

**CALENDAR ITEM  
C86**

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**CONSIDER APPROVAL OF A NEGOTIATED SUBSURFACE  
(NO SURFACE USE) NATURAL GAS LEASE,  
SACRAMENTO RIVER NEAR GRIMES,  
COLUSA AND SUTTER COUNTIES**

**APPLICANT:**

Venoco, Inc.  
Attn.: Mr. Craig Blancett  
370 17<sup>th</sup> St., Suite 3900,  
Denver, CO 80202

**AREA, LAND TYPE, AND LOCATION:**

Negotiated subsurface (no surface use) Natural Gas Lease contains approximately 15 acres of sovereign lands (Exhibit A attached hereto) underlying the Sacramento River adjacent to Sections 5 and 6, Township 14 North, Range 1 East, M.D.M., located near Grimes in Colusa and Sutter Counties, California.

**BACKGROUND:**

Venoco, Inc. (Venoco or Applicant) has applied for a negotiated subsurface (no surface use) Natural Gas Lease on the State lands described in Exhibit A and shown on Exhibit B, attached hereto. The subject State lands are waterways, and surface drill sites on State lands are not available; but natural gas resources that may underlie the State lands can be developed from adjacent upland private lease holdings. By issuing a negotiated subsurface (no surface use) Natural Gas Lease, the California State Lands Commission (Commission) would permit directional drilling from a County-approved drill site, and inclusion of the leased lands in a Commission-approved pooled area or unit, thereby protecting State resources. Paragraph 21 of the proposed lease provides that the Lessee, with the consent of the State and under terms and conditions approved by the State, may pool or unitize all or part of the leased lands with lands held by Lessee or others.

CALENDAR ITEM NO. C86 (CONT'D)

Public Resources Code section 6815, subdivision (a) authorizes the Commission to negotiate and enter into oil and gas leases on State lands if any of the following exists: wells drilled on private or public lands are draining or may drain oil and gas from the State lands; the Commission determines the State lands to be unsuitable for competitive bidding because of such factors as their small size or irregular configuration or their inaccessibility from surface drill sites reasonably available or obtainable; the State owns a fractional mineral interest in the lands, or the Commission determines the lease to be in the best interests of the State.

The Applicant controls, by lease and/or agreement, substantially all of the private property available for use as a drill site adjacent to the State lands described in Exhibit A and shown on Exhibit B. The Applicant has Sutter County (lead agency) approval to drill a well near the State lands. Therefore, Commission staff has concluded that the criteria of Public Resources Code section 6815, subdivision (a) have been satisfied and that a negotiated subsurface (no surface use) Natural Gas Lease with the Applicant will protect the natural gas resources that may underlie the State lands.

**OTHER PERTINENT INFORMATION:**

1. Staff believes that a negotiated Natural Gas Lease is in the best interest of the State because: the Applicant presently holds oil and gas leases from private mineral owners covering mineral lease interests in adjacent lands shown on Exhibit B; the Applicant, through these oil and gas leases and agreements, controls substantially all of the available drill site access to the waterways constituting the State lands described in Exhibit A and shown on Exhibit B; and this proposed negotiated natural gas lease will protect the State's nature gas resources.
2. The nonrefundable cash bonus payment, which includes payment of the rental for the first five years of the lease, shall be \$3,000.
3. The annual rental will be \$40 per acre (\$600 for approximately 15 acres).
4. The royalty will be 25 percent on natural gas.
5. The performance bond or other security will be in the sum of \$10,000.
6. The management fee is an amount not to exceed \$5,000 per year.
7. There is a shut-in royalty of \$200 per month.

CALENDAR ITEM NO. **C86** (CONT'D)

8. The staff recommends that the Commission find that the subject subsurface lease agreement does not have a potential for resulting in either a direct or a reasonably foreseeable indirect physical change in the environment, and is, therefore, not a project in accordance with the California Environmental Quality Act (CEQA).

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

**EXHIBITS:**

- A. Land Description
- B. Site Map

**RECOMMENDED ACTION:**

It is recommended that the Commission:

**CEQA FINDING:**

Find that the subject subsurface lease agreement is not subject to the requirements of CEQA pursuant to California Code of Regulations, Title 14, section 15060, subdivision (c)(3), because the subject activity is not a project as defined by Public Resources Code section 21065 and California Code of Regulations, Title 14, section 15378.

**OTHER FINDINGS:**

Determine that the criteria of Public Resources Code section 6815, subdivision (a) have been met, that a negotiated subsurface (no surface use) gas lease is the best instrument to develop and protect gas resources that may underlie the State lands described in Exhibit A, and that the State lands are unsuitable for competitive bidding because surface drill sites are not available and wells drilled on the adjacent private property may drain State gas resources.

**AUTHORIZATION**

1. Enter into a negotiated subsurface (no surface use) Natural Gas Lease with Venoco, as described substantially in the form on file with the Commission.
2. Authorize the Executive Officer or his designee to execute any

CALENDAR ITEM NO. **C86** (CONT'D)

documents necessary to implement the Commission's action.

**EXHIBIT A**

**W 40961**

**LAND DESCRIPTION**

A parcel of State owned submerged land lying in the bed of the Sacramento River adjacent to Sections 5 and 6, Township 14 North, Range 1 East, M.D.M., as shown on Official Government Township plat approved January 13, 1872, and also lying adjacent to Jimeno Rancho, surveyed February 1861, Counties of Sutter and Colusa, State of California, described as follows:

All that sovereign land bounded on the north by a line of Latitude N 39°05'28", bounded on the south by the westerly prolongation of the south line of said Section 5, bounded on the east and west by the Low Water of the east and west banks of the Sacramento River.

Said Latitude is referenced to the North American Datum of 1983 (NAD 83).

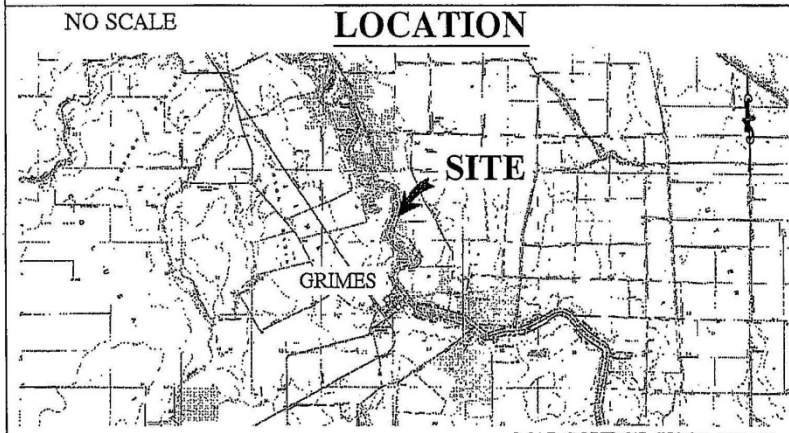
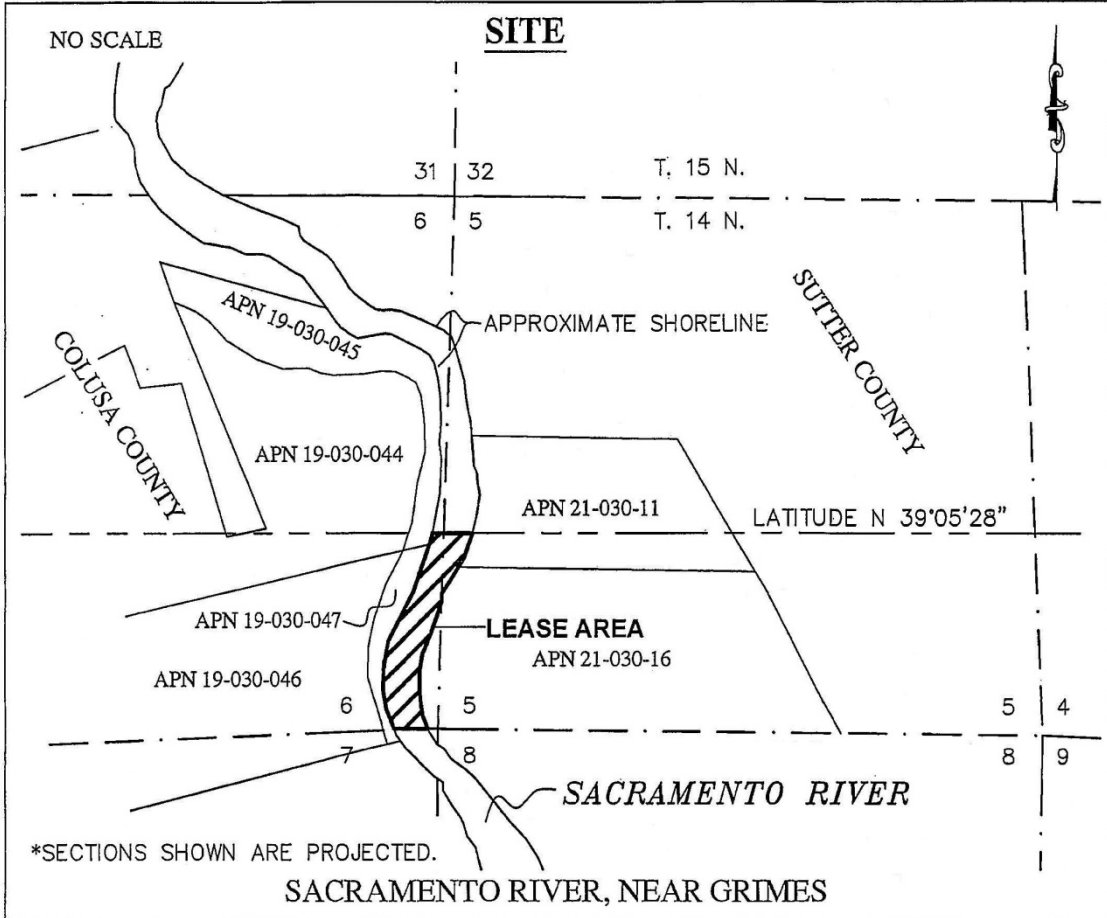
**END OF DESCRIPTION**

Prepared 5/10/2012 by the California State Lands Commission Boundary Unit.



# EXHIBIT B

W 40961



**Exhibit B**

W 40961  
VENOCO, INC.  
OIL & GAS LEASE  
COLUSA & SUTTER  
COUNTIES



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.