

MINUTE ITEM

This Calendar Item No. C72 was approved as Minute Item No. 72 by the California State Lands Commission by a vote of 2 to 0 at its 12-08-05 meeting.

CALENDAR ITEM

C72

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12/08/05

PRC 8654

W 40914

S 4

J. L. Smith

**CONSIDER APPLICATION FOR A NEGOTIATED SUBSURFACE
(NO SURFACE USE) OIL AND GAS LEASE,
SACRAMENTO RIVER,
COLUSA AND SUTTER COUNTIES**

APPLICANT:

Orchard Petroleum, Inc.
Attn.: Mr. Steve Freeman
56E. Main Street, Suite 200
Ventura, CA 93301

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease is on about 26.36 acres in the Sacramento River, Colusa and Sutter Counties, California.

BACKGROUND:

Orchard Petroleum, Inc. has submitted a complete application for a negotiated subsurface (no surface use) Oil and Gas Lease on about 26.36 acres in the Sacramento River, Colusa and Sutter Counties (Exhibit A, attached hereto). Because the State land 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 pursuant to the California State Lands Commission's (Commission) negotiated subsurface (no surface use) Oil and Gas Lease, which would permit Commission-approved directional drilling from a County-approved drill site and would permit inclusion of the leased lands in a Commission-approved pooled area or unit.

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

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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.

Because the Applicant controls, by lease and agreement, all of the private property adjacent to the State land described in Exhibit A, attached hereto, and because the Applicant has County (Lead Agency) approval to drill a well near the State land, Commission staff has concluded that the criteria of Public Resources Code section 6815(a) have been satisfied. A negotiated subsurface (no surface use) 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.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (Title 14, California Code of Regulations, section 15061), the staff has determined that this activity is exempt from the requirements of the CEQA as a categorically exempt project. The project is exempt under Class 4, Minor Alterations to Land; Title 14, California Code of Regulations, section 15304.

Authority: Public Resources Code section 21084 and Title 14, California Code of Regulations, section 15300.

2. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code section 6370, et seq. However, the Commission has declared that all state school lands and submerged lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since such declaration of significance is not based upon the requirements and criteria of Public Resources Code sections 6370, et seq., use classifications for such lands have not been designated. Therefore, the finding of the project's consistency with the use classification as required by Title 2, California Code of Regulations, section 2954 is not applicable.
3. Drilling term of five (5) 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

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from the leased lands that are included in the Commission-approved pooled area or unit.

4. Annual rental of \$20 per acre (\$540 for approximately 26.36 acres).
5. Royalty of 20 percent on gas and oil.
6. Performance bond or other security in the sum of \$10,000.00.

PERMIT STREAMLINING ACT DEADLINE:

April 4, 2006

EXHIBITS:

- A. Land Description
- B. Site Map

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15061 AS A CATEGORICALLY EXEMPT PROJECT, CLASS 4, MINOR ALTERATIONS TO LAND; TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15304.

OTHER FINDINGS:

1. DETERMINE THAT THE CRITERIA OF PUBLIC RESOURCES CODE SECTION 6815(a) HAVE BEEN MET, THAT A NEGOTIATED SUBSURFACE (NO SURFACE USE) 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, ATTACHED HERETO, 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.

AUTHORIZATION

1. PURSUANT TO PUBLIC RESOURCES CODE SECTION 6815(a), ENTER INTO A NEGOTIATED SUBSURFACE (NO SURFACE USE) OIL AND GAS LEASE WITH ORCHARD PETROLEUM, INC. THE LEASE WILL CONTAIN THE STATE LAND DESCRIBED IN EXHIBIT A, ATTACHED HERETO, (APPROXIMATELY 26.36 ACRES), A DRILLING TERM OF FIVE (5) YEARS, ANNUAL RENTAL OF \$20.00 PER ACRE (\$540 FOR APPROXIMATELY 26.36 ACRES), ROYALTY ON GAS SUBSTANCES AND OIL FIXED AT 20 PERCENT AND PERFORMANCE BOND OR OTHER SECURITY IN THE SUM OF \$10,000.

2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

LAND DESCRIPTION

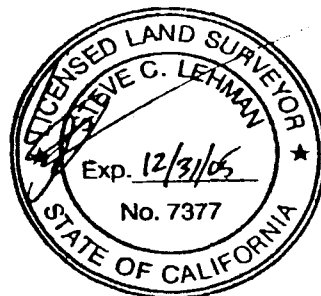
A parcel of submerged land in the bed of the Sacramento River situated in Colusa and Sutter Counties, California, said parcel being more particularly described as follows:

BEGINNING at a point on the right bank of the Sacramento River, from which the Northeast corner of Lot 197 of River Garden Farms Subdivision No.4, as said lot is shown on the official map filed March 3, 1913 in the Colusa County Recorder's Office, in Book 1 of Records of Surveys, at Page 91, bears North 48° 46' 13" West 245 feet, more or less from said point, thence southeasterly and southwesterly along the right bank of said river 4,120 feet, more or less to the North boundary of lease PRC 8605, thence along said boundary South 42° 01' 43" East 267 feet, more or less to a point on the left bank of said river, thence northeasterly and northwesterly along the left bank of said river, 4,766 feet, more or less to a point that intersect the West line of Section 6, Township 13 North, Range 2 East, MDM, thence along said West line 325 feet, more or less to the point of beginning..

EXCEPTING THEREFROM any land lying landward of the Ordinary Low Water Mark of said Sacramento River.

END OF DESCRIPTION

Prepared 10-17-2005 by the Boundary Unit of the California State Lands Commission.



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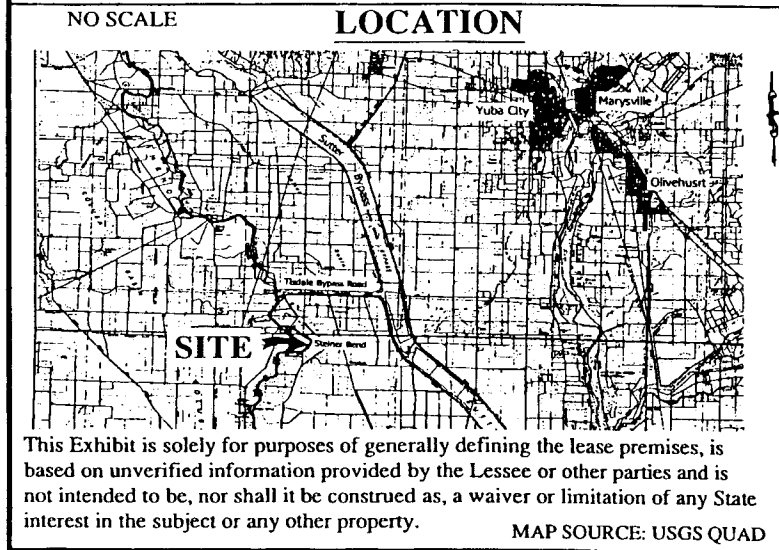
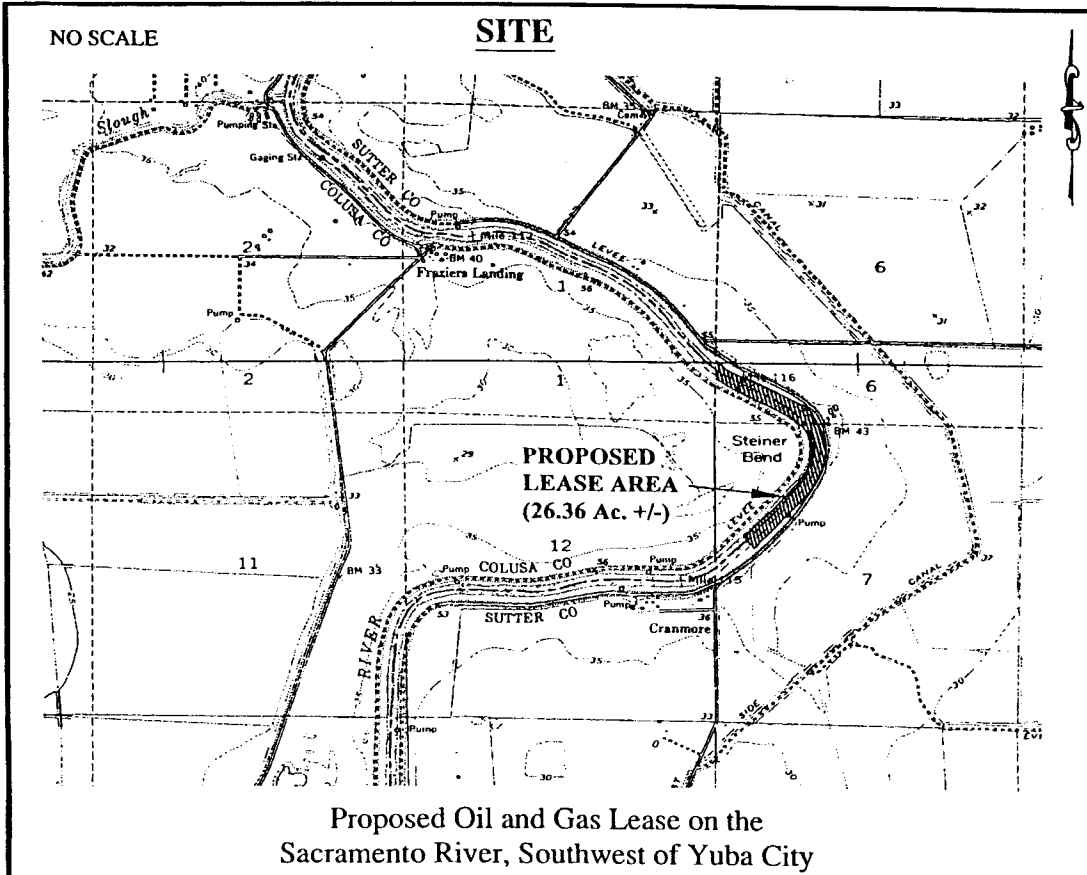


Exhibit B
 W 40914
 ORCHARD PETROLEUM
 OIL AND GAS LEASE
 COLUSA AND SUTTER
 COUNTIES

SITE

RAB 1005