

**State Gas Storage Leasing
Briefing to Agrium Task Force
June 20, 2005**

- 1) State Oil & Gas Leases exclude storage rights except for EOR purposes.
- 2) Two CIB operators have expressed interest in gas storage
 - a) One formal application for storage a Pretty Creek Field (Unocal).
 - b) Other informal discussions.
- 3) DNR is developing a general Lease agreement for gas storage.
- 4) Basic principles of storage lease contract:
 - a) Use depleted reservoirs in existing gas fields, not un-leased areas.
 - b) Storage operations may not interfere with existing Oil & gas lease.
 - c) Storage lease only for specified sands (not grass roots).
 - d) Storage lease does not give lessee right to drill, develop, produce, extract, remove, or market gas other than to injected gas.
 - e) Storage lease permits existing oil and gas lease to continue.
 - f) Operator will be subject to existing Oil & Gas permitting & bonding requirements.
- 5) Approval Process for gas storage lease includes public comment period and written finding
 - a) Public Notice of Application begins 30-day comment period.
 - b) Notice of Intent to Issue Lease and Written Finding.
 - c) Expected draft decision and lease issue September 1, 2005.
- 6) Key issues under consideration for storage lease
 - a) Valuation
 - b) Extension and Default
 - c) Native gas (remaining) volume and royalty payments
 - d) Relationship to existing oil and gas leases
- 7) Models/ examples of storage lease:
 - a) Swanson River Unit (BLM)
 - b) California, Texas, New York, Michigan, Pennsylvania