

MINUTE ITEM
This Calendar Item No. C43 was approved as
Minute Item No. 43 by the California State Lands
Commission by a vote of 2 to 1 at its
10-30-07 meeting.

CALENDAR ITEM
C43

A 8,11,15

10/30/07
PRC E-415
W 40919
J. L. Smith

S 2, 5, 7

**CONSIDER APPROVAL OF THE ASSIGNMENT OF
CALPINE CORPORATION'S 100 PERCENT INTEREST
IN OIL AND GAS LEASE NO. PRC E-415.1 TO
ROSETTA RESOURCES OPERATING LP,
AMENDMENT OF OIL AND GAS LEASE NO. PRC E-415.1,
AND APPROVAL OF A ROYALTY SETTLEMENT
AGREEMENT AND MUTUAL RELEASE,
RIO VISTA GAS FIELD AREA,
CONTRA COSTA, SAN JOAQUIN,
SACRAMENTO AND SOLANO COUNTIES**

ASSIGNOR:

Calpine Corporation
Attn.: Mr. Craig Chancellor
717 Texas Avenue, Suite 1000
Houston, TX 77002

ASSIGNEE:

Rosetta Resources Operating LP
Attn.: Mr. Michael Rosinski
1200 17th Street, #770
Denver, CO 80202

AREA, LAND TYPE, AND LOCATION:

Gas Lease No. E415.1 contains approximately 2,827 acres of State land that encompasses portions of the beds of the Sacramento, San Joaquin, Mokelumne, Old and False Rivers and other tide and submerged lands within the area designated by Agreement for Easement No. 415 dated June 3, 1940.

BACKGROUND:

Agreement for Easement No. 415 was issued to Standard Oil Company of California (Standard presently Chevron Corporation) on June 3, 1940. On

CALENDAR ITEM NO. C43 (CONT'D)

December 20, 1963, the California State Lands Commission (Commission) approved Standard's request for a new lease designated as PRC E-415.1 (Lease) in exchange for Agreement for Easement No. 415. The Lease requires an advance annual rental of \$1,500, which is credited against subsequent royalties. The current monthly royalty is approximately \$265,000. Through a series of assignments, mergers and name changes, Calpine Corporation, a Delaware corporation (Calpine), succeeded to the lessee's interest under the Lease. Calpine and its affiliated entities entered into a Purchase and Sale Agreement (PSA) dated July 7, 2005 with Rosetta Resources, Inc. and its affiliates (collectively Rosetta), under the terms of which Calpine sold to Rosetta all of its California oil and gas properties, including PRC E-415.1. To implement the sale, Calpine is now requesting the approval of the Commission to the assignment of the Lease to Rosetta Resources Operating LP, a Delaware limited partnership.

On November 29, 2005, Commission staff received an application requesting that the Commission approve assignment of 100 percent interest in the Lease to a Rosetta affiliate. However, on or about December 20, 2005, Calpine filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. Staff was unable continue processing the application until many issues connected with the bankruptcy filing were resolved.

As part of the assignment review process, Staff performed a financial audit of the Lease during Calpine's tenure. The results of the Audit, as discussed below in greater detail, showed that Calpine and Rosetta overpaid royalties due under the Lease.

On September 11, 2007, the Bankruptcy Court granted Calpine's request to complete the assignment of the Lease to Rosetta, effective May 1, 2005, and to seek the consent of the Commission as part of the process. However, Calpine and Rosetta reserved all rights to challenge the necessity of Commission approval of the assignment in the event of a dispute and the Commission reserved its right to challenge the effect of the Court's action on the authority of the Commission. Further, the Court approved the Partial Transfer and Release Agreement executed by and between Rosetta and Calpine, which, among other items, assigned and conveyed to Rosetta for all purposes all obligations and rights of recovery under the Lease associated with the claims related to the payment of royalties. The Court also authorized Calpine's grant to Rosetta of a limited power of attorney to resolve the royalty issues with the Commission on behalf of Calpine.

CALENDAR ITEM NO. C43 (CONT'D)

STATUTORY AND OTHER REFERENCES:

- A. Section 2 (o) and Section 8 of the Lease.
- B. Public Resources Code section 6804.

OTHER PERTINENT INFORMATION

- 1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of the CEQA because it is not a "project" as defined by the CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

- 2. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code sections 6370 et seq., but such activity will not affect those significant lands.
- 3. Assignment forms and prerequisite filing fees have been paid by Calpine and/or Rosetta.
- 4. In March of 2006, Staff conducted an audit of amounts paid under the Lease and determined that royalties had been underpaid for the period that Calpine had operated the Lease (May 1, 2000 through June 30, 2005) in the amount of \$687,000 dollars, including penalties and interest (the "**Audit Claim**"). On December 4, 2006, Rosetta submitted to Staff a response to the Audit Claim asserting that Rosetta and Calpine overpaid rent and royalties, including payments based on net profits, totaling \$4,807,629 for the period from May 1, 2000 to September 30, 2006. The difference between the Staff's findings and Rosetta's audit response is substantially due to the underreporting by Calpine and Rosetta of gas field development and operating expenses that are allowable deductions when calculating the net profits component of the royalty formula under the Lease. A subsequent audit conducted by Staff substantially confirmed Rosetta's findings with regard to the overpayment of royalties from May 1, 2000 to September 30, 2006. Rosetta has additionally notified the Staff that it is entitled to recover \$1,062,507 in accrued interest arising on this amount under applicable law, computed at six percent (6%) compounded monthly through August 31, 2007, resulting in a combined claim of

CALENDAR ITEM NO. C43 (CONT'D)

\$5,870,136 (such claims, the "Refund Claim").

Staff submitted an audit response to Rosetta's report and the Refund Claim indicating that the amount of overpayment of royalty is approximately \$3,794,412 for the period from January 1, 2003 to September 30, 2006. Staff asserted that the State had certain defenses and offsets to the entirety of the Refund Claim and commenced negotiations with Rosetta to settle the claim with respect to the amount and method of recovery of overpayments. To date, Rosetta has not recouped any portion of its Refund Claim. Subject to the approval of the Commission, staff and Rosetta have agreed to settle and compromise the respective claims related to the Audit Claim and the Refund Claim, by entering into a Settlement Agreement and Mutual Release of Claims that will allow Rosetta to deduct the amount of Three Million Seven Hundred Ninety Four Thousand Four Hundred Twelve Dollars (\$3,794,412) (the "**Settlement Amount**") from 100 percent (100%) of the revenue due the State under the Lease, commencing with royalty due for the month of October 2007 and continuing until the entire Settlement Amount is recouped. The Settlement Amount makes no allowance for any overpayments made prior to January 1, 2003, and does not allow recovery of any interest on the Refund Claim, either accrued to date or on the unpaid balance during the proposed recovery period. The Settlement Agreement and Mutual Release is attached to this calendar item as Exhibit C. Based upon current production levels and price, Staff calculates recovery of the Settlement Amount to take approximately 14 months.

5. Upon approval of the transfer, Lease PRC E-415.1 shall be amended to incorporate the language attached as Exhibit B. The proposed amendments provide that: 1) the transfer of a controlling interest in the Lessee will be deemed to be an assignment of the lease for which the approval of the Commission is required; 2) the lessee shall comply with all valid laws, rules and regulations of the United States and the State of California and its political subdivisions, including the applicable provisions of Divisions 3 and 6 of the Public Resources Code and the regulations now in effect or hereafter promulgated by the Division of Oil, Gas and Geothermal Resources and the State Lands Commission; 3) the amount of the bond required by Lease PRC E-415.1 has been increased from \$25 thousand to \$1.5 million for PRC E-415.1; 4) the waiver, indemnity and insurance requirements of the lease are strengthened; 5) the lessee, upon

CALENDAR ITEM NO. C43 (CONT'D)

reasonable notice by Staff, shall meet annually with Staff for the purpose presenting a report on its past and present development activities and its plans for future development of the leased lands; 6) lessee agrees to enter a State Standard Reimbursable Agreement to reimburse the State for the reasonable and necessary costs incurred for the administration and implementation of the terms and conditions of this lease, pursuant to which a Management Fee” shall commence on January 1, 2008 that shall not exceed twenty-five thousand dollars (\$25,000) for the initial year, but shall increase by three percent (3%) per year, with the increase taking effect annually on January 1st of each successive year of the Lease..

6. Performance bonds totaling \$1.5 million are on file at the Long Beach office.
7. Rosetta Resources, Inc. shall execute an irrevocable and unconditional guaranty of Rosetta Resources Operating LP’s performance of the terms of the Lease. Rosetta Resources, Inc. has submitted corporate and financial data which were reviewed by Commission staff. Based on the result of the reviews, Commission staff has determined that Rosetta Resources, Inc. possesses the financial resources to meet the requirements and obligations under the terms of Lease PRC E-415.1.

EXHIBITS:

- A. Location Map.
- B. Amendment.
- C. Settlement Agreement & Mutual Release.

PERMIT STREAMLINING ACT DEADLINE:

N/A (not a “development project” subject to the Act).

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

1. FIND THAT THE ACTIVITY IS NOT SUBJECT TO THE REQUIREMENTS OF THE CEQA PURSUANT TO TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15060(c)(3) BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY PUBLIC RESOURCES CODE SECTION 21065 AND TITLE 14, CALIFORNIA CODE OF REGULATIONS, SECTION 15378.

CALENDAR ITEM NO. C43 (CONT'D)

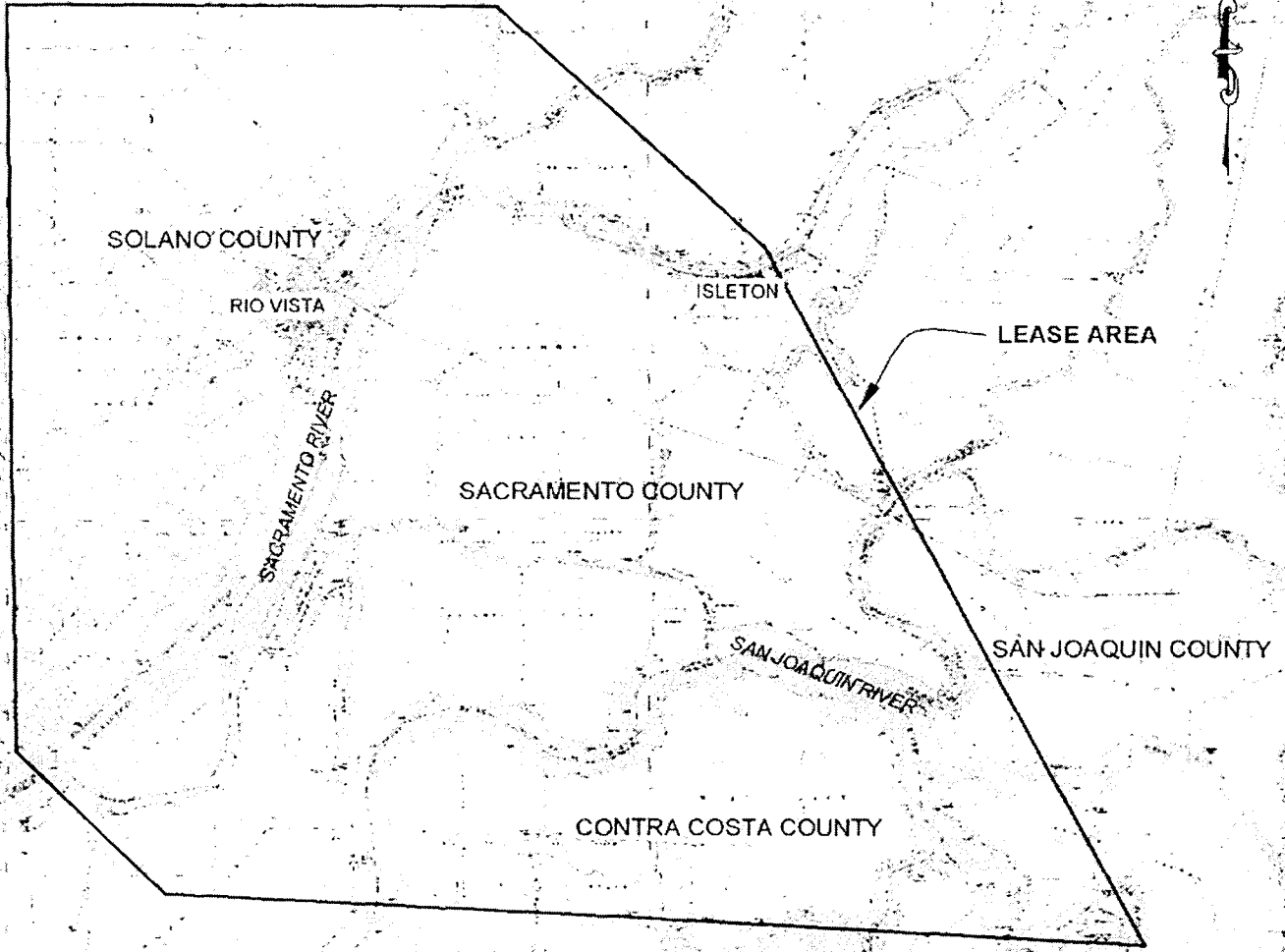
2. FIND THAT THIS ACTIVITY IS CONSISTANT WITH THE USE CLASSIFICATION DESIGNATED BY THE COMMISSION FOR LAND PURSUANT TO PUBLIC RESOURCES CODE SECTIONS 6370, ET SEQ.

AUTHORIZATION:

1. CONSENT TO THE ASSIGNMENT OF 100 PERCENT INTEREST IN OIL AND GAS LEASE NO. PRC E-415 FROM CALPINE CORPORATION TO ROSETTA RESOURCES OPERATING LP, EFFECTIVE MAY 1, 2005, WITH THE ASSIGNEE TO BE BOUND BY ALL THE TERMS AND CONDITIONS OF THE LEASE.
2. APPROVE THE AMENDMENTS TO OIL AND GAS LEASE NO. PRC E-415.1, AS SET FORTH IN EXHIBIT B OF THIS CALENDAR ITEM.
3. APPROVE THE TERMS OF THE SETTLEMENT AGREEMENT AND MUTUAL RELEASE AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE THE AGREEMENT SUBSTANTIALLY IN THE FORM ATTACHED AS EXHIBIT C.
4. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENT NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION ON THIS CALENDAR ITEM.

NO SCALE

SITE

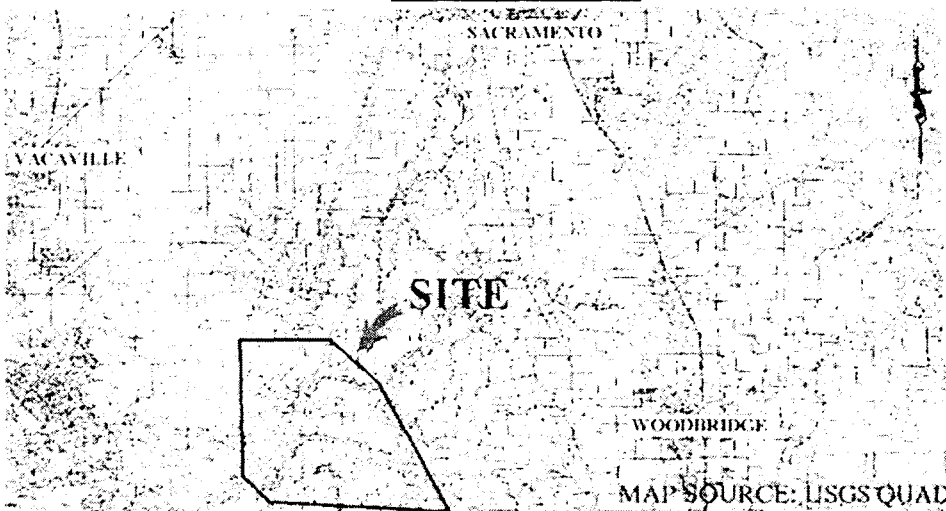


PRC E-415.1

CONTRA COSTA, SACRAMENTO, SAN JOAQUIN, & SOLANO COUNTIES

NO SCALE

LOCATION



This Exhibit is solely for purposes of generally defining the lease premises, is based on unverified information provided by the Lessee or other parties 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 40919
CALPINE CORP.
OIL AND GAS LEASE
RIO VISTA
GAS FIELD AREA



1AK 1007

EXHIBIT B

AMENDMENT OF STATE GAS LEASE PRC E-415.1

This Amendment of State Gas Lease PRC E-415.1 ("**Amendment**") is between the State of California, acting by and through the State Lands Commission (the "**State**"), and Rosetta Resources Operating LP, a Delaware limited partnership ("**Rosetta**" or "**Lessee**").

Recitals

A. The State leased certain land located in Contra Costa, San Joaquin, Sacramento and Solano Counties, California, pursuant to Agreement for Easement No. 415 (as amended from time to time, the "**Original Easement**") to Standard Oil Company of California (the "**Original Lessee**") on June 3, 1940, as amended and supplemented by that certain Gas Lease Issued in Exchange for Gas Lease Easement No. 415.1 (the Original Easement, as so amended and supplemented, herein called the "**Lease**"), entered into as of December 20, 1963.

B. Through a series of conveyances and transactions, Calpine Corporation, a Delaware corporation ("**Calpine**"), succeeded to the interest of the Original Lessee under the Lease. Calpine and certain of its affiliates entered into certain agreements with Rosetta Resources Inc. ("**RRI**") and certain of its affiliates under the terms of which Calpine agreed to convey certain oil and gas leases in California, including the Lease, to RRI or its designee. Calpine has requested that the State approve the assignment of the Lease to Rosetta.

C. The State has determined that it is in the State's best interest to make certain modifications to the terms of the Lease in connection with its approval of the assignment.

Amendment

Accordingly, Rosetta and the State agree as follows:

1. The Lease is amended to add the following paragraph following the existing provisions in Section 2(o) of the Lease:

"A change of control of Lessee shall be deemed an assignment or transfer of the Lease for which State approval is required. For purposes of this Section 2(o), a 'change of control' shall mean the acquisition of a direct

controlling interest or indirect controlling interest in Lessee by any person or entity in any transaction or conveyance, or series of transactions or conveyances occurring within a period of six (6) consecutive months, regardless of form or structure. As used in this Section 2(o), (a) a 'direct controlling interest' in Lessee is more than Fifty Percent (50%) of: (i) the voting stock of Lessee if it is a corporation; (ii) the general partnership interest if Lessee is a general or limited partnership; or (iii) the membership interest if Lessee is a limited liability company and (b) an 'indirect controlling interest' in Lessee is more than a Fifty Percent (50%) interest in an entity owning a direct controlling interest in Lessee."

2. The Lease is amended by deleting the existing Section 4 of the Lease and inserting the following language in its place:

"Lessee shall comply with all valid laws, rules and regulations of the United States and the State of California and its political subdivisions applicable to Lessee's operations, including, but not limited to, the applicable provisions of Divisions 3 and 6 of the Public Resources Code and the regulations now in effect or hereafter promulgated by the Division of Oil, Gas and Geothermal Resources and/or the State Lands Commission, and any other valid rules, regulations and orders of any duly constituted regulatory body or agency of the United States or the State of California."

3. The Lease is amended by deleting the existing provisions in Section 2(n) of the Lease and inserting the following provision in its place:

"LIABILITY, INDEMNIFICATION AND INSURANCE

"Lessee shall indemnify the State for and hold it harmless from all claims, including claims for loss of or damage to property and injury to or death of a person or persons, arising out of or connected with this lease, to the extent such loss or damage was proximately caused by the acts or omissions of Lessee constituting a breach of this lease or constituting negligence or willful misconduct, provided that such indemnity shall not apply to the extent such claim was caused by the negligence or willful misconduct of the State. Lessee waives any defense to an action by the State for breach of a covenant of this lease or for damages caused by an oil spill or other unlawful harm to the environment based on the fact that the act or omission constituting such breach or such unlawful action was committed by an independent contractor engaged by Lessee, provided that nothing in this lease shall impair or preclude any claim Lessee may have against any other person, including any such independent contractor.

"Lessee shall procure and maintain during the term of this lease, at Lessee's sole cost and expense, a commercial general liability policy of insurance applying to the leased lands and to the operations of Lessee concerning the lease whether or not occurring on the leased lands. The insurance shall include broad form contractual liability insurance coverage generally insuring Lessee's indemnification obligations under this lease (subject to normal and customary limitations and terms of coverage prevailing in insurance markets for such types of insurance) and naming the State as an additional insured by endorsement to the extent required by Lessee's covenants in this lease. Such coverage shall have liability limits comparable to the insurance coverage carried by other reasonable and prudent oil and gas operators in the same geographic area and conducting similar types of operations. All policies shall be issued by insurers admitted to transact business in California and having a rating of at least B+ in the then-current edition of Best's Insurance Guide. Lessee shall deliver to the State as soon as practicable after securing such insurance, a certificate of insurance evidencing the existence of such insurance policy. All such certificates of insurance shall contain an undertaking by the insurer to notify the State in writing not less than thirty (30) days prior to any material change in, or reduction in coverage, cancellation or other termination of, the policy. At least thirty (30) days before the expiration of each policy, Lessee shall furnish the State with an updated certificate of insurance showing the renewal or replacement of the insurance. Lessee may self-insure all or part of its risk with the approval of the State, such approval not to be unreasonably withheld, delayed or conditioned."

4. Section 2(a) of the Lease is amended to increase the amount of the bond from Twenty Five Thousand Dollars (\$25,000.00) to One Million Five Hundred Thousand Dollars (\$1,500,000.00).
5. The Lease is amended to add the following provision, immediately following the existing text of Section 1, as a new Section 1-A:

"LEASE MANAGEMENT FEE

"In addition to any other payment or obligation required to be made or performed by Lessee under this lease, Lessee agrees to reimburse the State for the actual, reasonable and necessary costs incurred for the administration and implementation of this lease, including but not limited to, engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews, and for any other staff time or expenses incurred or expended to ensure such operations conform to all the terms of this Lease and to the State's rules and regulations, now or

000209

3

000753

CALENDAR PAGE

MINUTE PAGE

hereafter promulgated, covering drilling and production operations on this lease. The lease management fee shall not exceed Twenty-Five Thousand Dollars (\$25,000.00) per calendar year commencing January 1, 2008, but such maximum amount shall be increased in the amount of 3% per year, such increase to take effect annually on January 1 of each year. All lease management fees shall be deemed to be costs of operation of the lease and may be accounted for as such in connection with the determination of the net profits payable to the State under this lease. Lessee and the State shall each execute and deliver a State Standard Reimbursement Agreement, substantially in the form of **Exhibit 1** to this Amendment, containing more detailed provisions pertaining to the lease management fee. The State shall provide to Lessee a statement setting forth the amount of the lease maintenance fee for each calendar year during the remaining term of the Lease, together with detailed documentation to identify and support the amounts claimed. The requirements of this Section 1-A shall continue through the remaining term of the Lease."

6. The Lease is amended to add the following provision, immediately following the text of Section 1-A, as a new Section 2-A:

"Upon at least four (4) weeks prior written notice to Lessee from the State, Lessee agrees to meet annually with State's staff for the purpose presenting a report on its past and present development activities and its plans for future development of the leased lands."

7. All terms and conditions of the Lease, as amended by this Amendment, remain in full force and effect.
8. The effective date of this Amendment shall be November 1, 2007, provided that this Amendment will become effective and binding on the parties only when duly executed by authorized representatives of the Lessee and the State.

[Signatures begin on following page]

IN WITNESS HEREOF, the parties have executed this Amendment of Lease PRC E-415.1.

LESSEE:

LESSOR:

**ROSETTA RESOURCES OPERATING LP
By Rosetta Resources Operating GP, LLC
Its sole general partner**

**STATE OF CALIFORNIA
STATE LANDS COMMISSION**

By: _____

By: _____

Title: _____

Title: Chief, Mineral Resources Management.

Dated: _____

Dated: _____

STANDARD AGREEMENT

STD.213 (new 06/03)

EXHIBIT 1

AGREEMENT NUMBER
REGISTRATION NUMBER

1. This Agreement is entered into between the State Agency and the Contractor named below:

STATE AGENCY'S NAME
California State Lands Commission (CSLC)

CONTRACTOR'S NAME

2. The term of this Agreement is:

3. The maximum amount of this Agreement is: \$

4. The parties agree to comply with the terms and conditions of the following exhibits which are by this reference made a part of the Agreement:

Exhibit A – Scope of Work	2	Page(s)
Exhibit B – Budget Detail and Payment Provision/Definitions and Terms	2	Page(s)
Exhibit C – General Terms and Conditions	1	Page(s)
Check mark one item below as Exhibit D:		Page(s)

- Exhibit D – Special Terms and Conditions (attached hereto as part of this Agreement)
- Exhibit D* – Special Terms and Conditions

Items shown with an Asterisk (*) are hereby incorporated by reference and made part of this Agreement as if attached hereto. These documents can be viewed at <http://www.ols.dgs.ca.gov/Standard+Language/default.htm>.

IN WITNESS WHEREOF, this Agreement has been executed by parties hereto.

CONTRACTOR		CALIFORNIA Department of General Services Use only
CONTRACTOR'S NAME (if other than individual, state whether a corporation, partnership, etc.)		
BY (Authorized Signature)	DATE SIGNED	
PRINTED NAME AND TITLE OF PERSON SIGNING		
ADDRESS		
STATE OF CALIFORNIA		
AGENCY NAME California State Lands Commission		
BY (Authorized Signature)	DATE SIGNED	
PRINTED NAME AND TITLE OF PERSON SIGNING David W. Brown, Chief Administrative and Information Services		
ADDRESS 100 Howe Avenue, Suite 100 South, Sacramento, California 95825-8202		<input type="checkbox"/> Exempt per

CONTRACT REVIEW AND APPROVAL RECOMMENDED BY LEGAL:

Jim Frey, Staff Counsel

000212

CALENDAR PAGE

000750

MINUTE PAGE

EXHIBIT A

SCOPE OF WORK

1. **Work to be Performed** – Applicant has submitted an application for a new offshore oil and gas lease with the State identified as Work Order _____. The State hereby agrees to perform the following services:
 - A. Application Processing: The State shall process the Applicant's project application. Processing shall include, but not be limited to, document preparation, negotiation of terms and conditions, review of project impacts on the Public Trust when necessary, field inspections, preparation of field reports, office technical review services, boundary services, appraisals and coordination with other governmental agencies, but shall not include preparation of an environmental analysis or mitigation monitoring program.
 - B. Scope of Work and Consulting Services:
 - C. This Agreement is entered into by the parties hereto with the express understanding that the State cannot assure: 1) final approval of the permit or lease for the proposed project; 2) that permits from other State or local permitting agencies are obtainable; 3) that either the State or the Applicant by entering into this Agreement is representing that the project will go forward as proposed; and 4) that either the State or the applicant is irrevocably committed to proceeding with this project.

2. **Parties' Agents**

- A. The State's Project Officer shall be:

- B. The Applicant's Project Manager shall be:

SCOPE OF WORK

3. **Notices and Authorities**

- A. Any notice or other written communications required or permitted under this Agreement may be personally delivered in writing to the Project Officer or Project Manager, or may be sent by certified mail, return receipt requested, to the address stated above and shall, based on such delivery or sending, be deemed to have been effectively communicated. Either party may change such address by written notice to the other party. Any notice given other than as provided above, shall not be deemed to be effectively communicated until received in writing.
- B. The Project Manager shall have full authority to act on behalf of the Applicant for administration of the project. All communications given to the Project Manager shall be as binding as if given to the Applicant.
- C. The State may change its Project Officer at any time by written notice to the Applicant. The Applicant may change its Project Manager at any time by written notice to the State's Project Officer.

000210
CALENDAR PAGE

002700
MINUTE PAGE

EXHIBIT B

GENERAL TERMS AND CONDITIONS

- 1. **Invoicing and Payment** – Applicant agrees to reimburse the State for all reasonable costs associated with the processing of its application according to this Standard Agreement whether prior or subsequent to the execution of this Agreement. Processing costs shall include, but not be limited to, 1) actual costs of the State staff time to conduct the following: document processing, negotiation of terms and conditions, field inspections (travel and per diem), preparation of field reports, technical and legal reviews, boundary services, and consultation and coordination; 2) consultant contracts or preparation of any portion of the project application, should the State deem such work or any additional work to be necessary; 3) any other associated activity involved in processing the application described in Exhibit A. Staff costs shall be computed in accordance with Section 8752 of the State Administrative Manual and shall include salaries and wages, related staff benefits and administrative overhead.

The invoice shall be mailed to the Applicant’s Project Manager. Payments shall reference the Agreement number assigned to this project and must be mailed to the following address:

State Lands Commission
 100 Howe Avenue, Suite 100 South
 Sacramento, CA 95825-8202
 Attn: Fiscal Services

- 2. **Estimated Reimbursable Costs** – The initial estimated costs are based on the information and contracts existent as of the date of this Agreement, it is estimated that the itemized reimbursable costs for Work To Be Performed will be:

Approximate Total Cost \$ _____

Estimated costs above are based on the initial processing of the application. Additional costs will be determined upon defining of the scope of the project and cost of consultant contracts.

- 3. **Expense Deposits and Billings** – Staff costs incurred by the State pursuant to this Agreement shall be billed in arrears on a monthly basis. All payments are due 30 days from the date of the invoice. The State reserves the right to demand an expense deposit equal to the remainder of the agreement should the applicant fail to pay invoices within the time specified.

An expense deposit equal to the amount of any consultant contracts shall be made upon execution of this Agreement. Deposits for such purpose shall be held in an interest bearing account with said interest accruing to the Applicant. Said interest shall be paid to the Applicant upon completion of the project but only after all accounts are settled with the State. The State reserves the right to apply any residual balance of this account plus earned interest to any amounts due pursuant to this Agreement.

- 4. **Additional Costs or Services** – Applicant will be advised of any estimated cost increase in writing in accordance with this Agreement should the need for additional services become known or as costs previously estimated exceed the above estimate by ten percent (10%).

Upon notification of the need for additional funds, the Applicant shall have the right to terminate this Agreement in accordance with the Termination clause; or dispute the change. The Applicant shall have the option to dispute or accept the increase with all the terms and conditions of this Agreement being unchanged and in effect. Applicant shall notify the State within five (5) days of notice of any intent to terminate the Agreement or dispute the change. Non-response shall be acknowledged as acceptance of the additional charges and Applicant will be billed for the balance in accordance with the terms above.

- 5. **Definitions and Terms** - Wherever the following abbreviations and terms (or pronouns in place of them) are used, the intent and meaning shall be interpreted as provided in this section. Working titles having a masculine

gender, and pronouns referring to such said titles, are utilized in this Agreement for the sake of brevity and are not intended to refer to either sex or the neuter. All references to the singular shall refer also to the plural. All references to the plural shall refer also to the singular.

- A. The term "Agreement" refers to this document as executed by the Applicant and the State. This document includes Standard Form and any attached Exhibits.
- B. The term "Application Processing" refers to all staff services necessary to process an applicant's proposed project application but shall not include staff services for environmental analysis or project mitigation monitoring pursuant to CEQA.
- C. The term "Executive Officer" refers to the Executive Officer of the State Lands Commission.
- D. The term "Project" means that activity which is the subject of the application for a permit, lease or other entitlement from the State.
- E. The term "Project Manager" refers to that person appointed or designated by the Applicant to administer the project for the Applicant.
- F. The term "Project Officer" refers to that person appointed by the State to process the project application.
- G. The term "CEQA" refers to the California Environmental Quality Act of 1970, as amended (Public Resources Code Section 21000 et seq.).

000215

CALENDAR PAGE

002735

MINUTE PAGE

Exhibit C

GENERAL TERMS AND CONDITIONS

1. **Indemnification** – The Applicant agrees to indemnify, defend and save harmless the State, its officers, agents and employees from any and all claims and losses accruing or resulting from the Applicant's performance of this contract and from any and all claims and losses accruing or resulting to any person, firm or corporation who may be injured or damaged by the Applicant in the performance of this contract.
2. **Assignment** – Without the written consent of the State, this Agreement is not assignable by Applicant either in whole or in part.
3. **Timeliness** – Time is of the essence in this Agreement.
4. **Deviations** – Any alteration or variation of the terms of this Agreement shall be invalid unless made in writing and signed by the parties hereto, and no oral understanding or agreement not incorporated herein, shall be binding on any of the parties hereto.
5. **Governing Law** – This Agreement shall be governed by the laws of the State of California, both as to interpretation and performance.
6. **Amendments** – Amendments to this Agreement may be proposed by either party and shall be effected by issuance of a written instrument executed by both parties. The Agreement price may be equitably adjusted to reflect any additional costs or new savings resulting from such amendment(s).
7. **Termination** – Either party may elect to terminate this Agreement by written notice at any time prior to referral of the project to the Commission upon ten (10) days written notice to the other party. The Applicant agrees that in the event of termination of this agreement by either party as provided above, it shall reimburse the State upon its written request one hundred percent (100%) of all costs incurred by the State in the performance of its obligations as described in this Agreement.
8. **Records** – Upon five (5) business days notice, the State's records relating to its costs shall be available for the Applicant's audit in the State's office in Sacramento. Said audit shall take place only during regular business hours of the State. Payment of costs by the Applicant shall not constitute a waiver of its rights to audit nor an acknowledgment by the Applicant of the validity of the costs that have been paid. Nothing herein shall be deemed to require the State, its consultants, other contractors and subcontractors to maintain books, records, or documents other than those usually maintained by them, provided that such books, records and documents reasonably segregate and identify the costs for which reimbursement is required hereunder. As used herein, "State's records" include any audit of the consultant by the State or its designated representative as authorized in this Agreement.
9. **Disputes** – Except as otherwise provided in this Agreement, any dispute concerning a question of fact arising under or relating to the performance of this Agreement which is not disposed of by agreement shall be decided by the Project Officer, who shall reduce his decision to writing in regard to the dispute and shall transmit a copy thereof to the Applicant within thirty (30) days. The decision of the Project Officer shall be final and conclusive, unless within thirty (30) days from the date of receipt of such copy, the Applicant transmits to the State a written appeal. Said appeal shall be supported with specificity.

In connection with any appeal proceeding under this clause, the Applicant shall be afforded an opportunity to be heard before the State Lands Commission within sixty (60) days of the receipt by the State of the Applicant's written appeal and to offer evidence in support of its appeal. Pending the final decision of any such dispute, the Applicant shall proceed diligently with the performance of the Agreement and in accordance with the written decision of the Project Officer which is the subject of the Applicant's appeal including the payment of invoices to the State.

The procedure described herein shall not prejudice or deny the Applicant his remedies at law. However, the Applicant agrees to exhaust the procedure described herein before pursuing his remedies at law. All amounts paid to the State under protest shall be held by the State in trust until the dispute is resolved.

000216

CALENDAR PAGE

000707

MINUTE PAGE

EXHIBIT C

SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This Settlement Agreement and Mutual Release (this "**Agreement**") is entered into as of October 30, 2007, by and among Rosetta Resources Operating LP, a Delaware limited partnership, and Rosetta Resources Operating GP, LLC, a Delaware limited liability company (collectively, "**Rosetta**"), on the one hand, and the State of California, acting through its State Lands Commission (the "**State**"), on the other hand (Rosetta and State are sometimes herein called individually, a "**Party**" and together, the "**Parties**").

RECITALS

A. On or about June 30, 1940, the State entered into an Agreement for Easement No. 415 with Standard Oil Company of California ("**Original Lessee**"), which was amended from time to time, including by that certain Gas Lease Issued In Exchange for Gas Lease Easement No. 415.1 dated as of December 20, 1963 (as so amended, the "**Lease**"). The Lease affects certain lands located in Contra Costa, Sacramento, San Joaquin and Solano Counties, California.

B. Calpine Corporation ("**Calpine**"), by mesne conveyances, succeeded to the interests of Original Lessee as lessee under the Lease.

C. Calpine entered into agreements whereby it agreed to sell and convey the Lease to Rosetta.

D. Pursuant to such agreements, Calpine submitted an application to the State for approval of the assignment of the Lease from Calpine to Rosetta in accordance with the requirements of Public Resources Code Section 6804.

E. Either following or prior to completing the conveyance of the Lease to Rosetta (an issue subject to dispute), Calpine and certain of its affiliates filed for protection under the U.S. Bankruptcy Code, in a proceeding styled *In re Calpine Corporation, et al.*, Case No. 05-60200 (BRL) (the "**Bankruptcy Proceeding**"), in the United States Bankruptcy Court for the Southern District of New York (the "**Bankruptcy Court**").

F. The Bankruptcy Court in the Bankruptcy Proceeding entered an order dated September 11, 2007, approving the assignment of the Lease by Calpine to Rosetta in accordance with Section 363, *et al.*, of the Bankruptcy Code (the "**Partial Settlement Order**"). Pursuant to such order, Calpine and Rosetta have executed and delivered various agreements and documents, including those related to the assignment of the Lease.

G. The State has conducted an audit of amounts paid under the Lease and on or about June 14, 2006, presented for the first time to Calpine and Rosetta a claim for underpayment of amounts the State believes are due and owing, pursuant to the terms of the Lease, from the lessee, but have not been paid and that are attributable to the period from May 1, 2000, through June 30, 2005 (such claims, the "**Audit Claim**").

H. On December 4, 2006, Rosetta submitted to the State a response to the Audit Claim asserting that Rosetta and its predecessor, Calpine, overpaid the State rent and royalties, including payments based on net profits and otherwise under the Lease (collectively, "**Net Profits Interests**") totaling \$4,807,629 for the period from May 1, 2000 to September 30, 2006, and Rosetta has subsequently notified the State its claims also include its right to recover the accrued interest arising on this amount under applicable law, computed at 6% compounded monthly through August 31, 2007, of \$1,062,507, resulting in a combined claim of \$5,870,136 (such claims, the "**Refund Claim**").

I. The State has evaluated the analysis Rosetta presented and the State has discussed with Rosetta potential resolution of the Audit Claim and the Refund Claim.

J. Since November 2006, Rosetta has continued to pay to the State each month an amount Rosetta contends is the amount due to the State, without giving effect to the Audit Claim or the Refund Claim.

K. On August 20, 2007, the State submitted to Rosetta a response to Rosetta's report and the Refund Claim indicating that the amount of overpayment of Net Profits Interests is approximately \$3,360,986 for the period from January 1, 2003 to June 30, 2006, and the State subsequently notified Rosetta of the defenses and other issues the State contends it possesses to the Refund Claim.

L. The Partial Settlement Order approved the Partial Transfer and Release Agreement between Rosetta and Calpine, which, among other items, assigned and conveyed to Rosetta for all purposes all obligations and rights of recovery under the Lease associated with the Audit Claim and/or the Refund Claim.

M. The State has approved the assignment to Rosetta of the Lease.

N. Rosetta and the State believe that it is desirable to resolve and settle all claims and issues related to the Audit Claim and the Refund Claim.

NOW THEREFORE, in consideration of the mutual promises, covenants and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

000016

-2-

000700

CALENDAR PAGE

MINUTE PAGE

AGREEMENT

1. **Incorporation of Recitals.** The foregoing Recitals shall have the same force and effect as if set forth in full in the body of this Agreement.

2. **Settlement of Refund Claim.** Subject to the timing and payment obligations set forth herein to settle and compromise Rosetta's Refund Claim against the State, the Parties hereby agree that the amount of Rosetta's Refund Claim shall be fixed as of the date of execution of this Agreement at Three Million Seven Hundred Ninety Four Thousand Four Hundred Twelve United States Dollars (\$3,794,412) (the "**Settlement Amount**"), calculated in accordance with the following schedule:

Period	Net Profits	Interest	Total
May 1, 2000 to December 31, 2002	\$0	\$0	\$0
January 1, 2003 to June 30, 2003	\$3,360,967	\$0	\$3,360,967
July 1, 2006 to September 30, 2006	\$433,445	\$0	\$433,445
Total Refund Claim	\$3,794,412	\$0	\$3,794,412

3. **Payment of Settlement Amount.** Rosetta and the State agree that the State shall pay to Rosetta the Settlement Amount by the following procedure: Rosetta may and the State hereby authorizes Rosetta to recoup in full the Settlement Amount by deducting, applying or otherwise offsetting all monthly payments that are due or payable to the State under the Lease against any and all of the unpaid Settlement Amount, commencing with Rosetta's payment for October 2007 production from the Lease, until Rosetta has recouped the Settlement Amount in full (the "**Settlement Offsets**"). Rosetta shall notify the State when the entire Settlement Amount has been fully recouped.

4. **Waiver of Any Breach of Lease During Settlement Offsets.** By executing this Agreement, the State expressly waives, releases and relinquishes any claim, right or ability to assert that Rosetta, as lessee under the Lease, has defaulted, breached or otherwise failed to perform under the Lease as a result, in whole or in part, of any failure to make payments under the Lease to the State during the period when Settlement Offsets are occurring. The State understands, acknowledges and agrees that it will not be receiving any payments from Rosetta or any other person under the Lease starting November 1, 2007, and continuing up and through the date the final Settlement Offsets are deducted, regardless of whether the payments are computed under the Lease for the State's net profits interest or the minimum required payments/royalties. The State also waives, releases and relinquishes any claim, right or ability it may have under the Lease to seek recovery from Rosetta, as lessee under the Lease, in an amount equal to the Settlement Amount for any and all payments due

under the Lease during the period the Settlement Offsets are occurring. The State acknowledges that portions of the Lease are subject to the Rio Vista Gas Unit, created pursuant to that certain Unit Agreement dated as of June 3, 1964, and the provisions of this Agreement pertaining to payments made by Rosetta, as lessee under the Lease, are also applicable to Rosetta's rights and obligations as operator of the Rio Vista Gas Unit.

5. **Limited Amendment of the Lease.** As part of the State's approval of the assignment to Rosetta, Rosetta and the State agree to amend the Lease as set forth in **Exhibit A** (the "**Lease Amendment**"). The Lease Amendment shall be effective as of November 1, 2007.

6. **Release from Rosetta.** Upon the payment in full of the Settlement Amount as set forth under Sections 2 and 3 hereof and the State's authorizing and approving Rosetta as the assignee of and lessee under the Lease and certain other Pipeline Rights of Way (PRC 8485.1 and PRC 8354.1) (each, a "**Pipeline ROW**") from Calpine, Rosetta specifically releases, waives and forever discharges the State, its successors in interest, past, present and future assigns, parents, subsidiaries, affiliates, insurers, underwriters, suppliers and customers, and each of their current and former officers, directors, employees, agents, attorneys and representatives from any and all past claims, demands, actions, liabilities and causes of action, whether asserted or unasserted, whether known or unknown, suspected or unsuspected, in law or in equity, for or by reason of any matter, cause or thing, arising out of or relating to the Audit Claim or the Refund Claim, excluding from this release any ongoing obligations the State owes as a counterparty under the Lease or Pipeline ROW to Rosetta, as lessee. If any of the amounts owing or paid under Section 3 hereof are hereafter avoided, recovered, set aside, or disgorged from Rosetta, the release provided for in this Section shall be void and of no force and effect.

7. **Release from the State.** Upon execution of this Agreement, the State specifically releases, waives and forever discharges Rosetta, its successors in interest, past, present and future assigns, parents, subsidiaries, affiliates, insurers and underwriters, and each of their current and former officers, directors, employees, agents, attorneys and representatives from any and all past claims, demands, actions, liabilities and causes of action, whether asserted or unasserted, whether known or unknown, suspected or unsuspected, in law or in equity, for or by reason of any matter, cause or thing, arising out of or relating to the Audit Claim or the Refund Claim, including without limitation as lessee under the Lease or for reimbursement or repayment of any costs or expenses incurred by the State in reviewing, analyzing and responding to the Refund Claim, prior to the date of execution of this Agreement, but excluding from this release any ongoing obligations Rosetta owes as a counterparty under the Lease or Pipeline ROW to the State, as lessor. When Rosetta has taken the final Settlement Offset and the entire Settlement Amount has been recouped, the State shall affirm its release of any right to recover any payments under the Lease constituting

the Settlement Offsets by executing and delivering to Rosetta appropriate documentation to memorialize the payment in full of the Settlement Amount.

8. **Waiver of Rights under Section 1542.** The Parties acknowledge that they have been advised by legal counsel and are familiar with the provisions of California Civil Code Section 1542, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Rosetta and the State, being aware of said Code Section, expressly waive any rights they may have thereunder, as well as under any other statute or common law principles of similar effect, with respect to the releases given in Section 7 and Section 8, respectively.

9. **No Admission.** It is understood and agreed to by the Parties that nothing contained in this Agreement shall be construed as evidence or an admission of any alleged wrongdoing or liability by any Party to this Agreement.

10. **Payment Accounting.** The purpose of the payment of the Settlement Amounts is to compromise a disputed claim without any admission of liability or fault by either Party and, as such, shall not be characterized, labeled or treated as anything other than a compromise payment. Except as a compromise and satisfaction of claim and an obligation under this Agreement, nothing about this payment shall alter or otherwise impact the accounting obligations of either Party under any real property lease.

11. **Authority to Execute This Agreement.** Each Party represents and warrants that it has the authority to execute this Agreement.

12. **No Prior Transfer of Released Items.** Each Party represents and warrants that it has not heretofore sold, assigned, transferred, conveyed or otherwise disposed of, including by way of subrogation, any of the charges, claims, complaints, actions, causes of action, liabilities, obligations, promises, benefits, agreements, controversies, rights, damages, debts, costs, losses of services, attorneys' fees, expenses, costs and compensation of any nature whatsoever released in this Agreement.

13. **Representation.** Each Party represents and warrants that, in entering into this Agreement, it has relied upon the advice of its own attorneys and/or other representatives, that the terms of this Agreement have been read completely and explained to it by its attorneys and/or other representatives and that the terms of this Agreement are fully understood and voluntarily accepted by it. Each Party further acknowledges that: (1) no representation or promise not expressly contained in this Agreement has been made by any Party to any other Party or to their agents, participants, employees, representatives or attorneys, and (2) this Agreement has not been entered into on the basis of any such promise or representation, express or implied, other than as set forth in this Agreement.

14. **Governing Law and Jurisdiction.** This Agreement shall be governed by the laws of the State of California without regard to the principles of choice of law or conflicts of law of that state or of any other jurisdiction. The forum for resolution of any dispute arising out of this Agreement shall be either in the Bankruptcy Court overseeing the Bankruptcy Proceeding, to the extent such jurisdiction exists or has otherwise been reserved by such court, or a court of competent jurisdiction located in the County of Los Angeles, State of California. Notwithstanding the foregoing, the State reserves all objections that it has asserted or that it might assert to the jurisdiction of the Bankruptcy Court in the Bankruptcy Proceedings and Rosetta reserves all defenses and claims that it has asserted or might assert with respect to the jurisdiction of the Bankruptcy Court and the effect of the Bankruptcy Proceedings.

15. **Entire Agreement.** This Agreement sets forth the entire agreement and understanding of the Parties relating to the subject matter hereof and supersedes all prior agreements and understandings, whether oral or written.

16. **Survival.** The covenants and releases contained in this Agreement shall survive the full performance of this Agreement.

17. **No Modification.** This Agreement may be amended, modified or terminated only by a writing executed by each of the Parties.

18. **No Prejudice to Drafter.** Each Party has had a full and ample opportunity to review this Agreement and to make suggestions or changes to it. Accordingly, the Parties understand and agree that this Agreement is deemed to have been drafted jointly by the Parties, and the Parties agree that the common-law principles of construing ambiguities against the drafter shall have no application hereto. This Agreement should be construed fairly and not in favor of or against one Party as the drafter hereof.

19. **Successors and Assigns.** This Agreement shall be binding upon and shall inure to the benefit of the respective successors and assigns of the Parties.

20. **Severability.** If any term or provision of this Agreement is determined to be illegal, unenforceable or invalid in whole or in part for any reason, such illegal, unenforceable or invalid provisions or part thereof shall be stricken from this Agreement, and such provision shall not affect the legality, enforceability or validity of the remainder of this Agreement.

21. **Attorney's Fees and Costs.** Each Party shall bear its own attorneys' fees and costs in connection with the Bankruptcy Proceeding and in connection with the transactions contemplated by this Agreement. In the event of any default or breach of this Agreement, or any action brought to interpret or enforce the terms of this Agreement, the prevailing party shall be entitled to recover its attorneys' fees and costs incurred in any such action.

22. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed an original for the purpose of effectuating the Agreement, but all of which together shall constitute one and the same instrument. Any faxed counterpart of this Agreement shall be deemed to be an original, but the Party delivering a facsimile counterpart further shall immediately deliver to each of the other Parties an original counterpart.

23. **Notices.** All correspondence, notices, demands or payments under this Agreement shall be sent to the Parties and/or their counsel, as required herein at the following addresses:

To Rosetta: Rosetta Resources Inc.
717 Texas, Suite 2800
Houston, Texas 77002
Attention: Michael H. Hickey,
General Counsel
Telephone: (713) 335-4017
Facsimile: (713) 335-4136

To Counsel for Rosetta: Kevin L. Shaw, Esq.
Mayer Brown LLP
350 South Grand Avenue, Suite 2500
Los Angeles, CA 90071
Telephone: (213) 229-9550
Facsimile: (213) 625-0248

To State:

California State Lands Commission
100 Howe Avenue, Suite 100 South
Sacramento, California 95825
Attention: Richard D. Nobles, Esq.
Telephone: (916) 574-1935
Facsimile: (916) 574-1855

The Parties or their counsel shall promptly notify the other Parties and counsel of any change of address by written notice specifically referring to this Agreement.

24. **Headings.** Headings contained in this Agreement are inserted as a matter of convenience and for reference, and are not intended and shall not be construed to define, limit, extend or otherwise describe the scope of this Agreement or any provision of this Agreement.

[SIGNATURE PAGES FOLLOW]

000224
CALENDAR PAGE

-8-

002775
MINUTE PAGE

IN WITNESS WHEREOF, the Parties have each executed this Agreement on the dates set forth opposite their respective signatures, to be effective, however on the date above first written.

Dated: _____, 2007

ROSETTA RESOURCES OPERATING LP

By: _____

Name: _____

Title: _____

Dated: _____, 2007

ROSETTA RESOURCES OPERATING GP,
LLC

By: _____

Name: _____

Title: _____

Dated: _____, 2007

STATE OF CALIFORNIA, acting through its
STATE LANDS COMMISSION

By: _____

Name: _____

Title: _____

Exhibit A

Form of Lease Amendment