

General terms and conditions of the contract relating to delivery, price and measurement of gas are in conformance with the respective lease terms and general practice in the Montalvo area, Ventura County. The contract is for a period of one year from April 1, 1954 and thereafter, until terminated by either party upon 30 days' written notice to the other, given on or after March 2, 1955. The contract provides for a sale price of 17¢ per M.c.f. for gas delivered to the Pacific Lighting Gas Supply Company. At times the lessee does not sell all of the produced gas but utilizes a portion thereof for operations on property other than the State lease. For such use, the lessee desires to make payment to the State for its royalty share of the gas at the same market value of 17¢ per M.c.f. as is received for gas sold."

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, IT WAS RESOLVED AS FOLLOWS:

THE EXECUTIVE OFFICER IS AUTHORIZED TO APPROVE THE GAS SALES CONTRACT OF APRIL 1, 1954 BETWEEN THE STANDARD OIL COMPANY OF CALIFORNIA AND THE PACIFIC LIGHTING GAS SUPPLY COMPANY, A CALIFORNIA CORPORATION, AS THE BASIS FOR THE SALE AND DELIVERY BY STANDARD OIL COMPANY OF CALIFORNIA OF ALL DRY GAS MARKETING FROM STATE OIL AND GAS LEASE P.R.C. 735.1, SUBJECT TO THE EXPRESS CONDITION THAT THE APPROVAL OF THE SALES CONTRACT SHALL NOT BE CONSTRUED TO MODIFY OR AFFECT IN ANY MANNER ANY OF THE LEASE TERMS, INCLUDING FULL COMPLIANCE BY THE LESSEE WITH ALL TERMS AND CONDITIONS OF OIL AND GAS LEASE P.R.C. 735.1 AND THE RULES AND REGULATIONS OF THE COMMISSION;

FURTHER, APPROVAL IS GIVEN FOR THE COMPUTATION OF ROYALTIES TO THE STATE FOR GAS PRODUCED BY THE STANDARD OIL COMPANY OF CALIFORNIA FROM THE LEASE AND NOT SOLD BUT USED OFF THE PROPERTY, AT THE REASONABLE MARKET VALUE OF 17¢ PER M.c.f. DURING SUCH PERIOD AS THE SALES CONTRACT, DATED APRIL 1, 1954, IS IN EFFECT.

4. (APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, LLANO SECO AREA, GLENN AND BUTTE COUNTIES, HUMBLE OIL & REFINING COMPANY - W.O. 1960.) The following report was presented to the Commission: *PRL 1499.1*

"An application has been received from Humble Oil and Refining Company, a Texas corporation, for consideration of a compensatory royalty agreement whereunder the State would be compensated for drainage from State sovereign lands in a portion of the bed of the Sacramento River in Glenn and Butte Counties, from wells drilled and produced by the Humble Oil & Refining Company on leased uplands surrounding the State lands. Such compensation would be in lieu of drilling offset wells upon the State lands.

"Section 6815 of the Public Resources Code provides 'whenever it appears to the commission that wells drilled upon private lands are draining or may drain oil or gas from lands owned by the State, the commission may enter into agreements with the owners or operators of such wells for the payment of compensation to the State for such drainage, in lieu of drilling offset wells upon such State lands.'

"The Humble Oil & Refining Company is the principal lessee of uplands adjoining the Sacramento River in Sections 32 and 33, T. 20 N., R. 1 W., M.D.B. & M., and Sections 4, 5, 6, 7, 8 and 9, T. 19 N., R. 1 W., M.D.B. & M., Glenn and Butte Counties. Humble Oil & Refining Company has drilled and completed a producible well, Parrott Investment Company No. 2, in Section 4, T. 19 N., R. 1 W., M.D.B. & M. This well, when connected to a distribution line for gas delivery, can drain gas from the adjoining State lands under the Sacramento River. The State lands are all distributed in the comparatively narrow current and former channels of the Sacramento River, and therefore are considered to be located unsatisfactorily for inclusion in a reasonable reservoir development program such as would be conducted under a gas lease offered pursuant to competitive public bidding.

"The compensatory royalty agreement proffered by Humble Oil & Refining Company would pay the State a royalty in accordance with the following schedule on all hydrocarbon produced from wells which would affect drainage of State lands under the Sacramento River within the limits of Section 32, T. 20 N., R. 1 W., and Sections 4, 5, 6, 7, 8 and 9, T. 19 N., R. 1 W., M.D.B. & M., Glenn and Butte Counties:

1. 16-2/3% for all gas allocated to State lands;
2. 15% royalty for all gas allocated to State lands in the event that it is necessary to compress the gas for delivery to a transmission line;
3. 8-1/3% royalty on the sale or use value of all gasoline or other products extracted from the quantity of gas allocated to State lands.

"Gas would be allocated to State lands for the purpose of computing royalties in the proportion that affected State lands would bear to the effective drainage area of each well as established by circumscribing a 320-acre circle around each well. The royalty allocation proportion would be the proportion that State lands within a 320-acre circle bear to the established 320-acre effective drainage area for each well.

"Because of apparent record conflict as to land ownerships in the affected portion of Glenn and Butte Counties, the compensatory royalty agreement would provide that in the event the title of the State is challenged by any third party, the lessee may impound or pay into the court the royalties allocated to that portion of the State lands as to which the title has been challenged until the correct royalty allocation can be established. The draft of the proposed compensatory royalty agreement has been reviewed as to form by the Office of the Attorney General."

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, IT WAS RESOLVED AS FOLLOWS:

THE EXECUTIVE OFFICER IS AUTHORIZED TO EXECUTE A FORM OF COMPENSATORY ROYALTY AGREEMENT WITH THE HUMBLE OIL & REFINING COMPANY FOR THE STATE LANDS INTEREST IN THE BED OF THE SACRAMENTO RIVER LYING IN SECTION 32, T. 20 N., R. 1 W., AND IN SECTIONS 4, 5, 6, 7, 8 AND 9, T. 19 N., R. 1 W., M.D.B. & M., GLEN AND BUTTE COUNTIES, WHICH AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE IN LIEU OF DRILLING OFFSET WELLS ON THE STATE LAND, AS AUTHORIZED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE:

1. 16-2/3% ROYALTY FOR ALL GAS ALLOCATED TO STATE LANDS;
2. 15% ROYALTY FOR ALL GAS ALLOCATED TO STATE LANDS IN THE EVENT THAT IT IS NECESSARY TO COMPRESS THE GAS FOR DELIVERY TO A TRANSMISSION LINE;
3. 8-1/3% ROYALTY OF THE SALE OR USE VALUE OF ALL GASOLINE OR OTHER PRODUCTS EXTRACTED FROM THE QUANTITY OF GAS ALLOCATED TO STATE LANDS.

5. (APPLICATION FOR MINERAL LEASE, VERDI DEVELOPMENT COMPANY, KERN COUNTY - W.O. 1894.) The following report was presented to the Commission:

"An application for preferential lease on the 120 acres of area included in Prospecting Permit P.R.C. 1373.2 in the E $\frac{1}{2}$ of the NW $\frac{1}{4}$ and the NW $\frac{1}{4}$ of the SW $\frac{1}{4}$ of Section 36, T. 10 N., R. 13 W., S.B.B. & M., Kern County, has been received from the permittee, Verdi Development Company. Field inspection of the development work on a deposit of radioactive minerals, undertaken pursuant to the prospecting permit, has shown that commercially valuable deposits of such minerals have been uncovered. Mineralized areas have been localized by instrumental surveys and verified by core drilling and excavation. Milling equipment has been purchased by the permittee for milling and concentrating of ore before shipment. Pursuant to Section 14 of Prospecting Permit P.R.C. 1373.2, a permittee, upon demonstration of the discovery of commercially valuable deposits of minerals, is entitled to a preferential mineral lease at the royalty rate specified in the subject permit, issued February 9, 1954."

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, IT WAS RESOLVED AS FOLLOWS:

THE EXECUTIVE OFFICER IS AUTHORIZED TO EXECUTE AND ISSUE TO VERDI DEVELOPMENT COMPANY A PREFERENTIAL MINERAL LEASE, IN THE STANDARD FORM AUTHORIZED UNDER THE PUBLIC RESOURCES CODE, COVERING 120 ACRES IN THE E $\frac{1}{2}$ OF THE NW $\frac{1}{4}$ AND THE NW $\frac{1}{4}$ OF THE SW $\frac{1}{4}$ OF SECTION 36, T. 10 N., R. 13 W., S.B.B. & M., KERN COUNTY, HERETOFORE INCLUDED IN PROSPECTING PERMIT P.R.C. 1373.2, AT THE ROYALTY RATES SPECIFIED IN THE SUBJECT PROSPECTING PERMIT WHICH ARE AS FOLLOWS, AND AT AN ANNUAL RENTAL OF \$120, SUBJECT TO THE DEPOSIT BY THE LESSEE OF A PERFORMANCE BOND IN THE AMOUNT OF \$1,000: