

CITY COUNCIL MEETING

July 1, 1981

RESOLUTION  
DECLARING  
INTENTION TO  
CALL FOR BIDS  
FOR GAS AND  
OIL LEASES ON  
CITY PROPERTY

RES. NO. 81-80

City Manager Graves apprised the Council that the City had received inquiries regarding oil and gas leases on the City's White Slough Water Pollution Control Plant Property.

Following Council discussion, with questions being directed to the City Manager and City Attorney, Council, on motion of Councilman Pinkerton, Hughes second, adopted Resolution No. 81-80 - "A Resolution of the City Council of the City of Lodi, California, declaring its intention to call for bids for a certain oil and gas lease and making findings in connection therewith" and authorizing the City Clerk to advertise for bids thereon.

are Lessor's agents and shall continue depository for all rentals payable hereunder (regardless of changes in the ownership of said land or of the right to receive rentals) the sum of ..FIFTY..SEVEN..HUNDRED..THIRTY..FOUR..& 90/100 dollars (\$5,734.90.....) which shall maintain this lease in force and extend for one additional year the time within which such operations may be commenced. Hereafter, annually and in like manner and upon like payments or tender (all of which are herein called "rentals"), such operations may be deferred for successive periods of one year each during the primary term. Payments or tenders of rental may be made by mailing cash, check, or draft to Lessor or to the depository bank and the date of the mailing shall be considered the date of payment. Payments or tenders of rentals may be made by Lessee or by any person or persons on Lessor's behalf, and may be made jointly to all parties Lessor or to their credit in the depository bank or such rentals may be tendered or paid separately to each owner or to his separate credit. From time to time during the primary term, if (a) Lessee shall drill and abandon a well as being in Lessee's opinion incapable of producing any of said substances from said land and there is at the time of abandonment no other well so producing, or (b) all production of said substances shall cease, then Lessee may (subject to provisions of paragraph 15 hereof) commence or resume operations (as defined in paragraph 3 hereof), the production of any of said substances or the payment of delay rental and in such event this lease shall remain in full force and effect as though there had been no interruption in operations, production, or rental payments, as the case may be. If abandonment under (a) above or the cessation of production under (b) above occurs more than six months before the next ensuing anniversary date of this lease, Lessee shall have until such anniversary date in which to commence or resume operations, production or rental payments; if such abandonment or cessation of production occurs less than six months before the next ensuing anniversary date of this lease, the Lessee shall have until the second ensuing anniversary date in which to commence or resume operations, production or rental payments; provided, Lessee shall not have the right under this provision to extend the primary term of this lease.

5. Operations as used in paragraphs 2 and 4 hereof means drilling, re-drilling, deepening, any preparatory work for doing any of the foregoing if commenced in good faith and prosecuted with reasonable diligence, completion or abandonment work, testing or flowing or other work to determine productivity, secondary recovery operations or the exercise of any other right given Lessee in paragraph 1 hereof for the purpose of obtaining or resuming production in paying quantities (as defined in paragraph 2 hereof). Such operations are continuous when no more than six months elapses between the date on which production ceased or any of such operations ceased, whichever is the later, and the date on which further operations are begun or production is commenced or resumed, and this lease shall remain in full force and effect during each and every six-month period. Production in such paying quantities may be followed or preceded by continuous operations from time to time for the purpose of keeping this lease in force in accordance with paragraph 2 hereof. Operations commenced or conducted on or in other lands for a well bottomed or to be bottomed in said land shall be deemed, for all purposes of this lease, operations commenced or conducted in said land.

6. Except as otherwise provided herein, royalty payments shall be computed and paid monthly. Lessee shall furnish to Lessor monthly written statements of the production credited or allocated to said land during the preceding calendar month. Royalties with respect to production credited or allocated to said land during any calendar month shall be paid not later than the last day of the next succeeding calendar month. If the amount estimated to be payable to any party hereto for royalties is less than ten dollars (\$10), or if the amount of oil produced does not justify shipments on a monthly basis, then Lessee may, upon prior written notice to such party, make such royalty payments and written statements, on a quarterly, semi-annual or annual basis, as it elects; provided, however, all sums theretofore accrued and unpaid shall be paid at least once each calendar year. Royalty payments may be made or tendered to Lessor or to Lessor's credit in the depository named in paragraph 4.

7. Lessee shall not be liable to Lessor for damages to any oil and gas reservoir underlying said land or for the loss of said substances therein or therefrom resulting from its operations hereunder unless such damage or loss is caused by Lessee's gross negligence or willful misconduct. Lessee shall have the right at any time during the term hereof or within a reasonable time thereafter to remove from said land all of Lessee's properties and fixtures, including the right to draw and remove all casing.

8. If, during or after the primary term hereof, a well is drilled into adjacent property, whether by Lessee or by another party, and the Lessor has no interest in the production therefrom and the production interval of the well is located within three hundred thirty feet of the exterior boundaries of the land at that time included in this lease and is completed as a producer of oil or gas in commercial quantities and causes the migration of oil or gas from said land, then Lessee shall (provided it is not then drilling or has not theretofore drilled an offset well in said land) within ninety (90) days from the date the owner of such well commences marketing production therefrom, either commence operations for the drilling of an offset well in said land or surrender and terminate this lease, in the manner provided in paragraph 15 hereof, as to a portion of said land, the dimensions of which said portion shall be equal to the distance of such well from said exterior boundary. Such surrender shall be limited to the zone or zones being drained by the well on the adjacent property. Lessee shall never be required to drill (or surrender in lieu thereof) any offset well which, in Lessee's opinion, would be incapable of producing said substances in quantities sufficient to yield a return which, after deducting the value of said substances to be drained into said land from such zone or zones by existing wells therein, would exceed the drilling and operating costs of such offset well.

9. The rights of Lessor and Lessee hereunder may be transferred, in whole or in part and as to any substance or zone. No change in ownership of Lessor's interest, however accomplished, shall be binding on Lessee until Lessor has furnished Lessee with written notice of such change and then only with respect to payments thereafter made; such notice to consist of original or certified copies of all recorded instruments, documents and other information necessary to establish a complete chain of record title from Lessor, and written instructions from Lessor and Lessor's transferee directing the disbursement of any payments which may be made thereafter. No other kind of notice, whether actual or constructive, shall be binding on Lessee, and in the absence of such notice Lessee may make payments precisely as if no change had occurred. No present or future division of Lessor's ownership as to different portions or parcels of said land shall operate to enlarge the obligations or diminish the rights of Lessee, and all of Lessee's operations, particularly as to the drilling and location of wells and the measurement of production, may be conducted without regard to any such division. If all or any part of this lease is assigned, no act or omission of any leasehold owner shall affect the rights or liabilities of any other such owner, except that operations in or production from any part of said land, whether assigned or not, shall serve to keep the entire lease in force as though no assignment had been made, and all payments to Lessor, except royalty on actual production, shall be apportioned between assignor and assignee in proportion to acreage.

10. If any rental or royalty is not paid when due, Lessor shall notify Lessee thereof in writing and this lease shall not terminate unless the Lessee fails to make such payment within fifteen (15) days after receipt of such written notice; provided, however, that if there is a dispute as to the amount due and all undisputed amounts are paid, said 15-day period shall be extended until 5 days after such dispute is settled by final court decree, arbitration or agreement. If Lessee fails to make such payment after receipt of such notice within said period (or such extension thereof), then this lease shall terminate as to the portion or portions thereof as to which Lessee is in default.

In the event Lessor considers that Lessee has not complied with any other covenant, condition or obligation hereunder, either express or implied, Lessor shall notify Lessee, in writing, setting out specifically in what respects it is claimed that Lessee has breached this lease, and Lessee shall not be liable to Lessor for any damages caused by any breach of a covenant, condition, or obligation, express or implied, occurring more than sixty (60) days prior to the receipt by Lessee of the aforesaid written notice of such breach. The receipt of such notice by Lessee and the lapse of sixty (60) days thereafter without Lessee meeting or commencing to meet the alleged breaches shall be a condition precedent to any action by Lessor for any cause hereunder. Neither the service of said notice nor the doing of any acts by Lessee aimed to meet all or any of the alleged breaches shall be deemed an admission or presumption that Lessee has failed to perform all of its obligations hereunder. This lease shall never be forfeited or cancelled in whole or in part, either during or after the primary term hereof, for failure of Lessee to perform any of its express or implied covenants, conditions, or obligations until it shall have first been finally

judicially determined that such failure exists, and any decree of termination, cancellation or forfeiture shall be in the alternative and shall provide for termination, cancellation, or forfeiture unless Lessee complies with the covenants, conditions, or obligations breached within a reasonable time to be determined by the Court. No default in the performance of any condition or obligation hereof shall affect the rights of Lessee hereunder with respect to any drilling or producing well or wells in regard to which Lessee is not in default, together with a parcel of forty acres surrounding each such oil well then completed or being drilled and a parcel of six hundred forty acres surrounding each such gas well then completed or being drilled.

11. If Lessee is prevented or hindered from drilling or conducting other operations for the purpose of obtaining or restoring production or from producing said substances by fire, flood, storm, act of God, or any cause beyond Lessee's control (including but not limited to governmental law, order or regulation, labor disputes, war, inability to secure men, materials or transportation, inability to secure a market for gas, or an adverse claim to Lessor's title when Lessor has been notified pursuant to paragraph 14 hereof), then the performance of any such operations or the production of said substances shall be suspended during the period of such prevention or hindrance. If such suspension occurs during the primary term, the payment of delay rental during such suspension shall be excused and the primary term shall be extended for a period of time equal to the period of such suspension and this lease shall remain in full force and effect during such period of suspension and any such extension of the primary term. Lessee may commence or resume the payment or tender of rentals in accordance with paragraph 4 hereof after the period of suspension by paying or tendering within 60 days after the period of suspension the proportionate part of the rental for the rental year remaining after such period of suspension. If such suspension occurs after the primary term, this lease shall remain in full force and effect during such suspension and for a reasonable time thereafter provided that within such time following the period of suspension Lessee diligently commences or resumes operations or the production of said substances. Lessee's obligation to pay royalty on actual production shall never be suspended under this paragraph. Whenever Lessee would otherwise be required to surrender any of said land as an alternative to the performance so suspended, then so long as such performance is suspended by this paragraph Lessee shall not be required to surrender any portion of said land.

If the permission or approval of any governmental agency is necessary before drilling operations may be commenced in said land, then if such permission or approval has been applied for at least 30 days prior to the date upon which such operations must be commenced under the terms hereof, the obligation to commence such operations shall be suspended until thirty (30) days after the governmental permit is granted or approval given, or if such permit or approval is denied initially, then so long as Lessee in good faith appeals from such denial or conducts further proceedings in an attempt to secure such permit or approval and thirty days thereafter.

12. For the consideration paid at the time of execution of this agreement and without any additional consideration to be paid therefor, except as provided below, Lessor hereby grants to Lessee, its successors and assigns, the sole and exclusive right, right of way and easement to drill into and through said land by means of a well or wells drilled from the surface of lands other than said land, and the sole and exclusive right to abandon or repair, redrill, deepen, maintain, rework and operate such well or wells for the production of said substances from or the injection of gas, water, air or other substances into lands other than said land. The rights granted in this paragraph shall continue for, and may be exercised at any time or from time to time within, ten (10) years from the date hereof and thereafter as long as Lessee in good faith shall conduct drilling operations under the provisions of this lease or this paragraph, or said substances are produced from wells drilled pursuant to this lease or this paragraph, or wells drilled pursuant to this paragraph are used for injection as aforesaid, or the performance of any such operations is suspended or deferred for the reasons or causes set forth in paragraph 11 hereof. If Lessee exercises the rights granted in this paragraph and thereafter completes a well capable of being used for injection or of producing said substances in quantities deemed paying quantities by Lessee, then Lessee shall within sixty (60) days after such completion pay Lessor an annual rental computed at the rate of one dollar (\$1) per yard of horizontal projection of the survey course of that part of the bore hole of such well traversing said land; provided, however, that Lessor shall not be entitled to receive any rental under the provisions of this paragraph during such times as Lessor is entitled to receive royalty or rentals under other provisions of this lease. Any such rentals shall continue until such well is abandoned. Any well drilled under the provisions of this paragraph shall be drilled so that the production or injection interval thereof shall lie wholly outside the boundary of said land and Lessor recognizes and agrees that Lessor has no interest in any such well or wells drilled pursuant to this paragraph or any production therefrom. If Lessee shall assign to any third party or parties rights granted to Lessee under this paragraph, the rights of Lessee shall not thereby be diminished, but in such event both Lessee and its assignee shall have, hold and enjoy said rights, each independently of the other.

Any surrender or termination under any other provision of this lease shall be effective notwithstanding the fact that Lessee in and by such surrender or termination reserves the rights granted to Lessee under this paragraph, and regardless of surrender or termination, the rights granted under this paragraph shall continue for the hereinabove stated term.

13. Lessee may at any time or times within twenty-one (21) years from the date hereof without Lessor's joinder or further consent, pool, consolidate or unitize this lease and said land in whole or in part or as to any zone, with other lands, mineral interests, and leases in the vicinity thereof so as to constitute a unit or units whenever such action in Lessee's judgment is required to comply with applicable laws or to promote or encourage the conservation of natural resources or the efficient and economical location and spacing of wells, cycling, pressure-maintenance, repressuring or secondary recovery programs, or to join in any cooperative or unit plan of development or operation approved by State or Federal authorities. The size or shape of any such unit may be changed at any time or times within twenty-one (21) years from the date hereof without Lessor's joinder or further consent to permit more efficient and economical operation, to include acreage believed to be productive and to exclude acreage believed to be unproductive or which is not committed to the unit, but any increase or decrease in Lessor's royalties resulting from any such change in any such unit shall not be retroactive. Any such unit may be established or changed, and in the absence of production therefrom may be abolished and dissolved, by filing for record an instrument so declaring, a copy of which shall be delivered to Lessor or to the depository bank. Drilling or other operations (as defined in paragraph 3 hereof) in, or production of any one of said substances from, any part of such unit shall be treated and considered for all purposes of this lease as such operation in or such production from said land. Lessee shall allocate to the portion of said land included in any such unit a fractional part of all production from any part of such unit on the same basis as is provided in the agreement between Lessee and others whereby such unit is established or, in the absence of such an agreement or of a method of allocation therein, Lessee shall elect one of the following bases: (a) The ratio between the acreage of the portion of this lease included in such unit and the total of all acreage included in such unit; or (b) The ratio between the value, as estimated by Lessee, of recoverable production within the portion of this lease included in such unit and the total value, as estimated by Lessee, of all recoverable production within such unit. Lessee may change from one of the aforesaid bases to the other at any time or times within 21 years from the date hereof without Lessor's further joinder or consent but any increase or decrease in Lessor's royalty resulting from any such change shall not be retroactive. No offset obligation shall accrue under this lease as a result of any well drilled within any such unit.

14. Lessor warrants and agrees to defend the title to said land. The rentals and royalties hereinabove provided are determined with respect to the entire mineral estate, and if Lessor owns a lesser interest, the rentals and royalties to be paid Lessor may be reduced proportionately. If the interest of Lessor covered by this lease is subject to any outstanding royalties payable to another, such royalties shall be deducted from Lessor's royalties herein provided. Lessee shall pay all taxes levied against Lessee's plants, machinery and personal property owned by Lessee and used for development of said land and all taxes (except the agreed share thereof) assessed upon mineral rights or assessed upon or measured by production from or allocated to said land. Lessor shall pay all other taxes assessed against said land and the agreed share of taxes assessed upon mineral rights and assessed upon or measured by production from or allocated to said land. Lessee may discharge in whole or in part, on behalf of Lessor, any tax, mortgage or other lien upon said land, or may redeem the same from any purchaser at any tax sale or adjudication, and may reimburse itself from any rentals and royalties accruing hereunder and shall be subrogated to such lien with the right to enforce same. Lessee shall have the right to hold or acquire mineral rights or leases from others claiming any interest in any part of said land, and to withhold from Lessor payment of rentals and royalties attributable to any interest so claimed or to any other interest which is subject to adverse claim, dispute or litigation and the same shall not be due until

the ownership of such interest has been determined, and Lessee shall not thereby be held in default of any provision hereof or to have disputed Lessor's title. When Lessee becomes aware of any adverse claim to Lessor's title to said land being asserted by another, Lessee shall notify Lessor in writing and upon such notification Lessee shall be excused from drilling offset or other wells on or producing from said lands until such adverse claim has been finally determined.

15. Lessee may at any time or times surrender this lease or any zone or portion of either thereof by delivering or mailing a written notice of surrender to Lessor and upon such delivery or mailing Lessee shall be relieved of all obligations as to the portion surrendered, and thereafter all payments to Lessor or to the depository bank provided herein, except royalties on actual production, shall be reduced in the same proportion that the acreage covered hereby is reduced. If Lessee surrenders less than all zones in any portion of this lease the rental as to such portion shall not be reduced. Within a reasonable time after any such surrender, Lessee shall file appropriate surrender instruments for record. In the event this lease is surrendered or assigned as to any zone or portion, then so long as this lease shall remain in effect as to any other zone or portion Lessee shall have such rights of way or easements in, under and through the surrendered or assigned zone or portion as shall be necessary or convenient for Lessee's operations in the retained portion or other lands in the vicinity thereof.

16. If any of said substances is discovered by Lessee in said land in quantities deemed paying quantities by Lessee, then Lessee shall keep one string of tools in continuous operation in said land, allowing not more than six months to elapse between completion or abandonment of the first or any succeeding well and the commencement of operations for the drilling of the next succeeding well except that if Lessee shall drill in said land a well which in Lessee's opinion is not capable of producing said substances in paying quantities, then Lessee may allow not more than one year to elapse after the abandonment of each such well before commencing operations for the next succeeding well. Lessee shall be given credit for so much of the time in each six month or one year drilling interval as is not utilized and such credit may be used to extend subsequent drilling intervals in such manner as Lessee may determine. Lessee's obligations under this paragraph and under paragraph 8 hereof shall be fully satisfied when there has been drilled and completed or abandoned the equivalent in number of one well for each 40 acres (or any major fraction thereof) of said land then subject to this lease if such discovery was of oil or one well for each 640 acres (or any major fraction thereof) of said land then subject to this lease if such discovery was of gas, provided, however, that Lessee shall be required to conduct such continuous operations in the event of a discovery of gas only if in Lessee's opinion such additional drilling is warranted by existing or anticipated market requirements for such gas, and in the event of a discovery of oil only if the market price in the field for oil of like quality or gravity is more than One Dollar per barrel at the well.

If both oil and gas are discovered in said land in quantities deemed paying quantities by Lessee, then Lessee shall drill the number of wells herein provided for an oil discovery with respect to the portion of said land which in Lessee's opinion is capable of producing oil in paying quantities and Lessee shall be entitled to retain all of said land for the term hereof.

Lessee shall not be required to but may drill ore wells in said land than those herein specified.

17. This lease shall be binding upon all who execute it, whether or not they are named in the granting clause hereof and whether or not all parties named in the granting clause execute this lease. This lease may be executed in any number of counterparts and for all purposes hereof all of such counterparts shall be considered as one lease. All the provisions of this lease shall inure to the benefit of and be binding upon the heirs, executors, administrators, successors, and assigns of Lessor and Lessee.

18. The land which is subject to this lease is situated in the County of San Joaquin, State of California, and is described as follows:

SEE EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF

including all accretions thereto and all lakes, streams, canals, waterways, dikes, roads, streets, alleys, easements and rights of way, on, within, or adjoining the lands above described and including all strips or parcels of land contiguous, adjacent to or adjoining the above-described land and owned or claimed by Lessor. For the purpose of calculating any payments based on acreage, Lessee, at Lessee's option, may act as if said land and its constituent parcels contain 573.69 acres, whether they actually contain more or less. This lease shall cover all the interest in said land now owned or hereafter acquired by Lessor.

IN WITNESS WHEREOF, the parties hereto have executed this agreement.

LESSEE:

LESSOR:

CITY OF LODI

By \_\_\_\_\_

By \_\_\_\_\_

STATE OF CALIFORNIA

} ss.

County of \_\_\_\_\_

On this \_\_\_\_\_ day of \_\_\_\_\_, A.D. 19\_\_\_\_, before me

\_\_\_\_\_ a Notary Public in and for said County and State, personally appeared \_\_\_\_\_

known to me to be the person whose name \_\_\_\_\_ subscribed to the within instrument, and acknowledged to me that he \_\_\_\_\_ executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

My Commission Expires:

19\_\_\_\_

Notary Public in and for said County and State

SUBSURFACE OIL AND GAS LEASE

THIS AGREEMENT, made and entered into as of the.....day of.....  
19....., between...The CITY OF LODI.....

(and all other parties executing this lease or any counterpart hereof) hereinafter called "Lessor" and hereinafter called "Lessee,"

1. Lessor, for and in consideration of one dollar and other valuable consideration, receipt and sufficiency of which is hereby acknowledged, and of the royalties and agreements of the Lessee herein provided, hereby grants, lets and leases exclusively unto Lessee all the land lying more than five hundred (500) feet below the surface, but none of the land lying above the depth of five hundred (500) feet below the surface, of the lands specifically described and included in paragraph 18 hereof, which land is hereinafter referred to as "said land," for the purposes of exploring and prospecting for (by geological, geophysical, and all other means whether now known or not), drilling for, producing, saving, taking and owning oil, gas, all other hydrocarbons, and all other substances produced therewith, collectively hereinafter referred to as "said substances," in, under or that may be produced from said land, and hereby grants all rights, privileges and easements useful or convenient for Lessee's operations in said land, in adjacent or contiguous lands, and in other lands in the same vicinity, including, but not limited to subsurface rights of way for drilling, repairing, redrilling, deepening, maintaining, operating, abandoning, reworking and removing wells in, into and through said land; and the right to drill wells and use Lessee's existing wells, including producing wells, to inject gas, water, air or other substances into said land. Lessee shall have the right hereunder to conduct operations by methods now known or unknown which, in Lessee's opinion, are reasonably designed to benefit or facilitate the drilling for or production of said substances from said land. Lessee shall have no right, without the consent of Lessor in writing being first obtained, to drill any well or wells from the surface of the lands described in paragraph 18 hereof, or to use said surface, or that portion of such lands lying above a depth of five hundred (500) feet below said surface, for any purpose. Lessee may have, or at its option may obtain, rights in respect to other lands in the vicinity of said land for drill sites from which wells can be slant drilled into said land for the purposes of this lease. Lessee shall have the unrestricted and exclusive right, power and authority to produce said substances beneath or recoverable from said land, and to exercise all other rights and privileges herein set forth, by means of any well or wells which are slant drilled from surface drill sites located on such other lands and the producing intervals of which are bottomed in said land. The rights and privileges granted to Lessee hereunder shall be sole and exclusive.

2. This lease shall remain in force for a term of .....FIVE..... years from the date hereof, called "primary term," and either as long thereafter as any of said substances is produced from said land in paying quantities (being quantities sufficient to pay operating costs) or so long as continuous operations (as defined in paragraph 3 hereof) are conducted in said land or so long as this lease is kept in force under any other provision hereof.

3. The term "agreed share" as used herein means .....1/6..... Royalties to be paid by Lessee are: (a) on oil, the value of the agreed share of that produced and saved from said land. It is mutually agreed that the value shall be the price currently offered or paid by Lessee for oil of like gravity and quality in the same field. The volume of oil upon which royalty payments are based may be determined either by metering and sampling or by tank gauges. After such measurement, all or any part of the oil may be transported to locations on other lands and commingled with oil from other lands. Lessee may deduct from royalty payments the agreed share of the cost of treating unmerchantable oil produced from said land to render it merchantable, the agreed share of the cost of transporting the oil to the treating plant and the agreed share of the cost of disposing of waste water produced with said substances; nothing herein contained shall be construed as obligating Lessee to treat oil; (b) on gas including casinghead gas and all gaseous substances produced, saved and sold from said land, the agreed share of the net proceeds (which shall be the amount realized from such sale less compressing costs) of the gas so sold; (c) on gas not sold but used for any purpose not connected with or incidental to operations in said land or land pooled or unitized therewith, the agreed share of the market value at the well of the gas so used. All or any part of the gas produced from said land may be transported to locations on other lands and commingled with gas from other lands. Lessee shall meter such transported gas and such meter readings together with Lessee's analysis of gasoline content of gas shall furnish the basis for prorating the amount of gasoline to be credited to said land. Lessee shall not be accountable to Lessor for gas lost or used or consumed in operations hereunder. Lessee may produce gas from said land or from lands with which said land is pooled or unitized in accordance with any method of ratable taking at any time or from time to time hereafter generally in effect in any pool of which said land or any portion thereof is a part. In the absence of any such method of ratable taking, Lessee shall produce from said land or lands pooled or unitized therewith a fair and equitable proportion of the quantity of gas which it markets from lands under lease to it in the pool of which said land is a part. Lessee shall be obligated to produce only so much gas as it may be able to market at the well or wells. When there is no market for gas at the wells, Lessee's obligation to produce gas shall be suspended; (d) on gasoline extracted from gas produced from said land, the value of 48% of the agreed share of the gasoline credited to said land by Lessee. It is mutually agreed that the value shall be the price currently offered or paid by Lessee for gasoline of like specifications and quality in the same vicinity; (e) on any other substance, the agreed share of the market value at the well.

For all operations hereunder, Lessee may use, free of royalty, oil, gas or other hydrocarbons and water from said land. However, if Lessee shall use in operations hereunder, fuel, power, or other substances not obtained from said land, then Lessee shall be entitled to deduct from the amount of the additional royalty accruing thereby to Lessor the agreed share of the cost of such substituted fuel, power or other substances; provided, no deduction hereunder shall exceed the amount of such additional royalty.

When any of said substances not produced from said land are injected into said land or land pooled or unitized therewith, the initial production thereafter of said substances from any such land shall be free of royalty until the amount of the said substances produced and saved therefrom shall equal that of said substances injected therein.

4. The consideration expressed in paragraph 1 covers all rental for the first ..... year(s) of the primary term. If drilling operations are not commenced in said land on or before .....one..... year(s) from the date hereof then, subject to the provisions of paragraph 15 hereof Lessee shall pay or tender to Lessor or to Lessor's credit in.....

Bank 22

(which bank and its successors

RESOLUTION NO. 81-80

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI, CALIFORNIA, DECLARING ITS INTENTION TO CALL FOR BIDS FOR A CERTAIN OIL AND GAS LEASE AND MAKING FINDINGS IN CONNECTION THEREWITH

The City Council of the City of Lodi, California, does resolve as follows:

Section 1. - That certain form of Subsurface Oil and Gas Lease presented to the City Council, with the original filed in the office of the City Clerk at the Council Meeting this date, is hereby referred to and by this reference incorporated herein.

Section 2. - Pursuant to Section 7058.5 of the Public Resources Code of the State of California, the City Council declares that it intends to call for bids for an oil and gas lease in the form of the lease referred to in Section 1 of this Resolution. The property to be leased is situated in the County of San Joaquin, State of California, and is described as follows:

Portions of Sections 23, 24, 25 and 26, Township 3 North, Range 5 East, Mount Diablo Base and Meridian, also being described as Assessor's Parcels 055-120-1, 055-120-7, 055-130-4, 055-130-13, 055-130-14, 055-130-15, 055-150-11, 055-150-12, 055-150-14, 055-150-15, and 055-150-17. The property is also commonly known as the

**White Slough Control Plant Property.**

For more detailed description, reference is hereby made to Exhibit "A" appended to proposed form of Subsurface Oil and Gas Lease, hereinabove referred to in Section 1 which is on file in the office of the City Clerk of the City of Lodi. Diagrams of the subject areas are also on file in the office of the Lodi City Clerk.

Section 3. - The royalty share payable for oil, gas, and other hydrocarbons produced from wells on the leased land shall be one-sixth (1/6), to be computed as provided in said form of lease. The one variable bidding factor upon which bids shall be received shall be the cash bonus consideration, including the first year's rental. The minimum rental per year during the primary term shall be as specified in paragraph 4 of the lease. The term of the lease shall be for a period of five (5) years and for such longer period (not to exceed 35 years) during which oil, gas and other hydrocarbon substances shall be produced from the leased land, or lands with which the leased land may be pooled. Lessor will permit drill sites only at such locations as may be mutually agreed upon by Lessor and Lessee.

Section 4. - None of the land described in the form of lease hereto has been used, owned, dedicated or acquired as parks, highways, streets, walks or public playgrounds for park purposes.

Section 5. - The bidder shall submit his bid in letter form accompanied by a Certified or Cashier's check in the full amount of the cash bonus consideration, including rental, bid for the first year. The bid shall set forth the said cash bonus consideration, and shall indicate bidder's willingness to enter into a lease in all respects identical to the lease referred to in Section 1, except for the identity of the Lessee.

Section 6. - Bids for said Agreement of Lease are hereby invited and shall be received in the office of the City Clerk located in the City Hall, Lodi, California, until 5:00 p.m. on Wednesday, the 19th day of August, 1981, and shall be opened and publicly declared by the Council at 8:00 p.m. on said date.

Section 7. - The City Clerk shall publish this resolution once a week for four successive weeks in the Lodi News Sentinel and Lodi Life and Times, newspapers of general circulation published and printed in the City and County where the property is situated.

Dated: July 1, 1981

I hereby certify that Resolution No. 81-80 was passed and adopted by the City Council of the City of Lodi in a regular meeting held July 1, 1981 by the following vote:

Ayes: Councilmen - Murphy, Hughes, Pinkerton and McCarty

Noes: Councilmen - None

Absent: Councilmen - Katnich

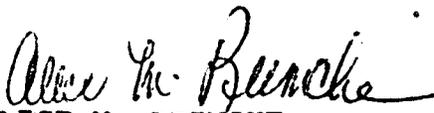
  
ALICE M. REIMCHE  
City Clerk

EXHIBIT "A"

Portions of Sections 23, 24, 25 and 26, Township 3 North, Range 5 East, Mount Diablo Base and Meridian, also being described as Assessor's Parcels 055-120-1, 055-120-7, 055-130-4, 055-130-13, 055-130-14, 055-130-15, 055-150-11, 055-150-12, 055-150-14, 055-150-15, and 055-150-17. The property is also commonly known as the White Slough Control Plant Property.