

MINUTE ITEM

12. REQUEST FOR EXTENSION OF TERM, MINERAL EXTRACTION LEASE P.R.C. 736.2, U. S. BORAX & CHEMICAL CORPORATION, INYO COUNTY - W.O. 3769.

After consideration of Calendar Item 11 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION AUTHORIZES THE EXTENSION OF THE TERM OF MINERAL EXTRACTION LEASE P.R.C. 736.2, INYO COUNTY, AS REQUESTED BY THE U. S. BORAX & CHEMICAL CORPORATION, LESSEE, FOR A PERIOD OF 10 YEARS COMMENCING MAY 11, 1962. UNDER THE EXTENDED LEASE THE LESSEE SHALL PAY ROYALTY AS REQUIRED UNDER SECTION 2 (b) OF THE LEASE, IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

$$R = 1.27 + 0.1663 (C - 15.35)$$

WITH THE SALES PRICE OF ALL ORES SHIPPED BASED ON (1) SALES PRICE PER TON OF ORE SOLD F.O.B. MINE, OR (2) THE PRICE QUOTED FOR BORAX CONCENTRATES, ADJUSTED BY THE RATIO OF  $B_2O_3$  CONTENT OF THE ORE AND BORAX CONCENTRATES, WHICHEVER BASE IS APPLICABLE TO THE MARKETING OF THE ORE MINED.

ALL OTHER TERMS AND CONDITIONS OF THE LEASE ARE TO REMAIN UNCHANGED AND IN FULL FORCE AND EFFECT.

Attachment

Calendar Item 11 (2 pages)

CALENDAR ITEM

11.

REQUEST FOR EXTENSION OF TERM, MINERAL EXTRACTION LEASE P.R.C. 736.2, U. S. BORAX & CHEMICAL CORPORATION, INYO COUNTY - W.O. 3769.

Mineral Extraction Lease No. 15, covering the NW $\frac{1}{4}$  of Section 16, T. 22 N., R. 17 E., S.B.B. & M., Inyo County, was issued on May 11, 1922, under Chapter 303, Statutes of 1921, for a term of 20 years. The lease was assigned to the U. S. Borax Company on May 7, 1936, extended for successive ten-year periods on May 11, 1942, and May 11, 1952, as Mineral Extraction Lease P.R.C. 736.2, and assigned to the U. S. Borax & Chemical Corporation on September 13, 1957. With renewal on May 11, 1952, the lease was amended to conform with the standard form of mineral lease as to royalty provisions, as set forth in the policy adopted by the Commission on October 24, 1951.

An application has been received from the U. S. Borax & Chemical Corporation, requesting an extension of the lease term from May 11, 1962, until May 10, 1972. Section 18 of the lease provides:

"That the Lessee or the heirs or assignees of, or any successor in interest thereto, shall have the right to renew this lease for additional periods of ten (10) years upon such reasonable terms and conditions as the State, or any successor in interest thereto, might impose."

The request for the extension of the lease term is submitted at this time because of the need to explore and develop new areas of the mine. This development work must precede production from 12 to 18 months, in order to maintain efficient operation. Before the lessee expends additional funds for capital improvements, it wants assurance that a renewal lease will be issued. Capital expenditures during the last four years have amounted to \$23,000, and equipment valued at \$49,000 has been moved to the mine from other corporate holdings.

In the lease year ending May 10, 1960, 7,912 tons of Ulexite, a complex calcium sodium borate ore, was mined, and a total royalty of \$15,586 paid to the State. The royalty rate per ton of ore shipped was \$1.97.

Under the terms of the present lease, the State's royalty is computed in accordance with the following schedule:

$$R = 1.27 + .0624 (C - 15.35)$$

R = Royalty in dollars and cents per ton of ore sold.

The fixed minimum royalty = 1.27 per ton of ore sold.

Escalation factor = .0624

C = Weighted average gross sales price per ton of ore sold f.o.b. mine for the preceding year.

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The initial estimated weighted gross sales price per ton of ore sold f.o.b. mine = 15.35 per ton.

The maximum royalty is not to exceed 25% of the weighted average gross sales price f.o.b. mine.

For the past year the State's royalty was \$2.01 per ton of ore shipped. For the current year (1961) royalty would be \$2.25 per ton, based on a sales price of \$30.98.

It is proposed to revise the royalty schedule upward in the proposed lease extension as follows:

$$R = 1.27 + 0.1663 (C - 15.35)$$

Under this schedule the royalty on ore selling at \$30.98 will be \$3.87 per ton. The proposed changes are acceptable to the lessee.

During the lease year beginning May 11, 1960, no ore has been sold. The major portion of the ore has been processed into a forest-fire-fighting product, sold under the trade name "Firebrake". This shift in the market to which the product is being supplied has resulted in a situation where it becomes comparatively costly to determine the "weighted average gross sales price per ton of ore sold f.o.b. mine for the preceding year", one of the existing lease royalty factors.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXTENSION OF THE TERM OF MINERAL EXTRACTION LEASE P.R.C. 736.2, INYO COUNTY, AS REQUESTED BY THE U. S. BORAX & CHEMICAL CORPORATION, LESSEE, FOR A PERIOD OF 10 YEARS COMMENCING MAY 11, 1962. UNDER THE EXTENDED LEASE THE LESSEE SHALL PAY ROYALTY AS REQUIRED UNDER SECTION 2(b) OF THE LEASE, IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

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ALL OTHER TERMS AND CONDITIONS OF THE LEASE ARE TO REMAIN UNCHANGED AND IN FULL FORCE AND EFFECT.