

**CALENDAR ITEM
C52**

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10/16/08
PRC 8587.1
J. Smith

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**CONSIDER ACCEPTANCE OF THE FULL QUITCLAIM DEED
OF NEGOTIATED SUBSURFACE (NO SURFACE USE)
OIL AND GAS LEASE NO. PRC 8587.1
(A PARCEL OF TIDE AND SUBMERGED LANDS LYING
WITHIN THE BED OF GEORGIANA SLOUGH),
SACRAMENTO COUNTY**

LESSEES:

Towne Exploration Company
Attn.: Mr. Edward B. Towne
P.O. Box 520
San Francisco, CA 94104-0520

Capitol Oil Corporation
Attn.: Mr. Stephen D. Brooks
3840 Watt Ave., Bldg. B
Sacramento, CA 95821-2640

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Oil and Gas Lease No. PRC 8587.1 is located within the River Island Gas Field area. The lease includes approximately 8.75 acres in the bed of Georgiana Slough, Sacramento County, California.

BACKGROUND:

On December 9, 2004, the Commission issued Negotiated Subsurface (no surface use) Oil and Gas Lease No. PRC 8587.1 (Lease) to Towne Exploration Company (Towne) (Exhibit B, attached hereto) and consented to inclusion of all of the leased lands into the Transamerica 20-1 pooled unit. This unit was formed for the production of natural gas from the Transamerica 20-1 well bore located on private land adjacent to the Lease and draining State property.

The negotiated subsurface lease contains 8.75 acres of tide and submerged lands within the bed of Georgiana Slough in Sacramento County, California.

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Under the terms of the Lease, the lessee is required to pay an annual rental of \$25 per acre (\$225.00 for 8.75 acres) and commence drilling operations on the leased lands within five years. To date, no drilling or associated well operations have been conducted on the lease, no surface occupancy or disturbance of any kind has occurred and no wells have been drilled into or through the lease. On May 10, 2007, the Commission approved the transfer of an undivided 40 percent (40%) interest in the Lease to Capitol Oil Corporation (Capitol Oil).

Public Resources Code section 6804.1 and Lease Paragraph 29 permit the lessee to make, at any time, a written quitclaim of all rights under the lease or of any portion of the leased lands comprising a ten-acre parcel or multiple thereof in a compact form. The quitclaim is effective when it is filed with the State subject to the continued obligation of the lessee and its surety to pay all accrued rentals and royalties and to abandon all wells drilled on the leased lands.

The Transamerica 20-1 well reached its economic limit and was plugged and abandoned by Towne on June 11, 2008. On September 8, 2008, the Commission's staff received the document "(Full) Quitclaim Deed for State Oil and Gas Lease." This document dated August 27, 2008, was signed by Towne and Capital Oil (collectively Lessees) and quitclaims back to the State all of the lessees' right, title and interest in the leased lands described in Exhibit A, attached hereto, of Oil and Gas Lease No. PRC 8587.1.

A review of the Commission's files reveals that no default exists on the Lease and that the lessees have complied with all applicable laws and Lease provisions and have paid all rentals.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section 6804.1 and Lease Paragraph 29.

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.

EXHIBITS:

- A. Land Description
- B. Location Map

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PERMIT STREAMLINING ACT DEADLINE:

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

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

CEQA FINDING:

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.

AUTHORIZATION:

1. ACCEPT FROM TOWNE EXPLORATION COMPANY AND CAPITOL OIL CORPORATION. (LESSEE) THE FULL QUITCLAIM DEED OF OIL AND GAS LEASE DATED AUGUST 27, 2008, WHEREIN THE LESSEE QUITCLAIMS BACK TO THE STATE ALL RIGHT, TITLE AND INTEREST IN THE LEASED LANDS DESCRIBED IN EXHIBIT A, ATTACHED HERETO, OF OIL AND GAS LEASE NO. PRC 8587.1, DATED DECEMBER 9, 2004.
2. RELEASE TOWNE EXPLORATION COMPANY AND CAPITOL OIL CORPORATION FROM ALL OBLIGATIONS UNDER OIL AND GAS LEASE NO. PRC 8587.1 ACCRUING AFTER SEPTEMBER 8, 2008.
3. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.

