

MINUTE ITEM

14. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, COLUSA COUNTY, HUMBLE OIL & REFINING COMPANY AND HONOLULU OIL CORPORATION - W.O. 2162, P.R.C. 2473.1.

After consideration of Calendar Item 22 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE EXECUTIVE OFFICER IS AUTHORIZED TO EXECUTE THE FORM OF COMPENSATORY ROYALTY AGREEMENT WITH THE HUMBLE OIL & REFINING COMPANY AND HONOLULU OIL CORPORATION FOR THE STATE LANDS' INTEREST IN THE BED OF THE SACRAMENTO RIVER INCLUDED IN THE EFFECTIVE DRAINAGE AREA OF WELLS DRILLED ON THE LESSEES' UPLAND LEASES IN SECTIONS 7, 18 AND 19, T. 17 N., R. 1 W., M.D.B. & M., AND SECTIONS 12, 13 AND 24, T. 17 N., R. 2 W., M.D.B. & M., COLUSA COUNTY, WHICH AGREEMENT PROVIDES FOR ROYALTY PAYMENTS TO THE STATE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE IN LIEU OF DRILLING OFFSET WELLS ON STATE LANDS, 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 ON THE SALE OR USE VALUE OF ALL GASOLINE OR OTHER PRODUCTS EXTRACTED FROM THE QUANTITY OF GAS ALLOCATED TO STATE LANDS.

Attachment
Calendar Item 22 (2 pages)

CALENDAR ITEM

22.

APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, COLUSA COUNTY, HUMBLE OIL & REFINING COMPANY AND HONOLULU OIL CORPORATION - W.O. 2162.

Pursuant to an application received from the Humble Oil & Refining Company, a Texas corporation, and the Honolulu Oil Corporation, a Delaware corporation, the State Lands Commission on November 30, 1955 (Minute Item 4, pages 2493-95) approved 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 Colusa County from wells drilled and produced by the Humble Oil & Refining Company and the Honolulu Oil Corporation on leased uplands surrounding the State lands. Such compensation would be in lieu of drilling offset wells upon the State lands. This agreement has not been executed by the lessees or by the State. As a result of the development program, the lessees have re-evaluated the productive potential of the area. A number of upland leases have been terminated and the potentially affected area of State land has been decreased. Therefore, a new form of agreement has been drafted.

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 an agreement 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 land".

The Humble Oil & Refining Company and Honolulu Oil Corporation are the principal lessees of uplands adjoining the Sacramento River in portions of Sections 7, 18 and 19, T. 17 N., R. 1 W., M.D.B. & M., and portions of Sections 12, 13 and 24, T. 17 N., R. 2 W., M.D.B. & M., Colusa County. Humble and Honolulu have completed five producing wells that are draining gas from the adjoining State lands under the Sacramento River. The State lands are all distributed in the comparatively narrow present channel of the Sacramento River, consisting of approximately 200 acres in 4-3/4 miles of channel. This acreage is not considered sufficient and is 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 offered by Humble and Honolulu would pay the State a royalty in accordance with the following schedule on all hydrocarbons which have been or will be produced from wells which would affect drainage of State land under the Sacramento River from wells drilled into lessees' upland leases in Sections 7, 18 and 19, T. 17 N., R. 1 W., M.D.B. & M., and Sections 12, 13 and 24, T. 17 N., R. 2 W., M.D.B. & M., Colusa County:

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;

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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 the State lands within a 320-acre circle bears to the established 320-acre effective drainage area for each well.

~~The draft of the proposed compensatory royalty agreement has been approved as to form by the office of the Attorney General.~~

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE THE FORM OF COMPENSATORY ROYALTY AGREEMENT WITH THE HUMBLE OIL & REFINING COMPANY AND HONOLULU OIL CORPORATION FOR THE STATE LANDS' INTEREST IN THE BED OF THE SACRAMENTO RIVER INCLUDED IN THE EFFECTIVE DRAINAGE AREA OF WELLS DRILLED ON THE LESSEES' UPLAND LEASES IN SECTIONS 7, 18 AND 19, T. 17 N., R. 1 W., M.D.B. & M., AND SECTIONS 12, 13 AND 24, T. 17 N., R. 2 W., M.D.B. & M., COLUSA COUNTY, WHICH AGREEMENT PROVIDES FOR ROYALTY PAYMENTS TO THE STATE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE IN LIEU OF DRILLING OFF-SET WELLS ON STATE LANDS, AS AUTHORIZED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE:

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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.