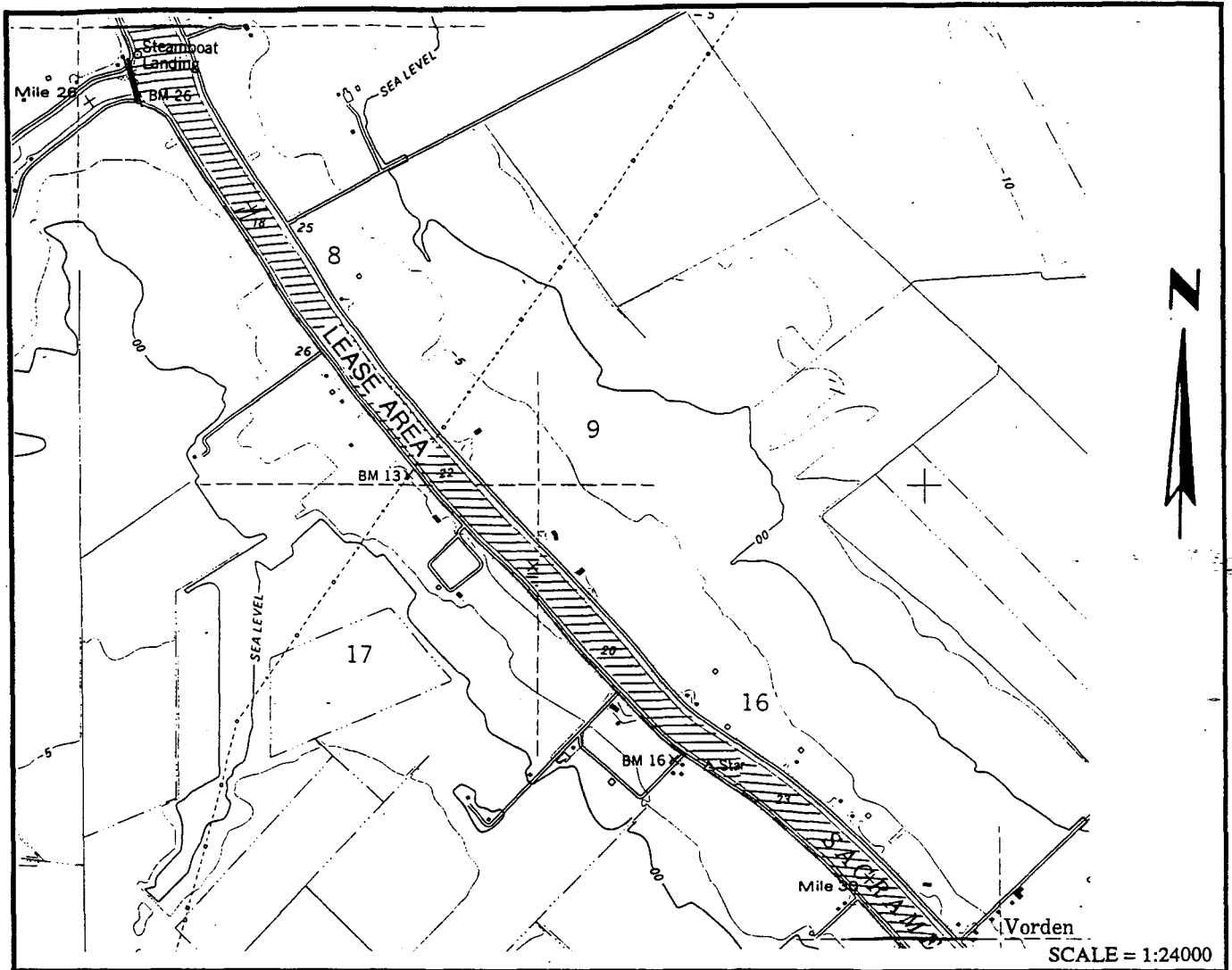
IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THERE IS NO POSSIBILITY THAT THE ACTIVITY MAY HAVE A SIGNIFICANT EFFECT ON THE ENVIRONMENT (14 CAL. CODE REGS. 15061(b)(3)).

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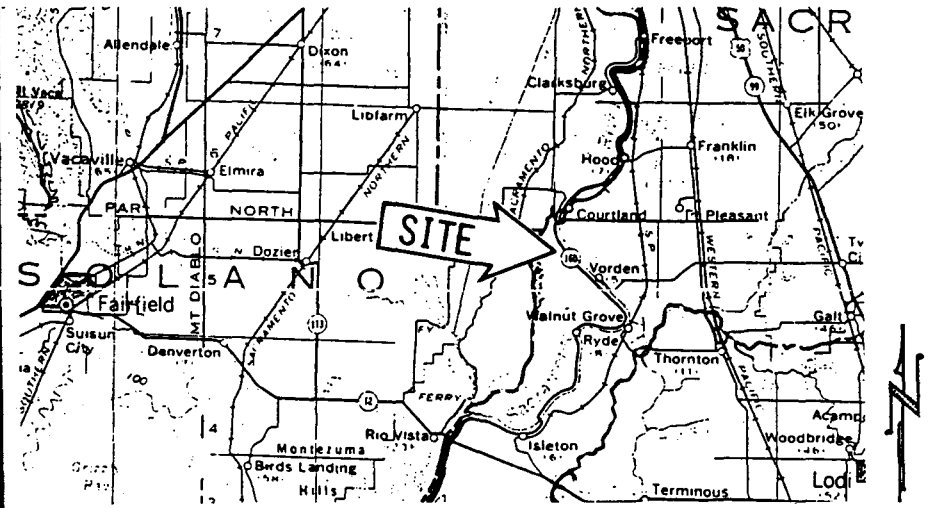
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2. DETERMINE THAT THE CRITERIA OF PUBLIC RESOURCES CODE SECTION 6815(a) HAVE BEEN MET, THAT A NEGOTIATED SUBSURFACE (NO SURFACE USE) STATE OIL AND GAS LEASE IS THE BEST INSTRUMENT TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LAND DESCRIBED IN EXHIBIT "A" 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.
3. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) STATE OIL AND GAS LEASE WITH CAPITOL OIL CORPORATION. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT "A" (APPROXIMATELY 117 ACRES), A DRILLING TERM OF THREE YEARS, ANNUAL RENT OF \$2,340 \$20 PER ACRE FOR APPROXIMATELY 117 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$5,000.
4. AUTHORIZE THE EXECUTION OF THE DOCUMENTS NECESSARY TO EFFECT THE COMMISSION'S ACTION.



SCALE = 1:24000

LOCATION MAP



NO SCALE

This Exhibit is solely for purposes of generally defining the lease premises, 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.

EXHIBIT "A"
 W 40734
 Oil & Gas Lease
 Sacramento River in
 Sec. 8,16,17, T5N,R4E,MDM
 SACRAMENTO COUNTY



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