

MINUTE ITEM

12. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, MAINE PRAIRIE GAS FIELD, SOLANO COUNTY, AMERADA PETROLEUM CORPORATION - W.O. 3971, P.R.C. 2850.1.

After consideration of Calendar Item 38 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, AND IN LIEU OF DRILLING OFFSET WELLS ON STATE LAND, AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH AMERADA PETROLEUM CORPORATION COVERING ALL OF THE LANDS INDICATED ON EXHIBIT "B" OF SAID AGREEMENT, SO AS TO PROTECT THE STATE'S INTEREST IN THE BED OF HAAS SLOUGH AND ADJACENT SWAMP AND OVERFLOWED LANDS LYING IN SECTION 34, T. 6 N., R. 2 E., M.D.B. & M., AND IN SECTIONS 2, 3, AND 11, T. 5 N., R. 2 E., M.D.B. & M., SOLANO COUNTY. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENT TO THE STATE OF 7/10 OF 1% OF ALL GAS AND GAS PRODUCTS PRODUCED FROM THE AREA INCLUDED IN THE COMPENSATORY ROYALTY AGREEMENT, IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

1. 16-2/3 PERCENT OF THE VALUE OF ALL GAS PRODUCED OR, IN THE EVENT THAT IT IS NECESSARY TO COMPRESS GAS FOR DELIVERY, A ROYALTY OF 16-2/3 PERCENT OF THE VALUE OF ALL GAS PRODUCED MINUS 2 CENTS PER MCF FOR THE COMPRESSION OF ANY SUCH GAS.
2. 16-2/3 PERCENT ROYALTY ON THE SALE OR USE VALUE OF ALL GASOLINE EXTRACTED FROM GAS PRODUCED, AND USED OR SOLD.

Attachment

Calendar Item 38 (2 pages)

CALENDAR ITEM

38.

APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, MAINE PRAIRIE GAS FIELD,  
SOLANO COUNTY, AMERADA PETROLEUM CORPORATION - W.O. 3971.

An application has been received from Amerada Petroleum Corporation, a Delaware corporation, for a compensatory royalty agreement whereunder the State would be compensated for drainage from State swamp and overflowed lands and sovereign lands which are a portion of the bed of Haas Slough in the Maine Prairie Gas Field, Solano County. The drainage results from wells drilled and produced on leased uplands surrounding the State lands. Such compensation would be in lieu of drilling offset wells on State land.

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."

The compensatory agreement includes upland areas adjoining Haas Slough in Sections 21, 22, 23, 26, 27, 28, 34, 35, and 36, T. 6 N., R. 2 E., M.D.B. & M., and Sections 1, 2, 3, 4, 10, 11, 12, T. 5 N., R. 2 E., M.D.B. & M. (See Exhibit "B" attached.) Amerada is the lessee of said upland areas with the exception of Section 12, T. 5 N., R. 2 E., M.D.B. & M. Under the terms of the agreement, Amerada will be responsible for payment of royalty to the State for gas produced from all wells producing from Section 12, which, although it is not leased by Amerada, lies within the productive limits of the field and is therefore included in the area for which the State is entitled to receive compensation for drainage.

Twenty-two wells have been drilled in the upland area of the Maine Prairie Gas Field included in this agreement. Of this number 18 have been completed as gas producers. The State lands subject to drainage are all within the comparatively narrow bed of Haas Slough and within adjacent unsold swamp and overflowed lands, and cover 50.52 acres of the 7,342.86 acres included in the agreement. They are not considered to be located satisfactorily for a feasible economic reservoir development program under a gas lease offered pursuant to competitive public bidding.

A staff review of all data developed during drilling operations has determined that it is to the State's advantage to enter into the proposed compensatory royalty agreement with Amerada. Pursuant to the terms of the agreement, the State's participating percentage will be 0.7 of 1% of all gas and gas products produced from wells completed within the productive limits of the field as defined in the agreement, in accordance with the following schedule:

1. 16-2/3 percent of the value of all gas produced or, in the event that it is necessary to compress the gas for delivery, a royalty of 16-2/3 percent of the value of all gas produced minus 2 cents per Mcf for the compression of any such gas.

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2. 16-2/3 percent royalty on the sale or use value of all gasoline extracted from gas produced, and used or sold.

The agreement will be retroactive to July 1947, the date of the first gas delivery by Amerada Petroleum Corporation. The State's royalty for the period July 1947 through July 1961 is estimated as follows:

1. For gas, \$11,888.81.
2. For gas condensate, \$146.25.

The draft of the proposed compensatory agreement has been approved 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, AND IN LIEU OF DRILLING OFFSET WELLS ON STATE LAND, AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH AMERADA PETROLEUM CORPORATION COVERING ALL OF THE LANDS INDICATED ON EXHIBIT "B" OF SAID AGREEMENT, SO AS TO PROTECT THE STATE'S INTEREST IN THE BED OF HAAS SLOUGH AND ADJACENT SWAMP AND OVERFLOWED LANDS LYING IN SECTION 34, T. 6 N., R. 2 E., M.D.B. & M., AND IN SECTIONS 2, 3, AND 11, T. 5 N., R. 2 E., M.D.B. & M., SOLANO COUNTY. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENT TO THE STATE OF 7/10 OF 1% OF ALL GAS AND GAS PRODUCTS PRODUCED FROM THE AREA INCLUDED IN THE COMPENSATORY ROYALTY AGREEMENT, IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

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2. 16-2/3 PERCENT ROYALTY ON THE SALE OR USE VALUE OF ALL GASOLINE EXTRACTED FROM GAS PRODUCED, AND USED OR SOLD,