

**CALENDAR ITEM
C83**

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03/25/08

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PRC 8395.1

J. Smith

**CONSIDER APPROVAL OF AN ASSIGNMENT OF
SUNSET EXPLORATION, INC.'S 100 PERCENT INTEREST IN
OIL AND GAS LEASE NO. PRC 8395.1 TO STREAM ENERGY, INC.;
CONSIDER APPROVAL OF AN AMENDMENT OF OIL AND GAS LEASE NO.
PRC 8395.1 TO PROVIDE FOR THE LEASING OF ADDITIONAL LANDS,
AND CONSENT TO THE POOLING OF APPROXIMATELY 26.71 ACRES
OF LEASED LANDS UNDER PRC 8395.1,
SACRAMENTO COUNTY**

ASSIGNOR:

Sunset Exploration, Inc.
Attn.: Mr. Robert E. Nunn
1050 Brentwood Blvd.
Brentwood, CA 94513

ASSIGNEE:

Stream Energy, Inc.
Attn.: Mr. Guy L. Burge
5330 Office Center Court, #65
Bakersfield, CA 93309

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease of approximately 30.3 acres in the bed of Snodgrass Slough, Sacramento County, California.

BACKGROUND:

Oil and Gas Lease No. PRC 8395.1 (Lease) was issued to Sunset Exploration, Inc. (Sunset) on June 18, 2002. The Lease contains 30.3 acres of tide and submerged land in the bed of Snodgrass Slough in Sacramento County.

In December 2006, Stream Energy, Inc. (Stream) acquired 100 percent (100%) interest in the Lease from Sunset. In January 2007, Stream drilled the "Walnut Grove Farms" 36-1 gas well (API# 0406720459) from a location on private

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property upland and west of Snodgrass Slough. The well was drilled by Stream through the Lease without the approval of the California State Lands Commission (Commission), and completed as a natural gas well. Staff has reviewed the drilling history documentation and determined that the "Walnut Grove Farms" 36-1 gas well was drilled and completed in compliance with the Commission's regulations. Until and unless the Commission approves of the assignment, the well remains the responsibility of Sunset. The well is capable of economic gas production but currently is shut-in pending market hook-up and Commission approval of assignment and unitization.

Sunset is requesting that the Commission approve the assignment of their 100 percent (100%) interest in the Lease to Stream. Stream possesses the statutory qualifications to hold a State oil and gas lease and is currently a lessee and operator of another nearby State oil and gas lease.

Under the terms of the Lease, the Lessee is required to pay an annual rental of \$30.00 per net acre (\$909.00 for 30.3 acres) and pay 20 percent (20%) royalty on gas and other hydrocarbon substances produced. No default exists on the Lease. The Lessee has complied with all applicable laws and other lease provisions and has paid all rentals pursuant to the lease terms.

Upon approval of the assignment, Stream requests that the Commission amend the lease to include additional acreage and approve a proposed pooling unit. Section 22 of the Lease allows the Lessee, with the consent of, and under terms and conditions approved by, the State to pool or unitize all or part of the leased lands with lands held by the Lessee or others. Stream has formed a pooling unit that contains 226.94 acres of State tide and submerged and private leased lands (Exhibit F). The unit, called the "WGF-McCormack Unit," was created for the development and production of natural gas. In addition to 30.3 acres of State tide and submerged land already included in Lease PRC 8395.1, the proposed unit includes an additional 14.02 acres of unleased State tide and submerged land under Snodgrass Slough. Stream has asked the Commission to expand Lease PRC 8395.1 to include this additional acreage (shown as Parcel B on Exhibit A). Staff has reviewed the information submitted by Stream and determined that the criteria for issuing a negotiated lease under Public Resources Code section 6815 (a) have been met. A draft of the proposed amendment adds to the existing lease the acreage as shown as Parcel B on Exhibit A and described in Exhibit B. The above changes are reflected in the 'Draft Amendment' in Exhibit C and in the appended lease land description in Exhibit B. The annual rental for the entire lease shall be one thousand three

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hundred fifty dollars (\$1,350.00) for approximately 44.32 mineral acres. Lease No. PRC 8395.1 has a fixed rate of 20 percent (20%) on all gas and oil substances produced.

Stream also requests the Commission's consent to the pooling of 26.71 acres of leased State tide and submerged lands under Oil and Gas Lease No. PRC 8395.1 by approving Stream's Declaration of Pooling dated February 3, 2007 (Exhibit F), the pooling map (Exhibit D) and description of the State's 26.71 acres that represents 11.770 percent (11.770 %) of the pool (Exhibit E). The Commission staff has determined that it will be economically advantageous to the State to share in the production from the proposed unit.

STATUTORY AND OTHER REFERENCES:

- A. Sections 22 (b) and 28 of Oil and Gas Lease No. PRC. 8395.1
- B. Public Resources Code sections 6804, 6829.2, and 6832

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 section 6370, et seq., but such activity will not affect those significant lands.
- 3. Upon approval of the transfer, PRC 8395.1 shall be amended to incorporate the language in Exhibit C. The proposed amendments provide that: 1) the lease shall be increased in size to include an additional 14.02 acres of State tide and submerged land under Snodgrass Slough; and 2) lessee shall enter into 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 (including but not limited to engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews, and for staff time or expenses expended to ensure lease operations conform to

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the terms of the Lease and to the State's rules and regulations). This management fee shall commence on April 1, 2008, and shall not exceed two thousand dollars (\$2,000) for the first year, The "not to exceed" amount will increase by three percent (3%) per year, with the increase taking effect annually on April 1st of each successive year of the Lease.

4. Assignment forms and prerequisite filing fees have been paid by the Lessee and/or by Stream.

EXHIBITS:

- A. Location Map of negotiated subsurface Oil and Gas Lease No. PRC 8395.1.
- B. Land Description for Appended Parcel
- C. Draft Amendment
- D. Site Map of WGF-McCormack Pooling Unit
- E. Land Description State Lands Pooled Area
- F. Declaration of Pooling dated February 3, 2007

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

OTHER FINDING:

DETERMINE THAT THE CRITERIA FOR ISSUING A NEGOTIATED LEASE IN PUBLIC RESOURCES CODE SECTION 6815(a) HAVE

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BEEN MET, THAT AUTHORIZING THE ADDITION OF 14.02 ACRES TO EXISTING OIL AND GAS LEASE NO. PRC 8395.1 IS IN THE BEST INTERESTS OF THE STATE IN ORDER TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LANDS.

AUTHORIZATION:

1. CONSENT TO THE ASSIGNMENT OF 100 PERCENT INTEREST IN OIL AND GAS LEASE NO. PRC 8395.1 FROM SUNSET EXPLORATION, INC. TO STREAM ENERGY, INC., 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 8395.1 AS SET FORTH IN EXHIBIT C.
3. CONSENT TO THE POOLING OF THE LEASED LANDS (27.71 ACRES UNDER OIL AND GAS LEASE NO. PRC 8395.1) WITH OTHER PRIVATE LANDS HELD BY STREAM. CONSENT IS GIVEN BY APPROVING STREAM'S DECLARATION OF POOLING DATED FEBRUARY 3, 2007, WHICH CREATES THE WGF-MCCORMACK POOLING UNIT DESCRIBED IN EXHIBIT E, (APPROXIMATELY TOTAL 226.94 ACRES INCLUDING 26.71 ACRES OF LEASED TIDE AND SUBMERGED LANDS UNDER OIL AND GAS LEASE NO. PRC 8395.1). THE UNITIZED LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF OIL AND GAS LEASE NO. PRC 8395.1, NOTWITHSTANDING ANY CONDITIONS IN THE DECLARATION OF POOLING TO THE CONTRARY.
4. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

EXHIBIT A

PRC 8395.1

Location Map

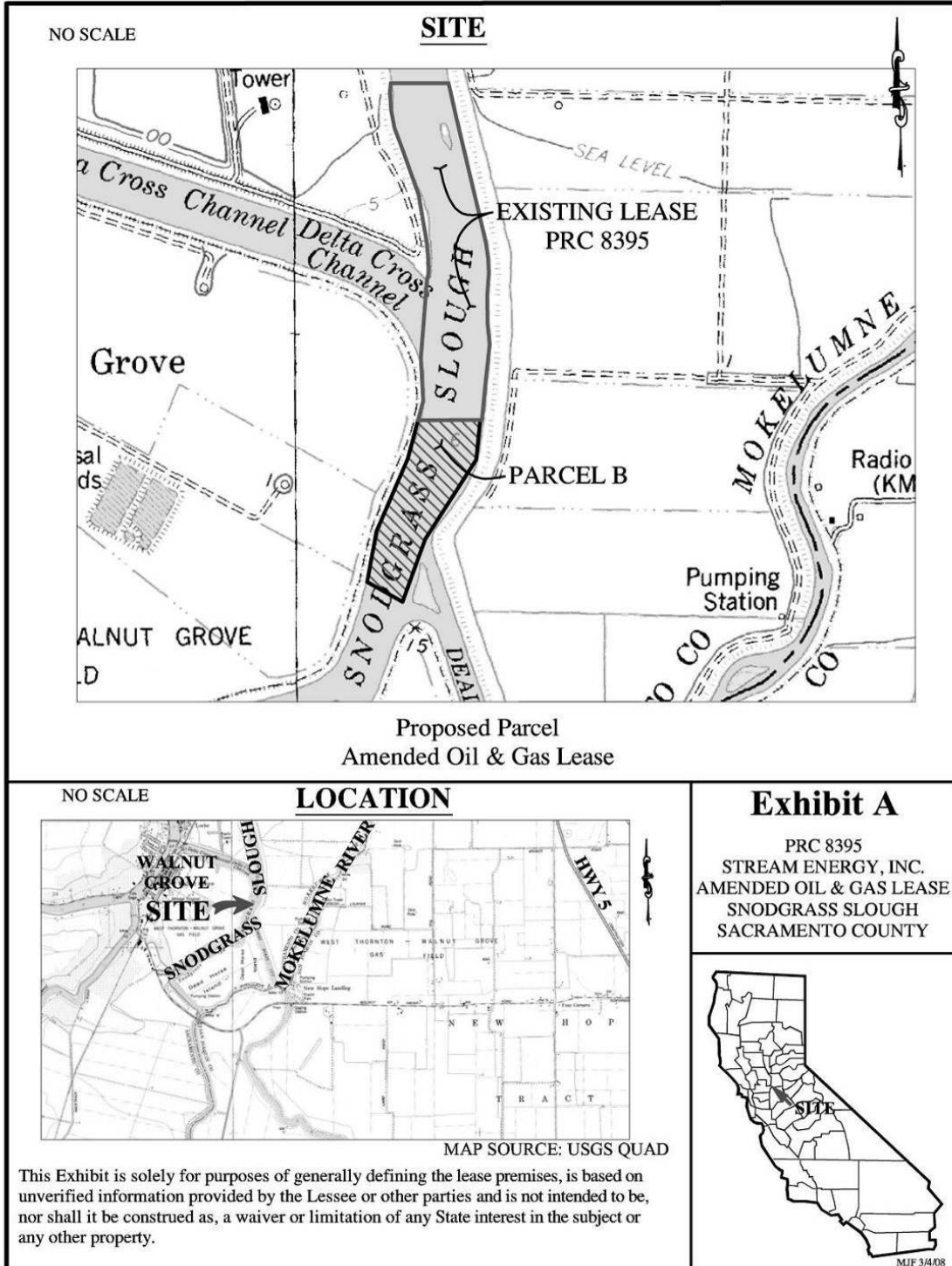


EXHIBIT C

PRC 8395.1

STATE OF CALIFORNIA STATE LANDS COMMISSION

AMENDMENT

THIS AMENDMENT is entered into by the State of California, acting by and through the State Lands Commission, herein referred to as "State", and Stream Energy, Inc., herein referred to as "Stream".

The California State Lands Commission (Commission) issued a negotiated limited surface use Oil and Gas Lease No. PRC 8395.1 (Lease) to Sunset Exploration, Inc. (Sunset) on June 18, 2002. Sunset has requested that the State Lands Commission approve the assignment of lease PRC 8395.1 to Stream.

The State Lands Commission has determined that it is in the State's best interest to make certain modifications to the terms of each of the leases in connection with its approval of the assignments.

The State and Stream do hereby agree as follows:

1. State Oil and Gas Lease PRC 8395.1 be amended to add 14.02 acres, described as Parcel B on Exhibit B of this document.
2. As provided in Paragraph 2 of the Lease, Stream shall pay annual rental for the entire leased lands, including the new acreage, in the amount of thirty dollars (\$30.00) per acre or an annual rental of \$1,350.00 for approximately 44.32 acres. Stream has paid or agrees to pay the current year's rental for the lease including the rental of the increased 14.02 acres from March 25, 2008 through June 17, 2008 in the amount of \$ 105.00. Therefore it is agreed to amend State Oil and Gas Lease 8395.1 by deleting Paragraph 1 of Exhibit "C" and Replacing it with the following Language:

The annual Rental for this lease shall be Thirty dollars (\$30.00) per acre or fraction of an acre for a total of Thirteen Hundred Fifty dollars (\$1,350.00) for approximately 44.32 acres.

3. State Oil and Gas Lease PRC 8395.1 be amended by deleting Paragraph 2 of Exhibit "B" (Special Operating Requirements) of State Oil and Gas Lease PRC 8395.1 and inserting the following language therefore:

Lessee agrees to enter into 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 (including but not limited to engineering review, royalty verification and/or audit, reservoir and geologic review, annual lease reviews, and for staff time or expenses expended to ensure lease operations conform to the terms of the Lease and to the State's rules and regulations). This "Management Fee" shall commence on April 1, 2008, that shall not exceed two thousand dollars (\$2,000) for the first year, and the "not to exceed" amount will increase by three percent (3%) per year, with the increase taking effect annually on April 1st of each successive year of the Lease.

It is further agreed that all other terms and conditions of said Lease are to remain unchanged and in full force and effect.

This Amendment to the Lease 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.

Stream Energy, Inc.

**State of California
State Lands Commission**

By: _____
(Signature)

By: _____
(Signature)

(Name of Officer)

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

(Title)

Chief, Mineral Resources Management
(Title)

Date: _____

Date: _____

ATTEST

ATTEST

EXHIBIT D

PRC 8395.1

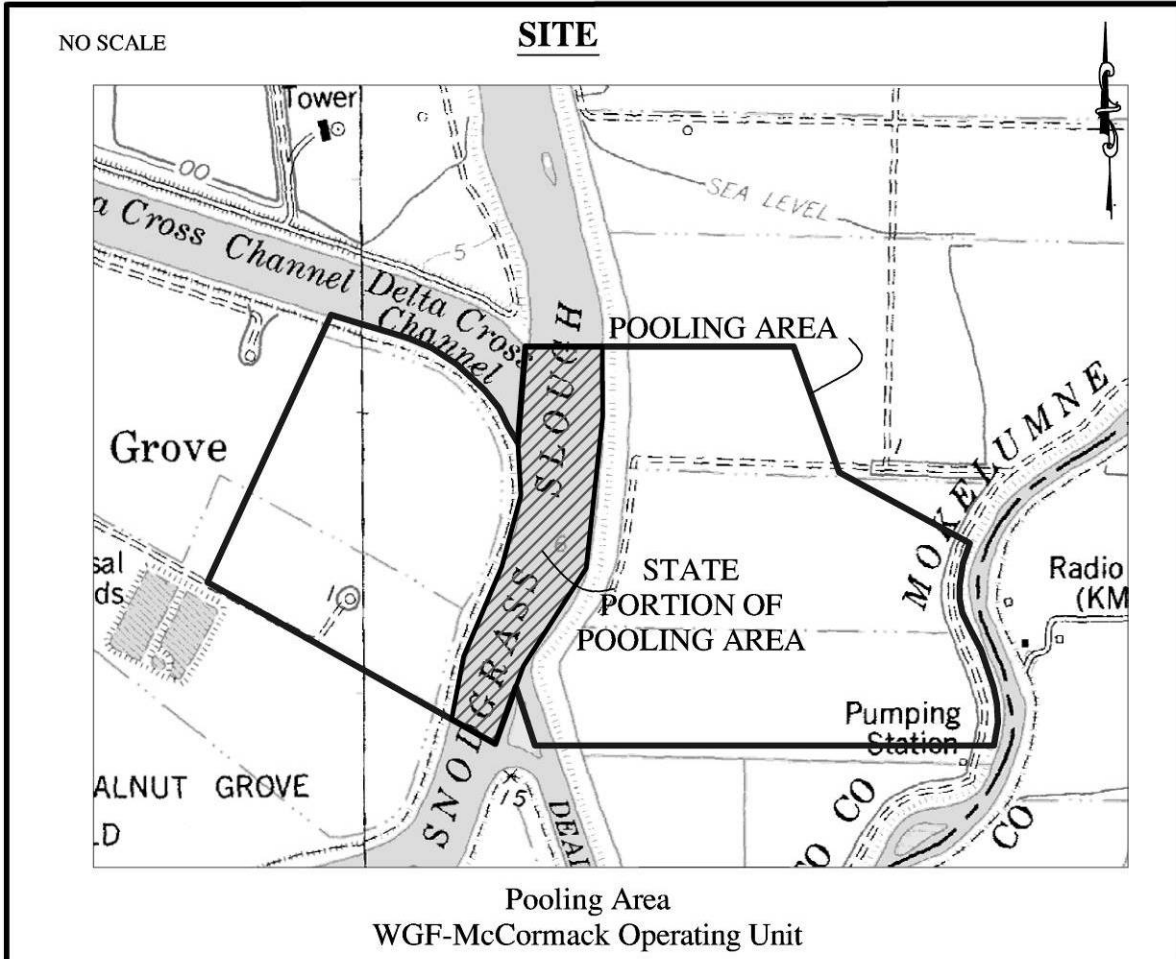


Exhibit D
PRC 8395
STEAM ENERGY, INC.
POOLING AREA
SNODGRASS SLOUGH
SACRAMENTO COUNTY



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 F

PRC 8395.1

**Recording requested by
and when recorded mail to:**

Stream Energy, Inc.
5330 Office Center Ct., #65
Bakersfield, CA 93309

DECLARATION OF POOLING

Stream Gas, LLC, an Oklahoma limited liability company, Lessee in the following described Oil, Gas and Mineral Leases, hereby combines and pools the following described Oil, Gas and Mineral Lease and Oil and Gas Leases as to the land described below into an operating unit for gas development purposes in accordance with the terms of the respective leases, comprising two hundred twenty six and 94/100 (226.94) acres:

1. Oil, Gas and Mineral Lease dated May 1, 2005, recorded July 3, 2005 in Book 20050701 at Page 2408 of Official Records of Sacramento County, California with Walnut Grove Land Company as Lessor, as to the land covered by the lease and lying within the boundaries of the unit,
2. Oil and Gas Lease dated March 1, 2005, recorded October 4, 2005 in Book 20051004 at Page 0134 of Official Records of Sacramento County, California with McCormack Williamson Company as Lessor, as to the land covered by the lease and lying within the boundaries of the unit, and
3. State of California Oil and Gas Lease dated June 18, 2002, of record with the State Lands Commission as PRC 8395 (W 40847) with State of California as Lessor, as to the land covered by the lease and lying within the boundaries of the unit;

and as depicted on Exhibit A, attached hereto and made a part hereof. The description of the unit boundary is:

TOWNSHIPS 5 NORTH, RANGE 4 EAST, MDB&M
Unincorporated area of Sacramento County, California

Portions of Sections 35 & 36 of T5N, R4E described as:

Beginning at a stake on the right or West bank of Snodgrass Slough at the division corner common to Swampland Survey 795 and 796 of Sacramento County Surveys and running thence; along the division line common to said Surveys, thence

- 1) North 60°45'00"West, a distance of 1,974.69 feet; thence
- 2) North 24°15'19"East, a distance of 1,334.32 feet to a point on the South bank of the Delta Cross Channel; thence

- 3) Southeasterly along the South bank of the Delta Cross Channel to its intersection with the West Bank of the Snodgrass Slough; thence
 - 4) North 05°01'06"East, a distance of 547.27 feet, more or less, to the intersection of the West bank of Snodgrass Slough and North bank of the Delta Cross Channel; thence
 - 5) East, a distance of 1,958.05 feet; thence
 - 6) South 25°25'32"East, a distance of 595.60 feet; thence
 - 7) South 63°48'11"East, a distance of 728.57 feet; to the West bank of the Mokelumne River; thence
 - 8) South along the West bank of the Mokelumne River to a point which bears the following courses and distances from the POINT OF BEGINNING a) South 65°21'51"East, 452.92 feet; thence b) North 17°17'42"East, 316.02 feet; thence c) South 16°50'52"East, 540.92 feet; thence d) East, 2,748.71 feet; thence
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- 9) Leaving the West bank of the Mokelumne River West, a distance of 2,748.71 feet to the centerline of the dredge cut as per Quitclaim Deed as shown in Book 493 of Official Records at page 218; thence
 - 10) North 16°50'52"West, a distance of 540.92 feet to the intersection of said dredge cut with the East line of Snodgrass Slough; thence
 - 11) South 17°17'42"West, a distance of 316.02 feet along the East line of Snodgrass Slough; thence
 - 12) North 65°45'00"West, a distance of 452.92 feet to the POINT OF BEGINNING.

Containing 226.94 acres. APN: 56-0010-053 (portion) and portions of the Snodgrass Slough

The production from the Unit shall be allocated to the leases as follows:

1.	Walnut Grove Land Company Lease	70.97/226.94	or	31.273%
2.	McCormack Williamson Company Lease	129.26/226.94	or	56.958%
3.	State of California Lease	26.71/226.94	or	11.770%

The pooled unit shall be known as the WGF-McCormack Unit.

Dated: February 3, 2007.

STREAM GAS, LLC
 By Stream Resources Limited Partnership, Manager
 By Stream Energy, Inc., General Partner

by _____
 Guy L. Burge, Jr.

STATE OF NEVADA
COUNTY OF WASHOE

On _____ before me, _____, Notary Public, personally appeared Guy L. Burge, Jr., personally known to me (or proved to me on the basis of satisfactory evidence to be the person(s) whose names(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

Attached to and made a part of that certain Declaration of Pooling by Stream Gas, LLC dated February 3, 2007.

EXHIBIT "A"

WGF-McCormack Unit

Unincorporated area of Sacramento County, California

TOWNSHIP 5 NORTH, RANGE 4 EAST, MDB&M

Portions of Sections 35 & 36 of T5N, R4E described as:

Beginning at a stake on the right or West bank of Snodgrass Slough at the division corner common to Swampland Survey 795 and 796 of Sacramento County Surveys and running thence; along the division line common to said Surveys, thence

- 1) North 60°45'00"West, a distance of 1,974.69 feet; thence
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- 4) North 05°01'06"East, a distance of 547.27 feet, more or less, to the intersection of the West bank of Snodgrass Slough and North bank of the Delta Cross Channel; thence
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- 6) South 25°25'32"East, a distance of 595.60 feet; thence
- 7) South 63°48'11"East, a distance of 728.57 feet; to the West bank of the Mokelumne River; thence
- 8) South along the West bank of the Mokelumne River to a point which bears the following courses and distances from the POINT OF BEGINNING a) South 65°21'51"East, 452.92 feet; thence b) North 17°17'42"East, 316.02 feet; thence c) South 16°50'52"East, 540.92 feet; thence d) East, 2,748.71 feet; thence
- 9) Leaving the West bank of the Mokelumne River West, a distance of 2,748.71 feet to the centerline of the dredge cut as per Quitclaim Deed as shown in Book 493 of Official Records at page 218; thence
- 10) North 16°50'52"West, a distance of 540.92 feet to the intersection of said dredge cut with the East line of Snodgrass Slough; thence
- 11) South 17°17'42"West, a distance of 316.02 feet along the East line of Snodgrass Slough; thence
- 12) North 65°45'00"West, a distance of 452.92 feet to the POINT OF BEGINNING.

Containing 226.94 acres. APN: 56-0010-053 (portion) and portions of the Snodgrass Slough