

4. Royalty payments to be retroactive to initiation of production and shipment of gas from the field.
5. Draft of negotiated agreement to be presented to the Commission for consideration and approval.

The compensatory royalty agreement for the Thornton Gas Field executed by the Amerada Petroleum Corporation, the Honolulu Oil Corporation and the Bankline Oil Company, all of the operators in the field, contains the following conditions stated in the order of the authorization for negotiation detailed above:

1. The agreement provides for a royalty of  $12\frac{1}{2}\%$  on all gas produced, saved, and sold, attributable to State lands. Dry gas has been the only product of the field since initial production December 11, 1946. However, the agreement also provides that in the event it is necessary to compress the gas for delivery to the gas company pipeline the royalty shall be 10% on all such compressed gas and  $7\frac{1}{2}\%$  of any gasoline produced. These alternative oil royalty rates are applicable to the gross value of the products and are estimated to yield a royalty equivalent to  $12\frac{1}{2}\%$  on the net value of the product. This proposed alternative specification would eliminate the necessity for detailed and continuing audit of production costs on products which will be produced only in minor quantities in the Thornton Gas Field.

2. The State's participation in total field production has been established on the basis of an engineering estimate that the State lands contain 1% of all the acreage within the productive limits of Thornton Gas Field.

3. No provision is made for adjustment of this royalty participation. The fixed participation factor appears advantageous to the State in that the limits of the field have been established at the maximum probable ratio.

4. The Amerada Petroleum Corporation has agreed that royalty payments will be made on all production in the Thornton Gas Field since December 11, 1946, the date of initial production. Such royalties will be in excess of \$2,800. total to date.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED AUTHORIZING THE EXECUTIVE OFFICER, AFTER THE ATTORNEY GENERAL HAS APPROVED THE AGREEMENT AS TO FORM, TO EXECUTE THE COMPENSATORY ROYALTY AGREEMENT FOR THE THORNTON GAS FIELD WITH THE AMERADA PETROLEUM CORPORATION, THE HONOLULU OIL CORPORATION, AND THE BANKLINE OIL COMPANY EFFECTIVE DECEMBER 11, 1946, WHICH AGREEMENT PROVIDES FOR A  $12\frac{1}{2}\%$  ROYALTY TO THE STATE ON ITS ACREAGE SHARE OF GAS PRODUCTION FROM THE THORNTON AREA (1%) SUBJECT TO  $7\frac{1}{2}\%$  ROYALTY ON GASOLINE, AND REDUCTION TO 10% ROYALTY ON COMPRESSED GAS IN THE EVENT IT BECOMES NECESSARY TO COMPRESS THE GAS IN ORDER TO MARKET IT.

15. (REQUEST FOR APPROVAL OF GAS AND GASOLINE SALES CONTRACT, HONOLULU OIL CORPORATION - P.R.C. 422, ELWOOD OIL FIELD) Section 15 of Oil and Gas Lease P.R.C. 422, Elwood Oil Field, held by the Honolulu Oil Corporation provides in part:

"In the event the State should elect to take royalty in money instead of in kind, the Lessee shall not sell or otherwise dispose of the products hereunder except in accordance with \*\*\*\*\* sales contracts or other methods first approved in writing by the State".

The Honolulu Oil Corporation in accordance with this provision has submitted for approval, a copy of a letter agreement dated July 15, 1947, between Barnsdall Oil Corporation, Richfield Oil Corporation and Signal Oil and Gas Company, relative to the processing of wet gas delivered to the Signal Oil and Gas Company by the Honolulu Oil Corporation, a copy of a dry gas sales contract of August 12, 1940, between Barnsdall Oil Company and Richfield Oil Corporation as seller, and Southern Counties Gas Company of California as buyer, under the terms of which Barnsdall Oil Company disposes of residue gas belonging to the Honolulu Oil Corporation, and a copy of a letter agreement of January 16, 1941, between Barnsdall Oil Company as seller and Richfield Oil Corporation as buyer, whereunder Barnsdall Oil Company also disposes of casinghead gasoline extracted from the gas produced by Honolulu Oil Corporation from lease P.R.C. 422.

The general terms and conditions of the contracts relating to the manner of delivery, price, measurement of gas, and testing of gasoline, are in conformance with the lease terms and general practice in the Elwood Oil Field. However, the agreement between the Barnsdall Oil Corporation and the Honolulu Oil Corporation whereby Barnsdall disposes of the Honolulu Oil Corporation gas and casinghead gasoline and accounts to Honolulu for the proceeds, is verbal. Due to limited production under lease P.R.C. 422, the Honolulu Oil Corporation has not been constrained to secure independent contracts nor has an adequate basis for such independent contracts existed.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED AUTHORIZING THE EXECUTIVE OFFICER TO INFORM THE HONOLULU OIL CORPORATION THAT THE SALES OF DRY GAS AND CASINGHEAD GASOLINE UNDER STATE OIL AND GAS LEASE P.R.C. 422, ELWOOD GAS FIELD, MAY BE CONTINUED UPON THE HEREINBEFORE DESCRIBED BASIS UNTIL FURTHER NOTICE, SUBJECT TO THE EXPRESS CONDITION THAT THIS PERMISSION SHALL NOT BE CONSTRUED TO MODIFY OR AFFECT IN ANY MANNER ANY OF THE LEASE TERMS INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL OF THE TERMS AND CONDITIONS OF OIL AND GAS LEASE P.R.C. 422 AND THE RULES AND REGULATIONS OF THE COMMISSION.

16. (LEASE P.R.C. 324, GEORGE W. LADD AND ROBERT E. ARMSTRONG, BUCKLEY'S COVE, SAN JOAQUIN COUNTY) George W. Ladd and Robert E. Armstrong, Lessees under P.R.C. 324 have requested pursuant to Section 7 of the lease, approval of the construction on their leased area of a boat building shop of 900 square feet in lieu of a caretaker's house authorized by the Commission on February 25, 1949, which house has not been built.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED RESCINDING ITEM 9, MINUTES OF FEBRUARY 25, 1949, IN WHICH THE EXECUTIVE OFFICER WAS AUTHORIZED TO GRANT PERMISSION TO GEORGE W. LADD TO CONSTRUCT A CARETAKER'S HOUSE ON THE AREA OF LEASE P.R.C. 324 AT BUCKLEY'S COVE, SAN JOAQUIN COUNTY,