

MINUTE ITEM

21. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, McMULLIN RANCH AREA, SAN JOAQUIN COUNTY, GREAT BASINS PETROLEUM CO. - W.O. 4028, P.R.C. 2834.1.

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

THE COMMISSION, AS AUTHORIZED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE, AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE A FORM OF COMPENSATORY AGREEMENT WITH GREAT BASINS PETROLEUM CO. FOR THE STATE'S INTEREST IN THE BED OF THE SAN JOAQUIN RIVER LYING IN SECTIONS 22, 23, 26, 27, 34, 35 AND 36, AND IN SWAMP AND OVERFLOWED LANDS IN SECTION 35, ALL IN T. 2 S., R. 6 E., S.D.B. & M., SAN JOAQUIN COUNTY, 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:

1. 16-2/3% OF THE VALUE OF ALL GAS ALLOCATED TO STATE LANDS; OR
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;
2. 16-2/3% 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, McMULLIN RANCH AREA, SAN JOAQUIN COUNTY, GREAT BASINS PETROLEUM CO. - W.O. 4028.

An application has been received from Great Basins Petroleum Co., a Colorado corporation, for a compensatory gas agreement whereunder the State would be compensated for drainage from State sovereign lands in a portion of the bed of the of the San Joaquin River in San Joaquin County by wells drilled and produced by Great Basins Petroleum Co. and other lessees on leased uplands surrounding the State land. 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, 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."

Great Basins Petroleum Co. is the owner of a portion of the lessee's interest in upland oil and gas leases within the McMullin Ranch area which includes Sections 22, 23, 26, 27, 34, 35 and 36, T. 2 S., R. 6 E., M.D.B. & M., San Joaquin County. The State lands included in the area consist of the bed of the San Joaquin River within the McMullin Ranch Area and swamp and overflowed lands in Section 35, T. 2 S., R. 6 E., M.D.B. & M.

Owners of the remainder of the lessee's interest within the McMullin Ranch area have ratified the agreement which provides for Great Basins Petroleum Co. to act as sole agent and attorney-in-fact for the purpose of exercising any and all rights and discharging any and all duties and obligations under this agreement.

Fourteen wells have been drilled and completed as producible wells in the McMullin Ranch area. These wells, connected to a distribution line during the month of November 1961, are draining gas from the adjoining State lands. The State lands are all within the comparatively narrow channel of the San Joaquin 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 and the compensatory agreement authorize the lessee to pool oil and gas rights and interests for the production of gas. Lands may be pooled so as to create a compact operating unit or units which shall be quarter-sections or multiples thereof of the public lands survey, and which shall not exceed 660 surface acres in any unit.

For the purpose of computing royalties, gas would be allocated to the State in the proportion that pooled State lands would bear to the acreage within each pooled area.

CALENDAR ITEM 22 (CONTD.)

Under the compensatory royalty agreement, the State will receive royalty payments in accordance with the following schedule:

1. 16-2/3% of the value of all gas allocated to State lands; or
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;
2. 16-2/3% of the sale or use value at the well of all gasoline or other products extracted from the quantity of gas allocated to State lands.

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, AS AUTHORIZED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE, AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE A FORM OF COMPENSATORY AGREEMENT WITH GREAT BASINS PETROLEUM CO. FOR THE STATE'S INTEREST IN THE BED OF THE SAN JOAQUIN RIVER LYING IN SECTIONS 22, 23, 26, 27, 34, 35 AND 36, AND IN SWAMP AND OVERFLOWED LANDS IN SECTION 35, ALL IN T. 2 S., R. 6 E., M.D.B. & M., SAN JOAQUIN COUNTY, 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:

1. 16-2/3% OF THE VALUE OF ALL GAS ALLOCATED TO STATE LANDS; OR
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;
2. 16-2/3% ROYALTY ON THE SALE OR USE VALUE OF ALL GASOLINE OR OTHER PRODUCTS EXTRACTED FROM THE QUANTITY OF GAS ALLOCATED TO STATE LANDS.