

**CALENDAR ITEM
C87**

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**CONSIDER APPROVAL OF A NEGOTIATED SUBSURFACE
(NO SURFACE USE) NATURAL GAS LEASE,
TYLER SLOUGH NEAR WALNUT GROVE,
SACRAMENTO COUNTY**

APPLICANT:

Summit Exploration (California), LLC
Attn.: Mr. David Jorz
755 W. Covell Road, Suite 100
Edmond, OK 73003

AREA, LAND TYPE, AND LOCATION:

Negotiated subsurface (no surface use) Natural Gas Lease contains approximately five (5) acres of sovereign lands underlying Georgiana Slough on the northwest and Snodgrass Slough on the southeast in the South ½ of projected Section 35 in Township 5 North, Range 4 East, and in the North ½ of projected Section 2 in Township 4 North, Range 4 East MDM, in the Walnut Grove area of Sacramento County, California (see Exhibit A, attached hereto).

BACKGROUND:

Summit Exploration (California), LLC (Summit 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. Because the State lands are waterways, and surface drill sites are not available on State lands; natural gas resources that may underlie the State lands can only be developed from adjacent private lease holdings. By issuing a negotiated subsurface (no surface use) Natural Gas Lease, the California State Lands Commission (Commission) would permit Commission-approved directional drilling from a County-approved drill site and inclusion of the leased lands in a Commission-approved pooled area or unit that would protect 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 Summit or others.

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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 exist, wells drilled on private or public lands are draining or may drain oil and gas from State lands; the Commission determines 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 (see Exhibit A). 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 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 interests in adjacent lands shown on Exhibit B; and the Applicant, through oil and gas leases and agreements, controls substantially all of the available drill site that access the waterways constituting the State lands described in Exhibit A and shown on Exhibit B.
2. A nonrefundable cash bonus payment, which includes payment of the rental for the first five years of the lease, shall be \$1,250.
3. The annual rental will be \$50 per acre (\$250.00 for approximately 5 acres).
4. The royalty will be 25 percent of all natural gas produced.
5. The performance bond or other security will be in the sum of \$10,000.
6. The lease management fee will not exceed \$2,000 per year.
7. The shut-in royalty will be \$100/month.

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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 land described in Exhibit A, attached hereto, and that the State land is 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 Summit Exploration (California) LLC, as described substantially in the form on file with the Commission.
2. Authorize the Executive Officer or his designee to execute any documents necessary to implement the Commission's action.

EXHIBIT A

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LAND DESCRIPTION

A parcel of State sovereign land lying in the historic bed of Tyler Slough, adjacent to Swamp and Overflow survey 356, patented January 9, 1874, Swamp and Overflow survey 135, patented January 9, 1874, Swamp and Overflow survey 596, patented June 16, 1871, Swamp and Overflow survey 795, patented June 16, 1871, and Government Lot 4 of Section 35, Township 5 North, Range 4 East, M.D.M., as shown on Official Government Township plat approved June 18, 1859, County of Sacramento, State of California, bounded as follows:

All that sovereign land bounded on the north by Georgiana Slough, bounded on the south by Snodgrass Slough, bounded on the east and west by the Ordinary High Water Marks of the east and west banks of Tyler Slough.

END OF DESCRIPTION

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



EXHIBIT B

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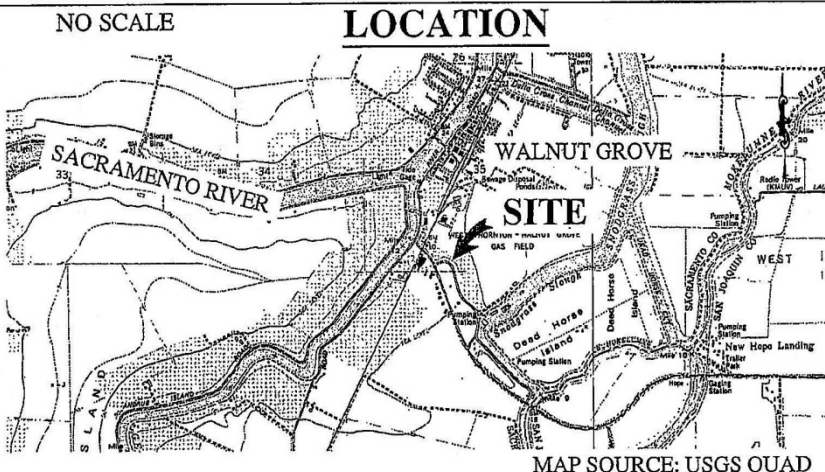
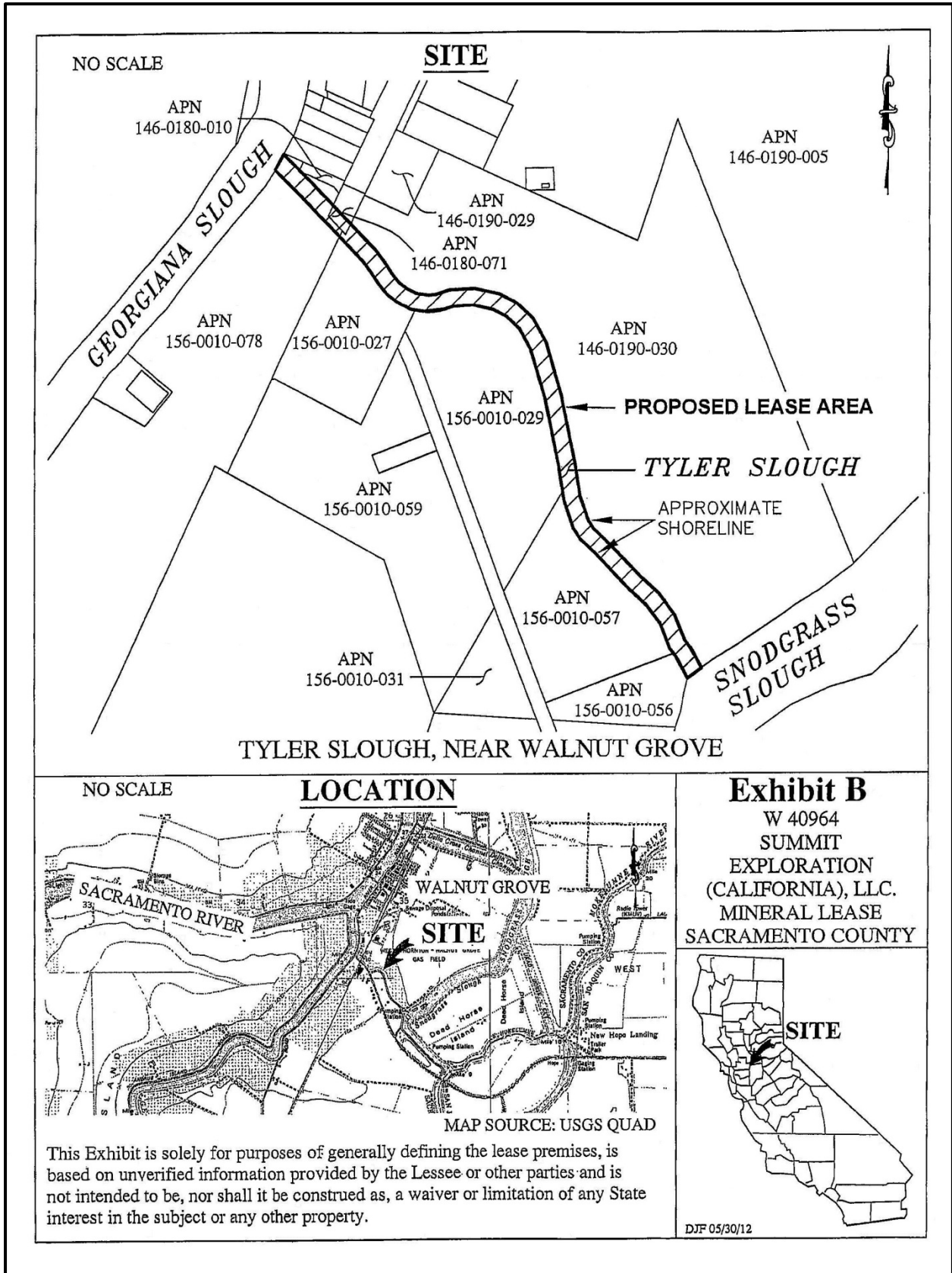


Exhibit B
W 40964
SUMMIT
EXPLORATION
(CALIFORNIA), LLC.
MINERAL LEASE
SACRAMENTO COUNTY



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.