

Agenda Report

DATE: JUNE 3, 2002

TO: CITY COUNCIL

FROM: CYNTHIA J. KURTZ, CITY MANAGER

SUBJECT: PROPOSED SUBSURFACE OIL AND GAS LEASE BETWEEN THE CITY OF PASADENA AND TRIO PETROLEUM INC. FOR CITY OWNED MINERAL RIGHTS IN THE WHITTIER NARROWS AREA

RECOMMENDATION:

It is recommended that the City Council:

1. Approve the terms and provisions of the new subsurface oil and gas lease agreement, which includes:
 - a) A term of 35-years.
 - b) Rental payments of \$4,075.50 per year, reflecting \$75 per acre per year.
 - c) Once the production of oil and gas is commenced, royalty payments will be made as follows: 20% of the value of all oil produced; 20% of the net proceeds derived from the sale of gas; 20% of the sale of gasoline or other liquid products from said lease.
 - d) The lease also provides that the City may, at its option, in lieu of the 20% oil royalty sale value, take its royalty in kind, a provision that could prove beneficial to Pasadena Water and Power in the event of an oil shortage.
2. Authorize the City Manager to execute the subsurface oil and gas lease agreement and all other documents pertaining thereto and perform such other and further acts as required under the Lease Agreement.

BACKGROUND:

In 1905, the City of Pasadena purchased approximately 54 acres of land in the Whittier Narrows area (see attached map) to obtain water rights. In 1952, 46 acres of the land were sold to the United States of America for the construction of the Whittier Narrows

Trio Oil and Gas Lease

Dam and the remaining 8 acres were sold to a private party. In both transactions, the City retained the mineral rights.

Since 1933, the City has granted several Oil and Gas leases on the property for prospecting. Over the years, the lease had been assigned to several oil companies, with Trio Petroleum being the most recent. In 1993, City Council authorized a 5-year extension of Lease No. 11534 with Trio Petroleum. In 1997, Trio Petroleum elected to surrender its rights under the lease and recorded a Release.

Trio Petroleum has now expressed interest in entering a new lease in order to evaluate deeper production with new technology, east of their existing wells. Trio will not require surface entry on the City holding, but will slant drill from another location.

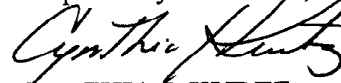
In the prior lease the City received a 16.67% royalty and annual rent of \$3,260.40, reflecting \$60 per acre per year. The proposed lease will garner the City a 20% royalty and an annual rent of \$4,075.50, reflecting \$75 per acre per year. Consultation with those knowledgeable in the field of oil and gas leasing, reveal that the revenue terms and percentages referenced above are at or above those commonly used in such oil and gas leases.

It is recommended that the City Council authorize execution of the lease so that Trio Petroleum Inc., can renew its exploration activities.

FISCAL IMPACT:

The rental payment of \$4,075.50 per year and the royalty payments will be credited to Power Fund Account No.401-6977-833000.

Respectfully Submitted,



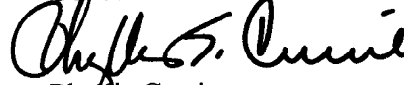
CYNTHIA J. KURTZ
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