

4. (1957 SESSION LEGISLATION - W. O. 2115.9.)

After presentation of Calendar Item No. 18 attached, Lieutenant Governor Powers indicated that he thought this was a matter that should be handled by the proper legislative committee, and not by the Commission, whereupon Mr. Watson, the Assistant Executive Officer, pointed out that the staff in submitting the item only wanted to make suggestions to the proper legislative committee in order to take advantage of sections of Proposition 4 which will be helpful to the Commission.

State Controller Kirkwood stated that the item probably was presented as a result of a suggestion he had made to the staff, but indicated that it did not incorporate exactly what he had in mind, as it does not include any means of compelling anyone on private lands to join in a unitization program. He pointed out that the Commission is charged with managing the State's most precious asset, and that if it does not have the ability to manage this asset so as to realize the greatest possible return to the State, this should be brought to the attention of the Legislature. He believes that in certain areas it might be important to the State to see that a unit operation is enforced, not only on the basis of being able to say that the State's operators (lessees) can or must do certain things, but with the ability to say that if the proposal is a sound procedure then adjoining private lands in the same pool shall join with the State. He pointed out that at the last session of the Legislature, the Commission was given the responsibility of supervising the Long Beach oil fields, and that regulations which would affect only these lands would not be sufficient, that it would be necessary to also include surrounding private lands, and that something must be done if the Commission is to protect the oil underlying State lands. Mr. Kirkwood did not see how the State could realize the greatest possible return without a modification of the "rule of capture", and thought some kind of legislation should be passed that would let the State get every possible drop of oil out of State lands. He felt that the position of the Commission should be definite, and should be explained to the appropriate legislative committees, and indicated that representatives of the oil industry also should be consulted in working out something that will be helpful to the State of California.

The Executive Officer recommended that the Commission authorize the staff, on its behalf, to prepare amendatory provisions to existing Sections 6830 and 6832 of the Public Resources Code, and to add Section 6832.1 to the Public Resources Code as set forth in the calendar item, and to consult with the Legislature with respect to these amendments and additions.

Mr. Harry Morrison stated that the Western Oil and Gas Association was taking no position with reference to the action recommended by the staff.

Mr. Richard C. Bergen, representing the Richfield Oil Corporation, appeared before the Commission to request that full opportunity be given potential bidders on State lands to consider and comment upon any such changes as indicated in Calendar Item No. 18. (See Exhibit "A" attached.)

The Executive Officer informed the Commission that he saw no reason to oppose Mr. Bergen's suggestions, and it was indicated that before the next meeting of the Commission the oil industry would be given full opportunity to bring out all pertinent facts.

MOTION WAS DULY MADE AND UNANIMOUSLY CARRIED TO ADOPT THE FOLLOWING RESOLUTION:

THE COMMISSION AUTHORIZES THE STAFF, ON ITS BEHALF, TO PREPARE AMENDATORY PROVISIONS TO EXISTING SECTIONS 6830 AND 6832 OF THE PUBLIC RESOURCES CODE, AND TO ADD SECTION 6832.1 TO THE PUBLIC RESOURCES CODE AS SET FORTH IN CALENDAR ITEM NO. 18, AND TO CONSULT WITH THE LEGISLATURE WITH RESPECT TO THESE AMENDMENTS AND ADDITIONS.

Attachments

Exhibit "A" (1 page)
Calendar Item 18 (2 pages)

EXHIBIT "A"

STATEMENT OF RICHARD C. BERGEN
REPRESENTING RICHFIELD OIL CORPORATION
ON PROPOSED AMENDMENTS TO SECTIONS 6830 AND 6832
OF THE PUBLIC RESOURCES CODE

December 5, 1956

The proposed amendments to Sections 6830 and 6832 of the Public Resources Code of the State of California would represent very significant changes in existing oil and gas law as applied to State lands. These proposals came to my attention only last Monday, and this limited period of time has not permitted me to make a comprehensive study or analysis of these suggested changes. However, it is apparent that these proposals present numerous problems which the officials of Richfield want to study very carefully. They welcome the interest of the State Lands Commission in furthering the cause of conservation. On this point, at least, the interest of the State and the industry is identical - namely, to get the maximum amount of oil from State lands. However, before the prestige of the State Lands Commission is placed behind any specific recommendations, it is suggested that full opportunity be given potential bidders on State lands to consider and comment upon any such changes. We recommend, therefore, that the Commission at this time request written comments from all interested parties on these proposed changes, such comments to be received not later than one week prior to the next regular meeting of the Commission, and that further consideration of these proposals at this time be deferred until after the receipt of the comments. This will give the industry and other interested persons sufficient time to intelligently consider these proposals, and will enable the Commission and its Staff to give full consideration to the entire matter in light of such comments in advance of the Commission's next meeting. Richfield will want to make some comments, and I am sure you will receive many suggestions from other people in the industry. A matter of this importance should not be considered in haste, and full opportunity should be afforded to all interested parties to make their points before the influence of the Commission is brought to bear in support of any specific legislation. Accordingly, we earnestly request that a consideration of this matter be put over until the next meeting of the Commission, and that at this time the Commission request that all persons wishing to be heard in connection with these proposals submit their comments in writing at least one week in advance of the next regular meeting of the Commission.

LEGISLATION

18.

(1957 SESSION LEGISLATION - W. O. 2115.9)

In reviewing Proposition 4 on the November ballot, it has been suggested that the Public Resources Code, for lands under the jurisdiction of the Commission that are available for oil and gas leases, be amended to take advantage of some of the proposed conservation provisions as they would have affected the management of State lands and lands granted by the Legislature to municipalities. At the present time the Public Resources Code sets forth certain prerogatives and duties of the State Lands Commission with respect to spacing of wells and conservation of oil and gas within State lands. These sections have been used as a base to add proposed advantageous conservation provisions. They are as follows:

Section 6830. Same: Reservation of right to regulate determine spacing of wells and rate of drilling: Rules: Restriction of production. The lease All oil and gas leases issued by the commission for lands under its jurisdiction as set forth in Chapters 3 and 4 of Part 1 and in Chapter 3 of Part 2 of Division 6 of the Public Resources Code, and all oil and gas leases issued for granted lands as approved by the State Lands Commission pursuant to Chapter 29 of the Statutes of 1956, First Extraordinary Session, shall contain a reservation to the commission of the right to restrict determine by appropriate rules and regulations the spacing of wells and the rate of drilling and rate of production of such wells so as to prevent the waste of oil and gas and promote the maximum economic recovery of oil and gas from, and the conservation of reservoir energy in, each zone or separate underground source of supply of oil or gas covered in whole or in part by leases issued under this chapter. The commission shall issue rules and regulations which may be amended from time to time to effectuate the purpose of this section, and in connection therewith shall restrict the rate of production from any such zone or separate underground source of supply to that provided by Federal or State laws or rules or regulations thereunder, or by any reasonable conservation or curtailment plan ordered by the commission or agreed to by a majority of the total production from any such zone or separate underground source of supply.

Section 6832. Cooperative or unit plan of development: Joinder of lessees: Authority of commission. For the purpose of more properly conserving the natural resources of any oil or gas pool or field, or any part thereof, the State and its lessees hereunder and their representatives shall, at the determination by the state, and grantees of the State may, unite with each other jointly or separately, or jointly or separately with others owning or operating lands not belonging to the State, including lands belonging to the United States,

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in collectively adopting and operating under a cooperative or unit plan of development or operation of the pool or field, or any part thereof, whenever it is determined by the commission to be necessary or advisable in the public interest. Such determination by the State may be made only in the event that at least an undivided 75 percent of the total working interests in the area proposed to be affected have agreed to the proposed cooperative or unit plan of development or operation. The commission, or grantees of the State, may, with the consent of the holders of leases involved, establish, alter, change, and revoke any drilling and production requirements of such leases, permit apportionment of production, and may make such regulations with reference to such leases, with like consent on the part of such lessees, in connection with the institution and operation of any such cooperative or unit plan, as the commission deems necessary or proper to secure the proper protection of the interests of the State.

Section 6832.1. Definition. "Working interest" is defined to mean an interest held in lands by virtue of fee title, a lease, operating agreement, or otherwise, under which the owner of such interest has the right to drill for, develop and produce oil and gas. A working interest shall be deemed vested in the owner thereof even though his right to drill or produce may be delegated to an operator under a unit agreement, or other type of operating agreement.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE STAFF, ON ITS BEHALF, TO PREPARE AMENDATORY PROVISIONS TO EXISTING SECTIONS 6830 AND 6832 OF THE PUBLIC RESOURCES CODE, AND TO ADD SECTION 6832.1 TO THE PUBLIC RESOURCES CODE, AS SET FORTH ABOVE, AND CONSULT WITH THE LEGISLATURE WITH RESPECT TO THESE AMENDMENTS AND ADDITION.