

**CALENDAR ITEM
C84**

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03/25/08
PRC 8618.1
J. Smith

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**CONSIDER APPROVAL OF AN AMENDMENT
OF OIL AND GAS LEASE NO. PRC 8618.1 TO PROVIDE
FOR THE LEASING OF ADDITIONAL LANDS, AND CONSENT TO
THE POOLING OF APPROXIMATELY 32.9 ACRES OF
LEASED LANDS UNDER LEASE NO. PRC 8618.1,
SACRAMENTO COUNTY**

APPLICANT:

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 on about 17.91 acres in the Sacramento River, Sacramento County, California.

BACKGROUND:

Oil and Gas Lease No. PRC 8618.1 (Lease) was issued to Stream Energy, Inc. (Stream) on June 20, 2005. The Lease contains 17.91 acres of tide and submerged land in the bed of the Sacramento River in Sacramento County.

In November 2006, Stream drilled the "Walnut Grove" 34-1 gas well (API# 0406720415) from a site located south of the Sacramento River. The well was drilled through the Lease from a location on private land west of the Lease and completed as a natural gas well. Staff has reviewed the well documentation and has determined that "Walnut Grove" 34-1 gas well's drilling and completion complied with California State Lands Commission's (Commission) regulations.

In addition to the "Walnut Grove" 34-1 well drilled within the currently leased lands of PRC 8618.1, Stream has drilled and completed the "Kay Dix" 35-1 and "Kay Dix" 35-2 wells from a location on private land adjacent to the unleased

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State tide and submerged lands in the bed of the Sacramento River and Steamboat Slough (and contiguous with the eastern boundary of the Lease). The wells are currently producing or capable of economic production.

Section 22 of the Lease allows the Lessee, with the consent of the State 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 two pooling units that contain a total of 266.02 acres of State tide and submerged and private leased lands for the development and production of natural gas. The first unit Stream proposes is for the production of gas from the "Walnut Grove" 34-1 gas well and is called the "Shoreline Unit" (Exhibit H). The "Shoreline Unit" contains 96.22 acres of State tide and submerged and private leased lands which includes 7.7 acres of presently leased State land within Lease PRC 8618.1.

The second Stream unit proposal is for the production of gas from the "Kay Dix" 35-1 and "Kay Dix" 35-2 gas wells, called the "CT-KD Unit" (Exhibit F). The "CT-KD Unit" contains 169.8 acres of State tide and submerged and private leased lands, which includes 25.2 acres of State land. These 25.2 acres consists of 5.7 acres of State tide and submerged land already included in Lease PRC 8618.1, and 19.5 acres of unleased State tide and submerged land under the Sacramento River.

Stream requests the Commission's consent amending Lease PRC 8618.1 to include the additional 19.5 acres, designated as Parcel B on Exhibit A, and to approve the two proposed pooling units. The addition of 19.5 acres will result in a total lease area of 37.41 acres. Staff has reviewed the information submitted by Stream and has determined that the criteria of Public Resources Code section 6815 (a) for entering into a negotiated lease have been met. The proposed amendment adds to the existing lease the acreage shown as Parcel B on Exhibit A, and described on Exhibit B. The above changes are reflected in the 'Draft Amendment' (Exhibit C) and the appended lease land description (Exhibit B). The annual rental for the entire lease shall be nine hundred fifty dollars (\$950.00) for approximately 37.41 mineral acres. Lease No. PRC 8618.1 has a fixed royalty rate of 20 percent (20%) on all gas and oil substances produced.

Stream also requests the Commission's consent to the pooling of 25.2 acres of leased State tide and submerged lands under Oil and Gas Lease No. PRC 8618.1 by approving Stream's "CT-KD Unit" Declaration of Pooling dated June 6, 2006 (Exhibit F), and the pooling map (Exhibit D) and the description of the

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State's 25.2 acres that represents 14.841 percent (14.841%) of the pool (Exhibit E).

Stream lastly requests the Commission's consent to the pooling of 7.7 acres of leased State tide and submerged lands under Oil and Gas Lease No. PRC 8618.1 by approving Stream's "Shoreline Unit" Declaration of Pooling dated February 1, 2007 (Exhibit H), the pooling map (Exhibit D), and the description of the State's 7.7 acres that represents 8 percent (8%) 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. Public Resources Code section 6829.2, Public Resources Code section 6832 and Paragraph 22(b) of the Oil and Gas Lease No. PRC 8618.1.

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. Based upon the Staff's consultation with the persons nominating such lands and through the CEQA process, it is the staff's opinion that the project, as proposed, is consistent with its use classification.
- 3. Oil and Gas Lease No. PRC 8618.1 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 19.5 acres of State tide and submerged land under the Sacramento River and Steamboat Slough; and 2) 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,

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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.

PERMIT STREAMLINING ACT DEADLINE:

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

EXHIBITS:

- A. Location Map of negotiated subsurface Oil and Gas Lease No. PRC 8618.1.
- B. Land Description for Appended Parcel
- C. Draft Amendment
- D. Site Map of CT-KD and Shoreline Operating Units
- E. Land Description State Lands Pooled Area (CT-KD Operating Unit)
- F. CT-KD Unit Declaration of Pooling dated June 6, 2006
- G. Land Description State Lands Pooled Area (Shoreline Operating Unit)
- H. Shoreline Unit Declaration of Pooling dated February 1, 2007

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.

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OTHER FINDINGS:

DETERMINE THAT THE CRITERIA FOR ENTERING INTO A NEGOTIATED LEASE OF PUBLIC RESOURCES CODE SECTION 6815(a) HAVE BEEN MET, THAT AUTHORIZING THE ADDITION OF 19.5 ACRES INTO EXISTING OIL AND GAS LEASE NO. PRC 8618.1 IS IN THE BEST INTERESTS OF THE STATE IN ORDER TO DEVELOP AND PROTECT OIL AND GAS RESOURCES THAT MAY UNDERLIE THE STATE LAND DESCRIBED IN EXHIBIT B.

AUTHORIZATION

1. APPROVE THE AMENDMENTS TO OIL AND GAS LEASE NO. PRC 8618.1, AS SET FORTH IN EXHIBIT C OF THIS CALENDAR ITEM.

2. CONSENT TO THE POOLING OF THE LEASED LANDS (25.2 ACRES UNDER OIL AND GAS LEASE NO. PRC 8618.1) WITH OTHER PRIVATE LANDS HELD BY STREAM. CONSENT IS GIVEN BY APPROVING STREAM'S DECLARATION OF POOLING DATED JUNE 6, 2008, WHICH CREATES THE CT-KD POOLING UNIT DESCRIBED IN EXHIBIT E (APPROXIMATELY TOTAL 169.8 ACRES WHICH INCLUDE 25.2 ACRES OF LEASED TIDE AND SUBMERGED LANDS UNDER OIL AND GAS LEASE NO. PRC 8618.1). THE UNITIZED LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF OIL AND GAS LEASE NO. PRC 8618.1, NOTWITHSTANDING ANY CONDITIONS IN THE DECLARATION OF POOLING TO THE CONTRARY.

3. CONSENT TO THE POOLING OF THE LEASED LANDS (7.7 ACRES UNDER OIL AND GAS LEASE NO. PRC 8618.1) WITH OTHER PRIVATE LANDS HELD BY STREAM. CONSENT IS GIVEN BY APPROVING STREAM'S DECLARATION OF POOLING DATED FEBRUARY 1, 2007, WHICH CREATES THE SHORELINE POOLING UNIT DESCRIBED IN EXHIBIT G (APPROXIMATELY TOTAL 96.22 ACRES WHICH INCLUDE 7.7 ACRES OF LEASED TIDE AND SUBMERGED LANDS UNDER OIL AND GAS LEASE NO. PRC 8618.1). THE UNITIZED LEASED LANDS SHALL BE SUBJECT TO THE PROVISIONS OF OIL AND GAS LEASE NO. PRC 8618.1, NOTWITHSTANDING ANY CONDITIONS IN THE DECLARATION OF POOLING TO THE CONTRARY.

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4. AUTHORIZE THE EXECUTIVE OFFICER OR HIS DESIGNEE TO EXECUTE ANY DOCUMENTS NECESSARY TO IMPLEMENT THE COMMISSION'S ACTION.