

MINUTE ITEM

This Calendar Item No. C73 was approved as Minute Item No. 73 by the California State Lands Commission by a vote of 2 to 0 at its 12-08-05 meeting.

CALENDAR ITEM
C73

A 2

12/08/05
PRC 2908.1
PRC 2990.1

S 4

W 40916
J. L. Smith

CONSIDER APPROVAL OF THE
SECOND AMENDMENT TO THE EXISTING COMPENSATORY GAS
AGREEMENT NOS. PRC 2908.1 AND PRC 2990.1,
NORTH GRIMES AND SYCAMORE AREAS
OF THE SACRAMENTO RIVER,
COLUSA AND SUTTER COUNTIES

APPLICANT:

TexCal Energy North Cal L.P.
Attn.: Ms. Tere Myers
801 Travis Street, Suite 2102
Houston, TX 77002

AREA, LAND TYPE, AND LOCATION:

Compensatory Royalty Agreement (Gas) No. PRC 2908.1 contains approximately 640 acres in the vicinity of the North Grimes area of the Sacramento River, Colusa and Sutter Counties. Compensatory Royalty Agreement (Gas) No. PRC 2990.1 contains approximately 108.40 acres in the Sycamore area of the Sacramento River, Colusa and Sutter Counties.

BACKGROUND:

Compensatory Royalty Agreement (Gas) No. PRC 2908.1 was issued to Patrick A. Doheny on June 28, 1962. Compensatory Royalty Agreement (Gas) No. PRC 2990.1 was issued to Patrick A. Doheny (Doheny) on January 28, 1965. Pursuant to the Compensatory Royalty Agreements, Doheny established seven (7) operating units. Four (4) operating units, "Operating Unit 25", "Operating Unit 30", "Operating Unit 31" and "Operating Unit 36" are associated with PRC 2908.1 and three (3) operating units, the "Rx Ranch Unit", "Operating Unit-Sanborn No.1" and "Operating Steidlmayer No. 1 Unit" are associated with PRC 2990.1

Through various assignments and name changes, TexCal Energy North Cal L.P. (TexCal) has been the operator for these agreements since 1965. On October

CALENDAR ITEM C73 (CONT'D)

20, 2005, California State Lands Commission (Commission) staff received a request from TexCal for an amendment of these agreements to allow TexCal to drill one or more "pass-through" wells into and through State lands. A "pass-through well" is a well that is drilled into, or through State owned land at a depth greater than 500 feet below the surface, which produces oil, gas and/or other hydrocarbon substances from one or more producing intervals in the wellbore. To date, no wells within the seven units have been drilled on, in, or through State owned lands.

As consideration for this Amendment, the State would be compensated by the payment of an overriding royalty in the amount of four percent (4%) of all gas and hydrocarbon substances produced from the pass-through well or wells that penetrate and produce from land outside the surface boundaries of established pools or units associated with PRC 2908.1 and/or 2990.1. Pass-through wells that are drilled and completely contained within the surface boundary of a single established pool or unit associated with PRC 2908.1 and/or 2990.1 shall not be subject to an overriding royalty, but shall receive the royalty established for that pool or unit.

Also, pass-through wells that are drilled and penetrate the surface boundaries of two or more adjoining established pools or units associated with PRC 2908.1 and/or 2990.1, shall not be subject to an overriding royalty, but shall be the royalty associated with the highest royalty of the pool or unit penetrated by the well.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code sections: Division 6, Parts 1 and 2; Division 13.
- B. California Code of Regulations sections: Title 3, Division 3; Title 14, Division 6.

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 Alteration 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.

CALENDAR ITEM C73 (CONT'D)

2. This Activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq. However, the Commission has declared that all tide 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.

EXHIBITS:

- A. Amendment to Agreement PRC 2908.1
- B. Amendment to Agreement PRC 2990.1
- C. Location map PRC 2908.1
- D. Location map PRC 2990.1

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a "development project" subject to the Act)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDINGS:

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.

AUTHORIZATION:

1. AMEND THE COMPENSATORY ROYALTY AGREEMENTS (GAS) NOS. PRC. 2809.1 AND PRC 2990.1 TO INCLUDE AN AMENDED PARAGRAPH 8 PROVIDING PASS-THROUGH RIGHTS AND TO PROVIDE FOR A PASS-THROUGH OVERRIDING ROYALTY
2. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

STATE OF CALIFORNIA
STATE LANDS COMMISSION

AMENDMENT

THIS AMENDMENT is entered into by and among the State of California, acting by and through the State Lands Commission, herein referred to as "State," and TexCal Energy North Cal L.P., herein referred to as "TexCal".

Compensatory Royalty Agreement No. PRC 2908.1(hereafter CRA) was entered into with Patrick A. Doheny on June 28, 1962. The agreement contains approximately 640 acres in the North Grimes Area, Sacramento River, Colusa and Sutter counties California. Pursuant to the CRA, between March 7, 1963 and October 18, 1965, Doheny proposed, and the State approved, the basis for royalty computations as provided in Exhibit "D" of that document, and participation in four (4) pooled operating units. The four (4) units are "Operating Unit 25", Operating "Unit 30", "Operating Unit 31" and "Operating Unit 36". These pooled units are presently the only pooled units associated with CRA PRC 2908.1. Through a series of assignments, TexCal Energy North Cal L.P. is now the operator of this CRA. To date no wells within the four units have been drilled on, in, or through State owned lands.

Note: PRC 2990.1 is an adjacent Compensatory Royalty Agreement entered into by Doheny on February 28, 1963 and operated by TexCal comprising 108.40 acres divided into three (3) operating units as follows: "Rx Ranch Unit", "Operating Unit-Sanborn No. 1" and "Steidlmayer No. 1 Unit". These pooled units are presently the only pooled units associated with PRC 2990.1. To date no wells within the three units have been drilled on, in, or through State owned lands.

As defined for the purposes of this amendment, a "pass-through well" is defined as a well that is drilled into, or through State owned land at a depth greater than 500 feet below the surface, which produces oil, gas and/or other hydrocarbon substances from one or more producing intervals in the wellbore.

The State and TexCal hereby agree to amend the CRA to include a "pass-through" provision for any future wells drilled on, into, or through the State lands within North Grimes Area. As consideration for this amendment, the State would be compensated by the payment of an overriding royalty in the amount of four percent (4%) of all gas and hydrocarbon substances produced from any pass-through wells that penetrate, and produce from, land outside the surface boundaries of any established pool or unit associated with PRC 2908.1. Excepted from such overriding royalty, are the following:

1. A pass-through well drilled and completed within the surface boundary of a single established pool or unit associated with PRC 2908.1, and/or,
2. Production from any pass-through well that penetrates two or more adjoining established pools or units associated with PRC 2908.1 and

adjacent PRC 2990.1. However, the royalty of such a well shall be the royalty associated with the highest royalty of any pool or unit penetrated by the well.

The above changes are reflected in Paragraph 8 of the amended agreement, and it is further agreed that all other terms and conditions of said CRA are to remain unchanged and in full force and effect.

This Amendment to the CRA will become binding only when duly executed on behalf of the State of California by and through the State Lands Commission of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date hereafter affixed.

**TexCal Energy North Cal L.P.
By TexCal Energy (GP) LLC.,
its General Partner**

**State of California
State Lands Commission**

By: _____
(Signature)

By: _____
(Signature)

Suzanne R. Ambrose
(Name of Officer)

Paul B. Mount II, P.E.
(Name of Officer)

Vice President and Chief Financial Officer
(Title)

Chief, Mineral Resources Management
(Title)

Date: _____

Date: _____

ATTEST

ATTEST

PRC 2908.1 – AMENDED PARAGRAPH 8

(8) With respect to any State lands within the North Grimes Area which shall not have been released pursuant to the provisions of Paragraph (6) hereof, the State shall not drill, or permit others to drill, on, into or through the same land, or any portion thereof. Further, the State shall not produce, or permit others to produce, any well for the production of gas on, in or through the same land, or any portion thereof. In addition to other rights granted herein, the operator is hereby allowed to drill one or more pass-through well(s) into and through the State lands within said North Grimes Area, subject to the following terms and conditions:

- (a) A "pass-through well" is defined as a well that is drilled into, or through State owned land at a depth greater than 500 feet below the surface, which produces oil, gas and/or other hydrocarbon substances from one or more producing intervals in the wellbore.
- (b) The Operator must propose, and the staff must approve in writing, the location, projected well path, and drilling plan of all potential pass-through wells.
- (c) Notwithstanding paragraph (6), prior to termination of this CRA, the operator shall permanently abandon any and all wells drilled under this provision pursuant to State regulations at the time of abandonment.
- (d) In consideration of the rights granted in this Paragraph 8, operator shall pay to the State, in addition to any other payment due under this CRA, an overriding royalty in the amount of four percent (4%) of the current market price of all gas and hydrocarbon substances produced from any pass-through well(s) that penetrate and produce from land outside the surface boundaries of established pools or units associated with PRC 2908.1. Excepted from such overriding royalty, are the following:
 - 1. A pass-through well drilled, completed and produced within the surface boundary of a single established pool or unit associated with PRC 2908.1, and/or,
 - 2. Production from any pass-through well that penetrates two or more adjoining established pools or units associated with PRC 2908.1 and adjacent PRC 2990.1. However, the royalty of such a well shall be the royalty associated with the highest royalty of any pool or unit penetrated by the well.

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STATE OF CALIFORNIA
STATE LANDS COMMISSION

AMENDMENT

THIS AMENDMENT is entered into by and among the State of California, acting by and through the State Lands Commission, herein referred to as "State", and TexCal Energy North Cal L.P., herein referred to as "TexCal".

Compensatory Royalty Agreement No. PRC 2990.1 (hereafter CRA) was entered into with Patrick A. Doheny on February 28, 1963. The agreement contains approximately 108.40 acres in the Sycamore Area, Sacramento River, Colusa and Sutter counties California. Pursuant to the CRA, between March 11, 1963 and June 6, 1966 Doheny proposed, and the State approved, the basis for royalty computations as provided in Exhibit "D" of that document, and participation in three (3) pooled operating units. The three (3) units are "Rx Ranch Unit", "Operating Unit-Sanborn No. 1" and "Steidlmayer No. 1 Unit". These pooled units are presently the only pooled units associated with CRA PRC 2990.1. Through a series of assignments, TexCal Energy North Cal L.P. is now the operator of this CRA. To date no wells within the three units have been drilled on, in, or through State owned lands.

Note: PRC 2908.1 is an adjacent Compensatory Royalty Agreement entered into by Doheny on June 28, 1962 and operated by TexCal comprising 640 acres divided into four (4) operating units as follows: "Operating Unit 25", Operating "Unit 30", "Operating Unit 31" and "Operating Unit 36". These pooled units are presently the only pooled units associated with CRA PRC 2908.1. To date no wells within the four units have been drilled on, in, or through State owned lands.

As defined for the purposes of this amendment, a "pass-through well" is defined as a well that is drilled into, or through State owned land at a depth greater than 500 feet below the surface, which produces oil, gas and/or other hydrocarbon substances from one or more producing intervals in the wellbore.

The State and TexCal hereby agree to amend the CRA to include a "pass-through" provision for any future wells drilled on, into or through the State lands within Sycamore Area. As consideration for this amendment, the State would be compensated by the payment of an overriding royalty in the amount of four percent (4%) of all gas and hydrocarbon substances from any pass-through wells that penetrate, and produce from, land outside the surface boundaries of established pools or units associated with PRC 2990.1. Excepted from such overriding royalty, are the following:

1. A pass-through well drilled and completed within the surface boundary of a single established pool or unit associated with PRC 2990.1, and/or,
2. Production from any pass-through well that penetrates two or more adjoining established pools or units associated with PRC 2990.1 and

adjacent PRC 2908.1. However, the royalty of such a well shall be the royalty associated with the highest royalty of any pool or unit penetrated by the well.

The above changes are reflected in Paragraph 8 of the amended agreement, and it is further agreed that all other terms and conditions of said CRA are to remain unchanged and in full force and effect.

This Amendment to the CRA will become binding only when duly executed on behalf of the State of California by and through the State Lands Commission of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date hereafter affixed.

**TexCal Energy North Cal L.P.
By TexCal Energy (GP) LLC.,
its General Partner**

**State of California
State Lands Commission**

By: _____
(Signature)

By: _____
(Signature)

Suzanne R. Ambrose
(Name of Officer)

Paul B. Mount II, P.E.
(Name of Officer)

Vice President and Chief Financial Officer
(Title)

Chief, Mineral Resources Management
(Title)

Date: _____

Date: _____

ATTEST

ATTEST

PRC 2990.1 – AMENDED PARAGRAPH 8

(8) With respect to any State lands within the Sycamore Area which shall not have been released pursuant to the provisions of Paragraph (6) hereof, the State shall not drill, or permit others to drill, on, into or through the same land, or any portion thereof. Further, the State shall not produce, or permit others to produce, any well for the production of gas on, in or through the same land, or any portion thereof. In addition to other rights granted herein, the operator is hereby allowed to drill one or more pass-through well(s) into and through the State lands within said Sycamore Area, subject to the following terms and conditions:

- (a) A "pass-through well" is defined as a well that is drilled into, or through State owned land at a depth greater than 500 feet below the surface, which produces oil, gas and/or other hydrocarbon substances from one or more producing intervals in the wellbore.
- (b) The Operator must propose, and the staff must approve in writing, the location, projected well path, and drilling plan of all potential pass-through wells.
- (c) Notwithstanding paragraph (6), prior to termination of this CRA, the operator shall permanently abandon any and all wells drilled under this provision pursuant to State regulations at the time of abandonment.
- (d) In consideration of the rights granted in this Paragraph 8, operator shall pay to the State, in addition to any other payment due under this CRA, an overriding royalty in the amount of four percent (4%) of the current market price of all gas and hydrocarbon substances produced from any pass-through well(s) that penetrate and produce from land outside the surface boundaries of established pools or units associated with PRC 2990.1. Excepted from such overriding royalty, are the following:
 - 1. A pass-through well drilled, completed and produced within the surface boundary of a single established pool or unit associated with PRC 2990.1, and/or,
 - 2. Production from any pass-through well that penetrates two or more adjoining established pools or units associated with PRC 2990.1 and adjacent PRC 2908.1. However, the royalty of such a well shall be the royalty associated with the highest royalty of any pool or unit penetrated by the well.



