

MINUTE ITEM

16. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, GRIMES AREA, SUTTER AND COLUSA COUNTIES, FRANCO WESTERN OIL COMPANY AND CAMERON OIL COMPANY - W.O. 3438, P.R.C. 2628.1.

Following presentation of Calendar Item 13 attached, and in response to a question by Commissioner Carr, the Executive Officer explained the basis on which the royalty for the State's interest in lands in the bed of Sacramento River was determined.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE EXECUTIVE OFFICER IS AUTHORIZED TO EXECUTE A FORM OF COMPENSATORY ROYALTY AGREEMENT WITH FRANCO WESTERN OIL COMPANY AND ARTHUR A. CAMERON, D.B.A. CAMERON OIL COMPANY, FOR THE STATE INTEREST IN THE BED OF THE SACRAMENTO RIVER LYING IN SECTIONS 5, 6, 7, 8, 16, 17 AND A PORTION OF 15, T. 34 N., R. 1 E., M.D.B. & M., SUTTER AND COLUSA 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% OF THE VALUE OF ALL GAS DRAINED FROM STATE LANDS; OR  
15% ROYALTY FOR ALL GAS DRAINED FROM STATE LANDS IN THE EVENT THAT IT IS NECESSARY TO COMPRESS THE GAS FOR DELIVERY TO A TRANSMISSION LINE;
2. 16-2/3% ROYALTY ON THE SALE OR USE VALUE OF ALL GASOLINE OR OTHER PRODUCTS EXTRACTED FROM THE QUANTITY OF GAS DRAINED FROM STATE LANDS.

Attachment  
Calendar Item 13 (2 pages)

CALENDAR ITEM

13.

APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, GRIMES AREA, SUTTER AND COLUSA COUNTIES, FRANCO WESTERN OIL COMPANY AND CAMERON OIL COMPANY - W.O. 3438.

An application has been received from Franco Western Oil Company, a Delaware corporation, and Arthur A. Cameron, d.b.a. Cameron Oil Company, for 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 Sutter and Colusa Counties from wells drilled and produced by Franco and Cameron on leased uplands surrounding the State lands. Such compensation would be in lieu of drilling offset wells upon the leased 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, in lieu of following the provisions of Section 6827, may negotiate and enter into agreements with the owners or operators of such wells on private lands for the payment of compensation to the State for such drainage."

Franco Western Oil Company and Cameron Oil Company are the lessees of the uplands adjoining the Sacramento River in Sections 5, 6, 7, 8, 16, 17 and a portion of 15, T. 14 N., R. 1 E., M.D.B. & M., Sutter and Colusa Counties.

Cameron Oil Company has drilled and completed a producible well, "Cameron Armstrong" 1, in Section 7, T. 14 N., R. 1 E., and is in the process of completing a second well in Section 5, T. 14 N., R. 1 E. These wells, when connected to a distribution line for gas delivery, will drain gas from the adjoining State lands under the Sacramento River. The State lands are all within the comparatively narrow channel of the Sacramento River and therefore are considered to be located unsatisfactorily for inclusion in any other reasonable type of reservoir development program such as would be conducted under a gas lease offered pursuant to competitive public bidding.

The form of lease entered into with upland owners gives the lessee the right to pool oil and gas rights and interests covered by the leases whenever it appears to the lessee that common exploration and development are justified. For the production of gas, lands may be pooled so as to create a compact operating unit or units which shall not exceed 660 surface acres in each unit.

The compensatory royalty agreement offered by Franco Western Oil Company and Cameron Oil Company would pay the State a royalty in accordance with the following schedule on all hydrocarbon produced from wells which would drain State lands under the Sacramento River within the limits of Sections 5, 6, 7, 8, 16, 17 and a portion of 15, T. 14 N., R. 1 E., M.D.B. & M., Sutter and Colusa Counties:

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

For the purpose of computing royalties, gas would be allocated to State lands 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 amount of gas to be allocated to State lands for any given month for royalty purposes would be either that portion of the well production that the portion of State lands within a 320-acre circle bears to the established 320-acre effective drainage area for each well, or that portion of the production from any later unit operation that the number of acres of State leased land included bears to the total number of acres in the unit, whichever is the larger.

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

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE A FORM OF COMPENSATORY ROYALTY AGREEMENT WITH FRANCO WESTERN OIL COMPANY AND ARTHUR A. CAMERON, D.B.A. CAMERON OIL COMPANY, FOR THE STATE INTEREST IN THE BED OF THE SACRAMENTO RIVER LYING IN SECTIONS 5, 6, 7, 8, 16, 17 AND A PORTION OF 15, T. 14 N., R. 1 E., M.D.B. & M., SUTTER AND COLUSA 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% OF THE VALUE OF ALL GAS DRAINED FROM STATE LANDS; OR  
15% ROYALTY FOR ALL GAS DRAINED FROM STATE LANDS IN THE EVENT THAT IT IS NECESSARY TO COMPRESS THE GAS FOR DELIVERY TO A TRANSMISSION LINE;
2. 16-2/3% ROYALTY ON THE SALE OR USE VALUE OF ALL GASOLINE OR OTHER PRODUCTS EXTRACTED FROM THE QUANTITY OF GAS DRAINED FROM STATE LANDS.