

KODAK SAFETY FILM +

MINUTE ITEM

34. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, NORTH GRIMES AREA, COLUSA AND SUTTER COUNTIES; PATRICK A. DOHENY - W.O. 4301, P.R.C. 2908.1.

After consideration of Calendar Item 45 attached, and 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 PATRICK A. DOHENY, AN INDIVIDUAL, FOR THE STATE'S INTEREST IN THE BED OF THE SACRAMENTO RIVER LYING IN SECTIONS 30 AND 31, T. 15 N., R. 1 E., AND IN SECTIONS 25 AND 36, T. 15 N., R. 1 W., M.D.B. & M., COLUSA AND SUTTER COUNTIES, WHICH AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

1. 16-2/3% OF THE VALUE OF ALL GAS DRAINED FROM STATE LANDS; OR
1.5% 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 45 (2 pages)

APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, NORTH GRIMES AREA, COLUSA AND SUTTER COUNTIES; PATRICK A. DOHENY - W.O. 4301.

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 owner or operators of such wells on private lands for the payment of compensation to the State for such drainage."

An application has been received from Patrick A. Doheny, an individual, for a compensatory royalty agreement whereunder the State would be compensated for drainage of natural gas, gasoline, or other products exclusive of crude oil from sovereign lands in a portion of the bed of the Sacramento River in Colusa and Sutter Counties from wells drilled and produced by Patrick A. Doheny on leased uplands surrounding the State lands.

Doheny owns or is the operator of certain oil and gas leases covering the uplands, referred to as the North Grimes area, adjoining the Sacramento River in Sections 30, 31, and 32, T. 15 N., R. 1 E., and in Sections 25, 26, 35, and 36, T. 15 N., R. 1 W., M.D.B.& M., Colusa and Sutter Counties.

Doheny has drilled and completed a producible well, "Unit 31-3", in Section 31, T. 15 N., R. 1 E., and proposes to drill additional wells. 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 a comparatively narrow channel of the river, and therefore are considered to be located unsatisfactorily for inclusion in any other type of reservoir development program such as would be conducted under a 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 operator proposes to form four pooled units, as detailed in Exhibit "B", to include the North Grimes area. However, in the event that the proposed compensatory agreement is not fully executed within the period in which an operating unit must be established under the provisions of the upland leases, the amount of gas to be allocated to State lands not included in any unit shall be calculated on the basis of a 160-acre circle circumscribing each producing well. The application submitted states that the offer to enter into a compensatory agreement is contingent upon its acceptance by the State on or before July 6, 1962.

The compensatory royalty agreement offered by Doheny would pay the State a royalty, in accordance with the following schedule, on all hydrocarbons (other than crude oil) from wells which would drain State lands under the

CALENDAR ITEM 45. (CONTD.)

Sacramento River within the limits of Sections 30 and 31, T. 15 N., R. 1 E., and portions of Sections 25 and 36, T. 15 N., R. 1 W., M.D.B. & M., Colusa and Sutter Counties:

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, the amount of gas to be allocated to State lands for any given month would be that portion of the production from any unit operation that the number of acres of State leased land included bears to the total number of acres in the unit, or the proportion that affected State lands would bear to the effective drainage area of each well as established by circumscribing a 160-acre circle around each well.

The draft of the proposed compensatory agreement has been reviewed and approved 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 PATRICK A. DOHENY, AN INDIVIDUAL, FOR THE STATE'S INTEREST IN THE BED OF THE SACRAMENTO RIVER LYING IN SECTIONS 30 AND 31, T. 15 N., R. 1 E., AND IN SECTIONS 25 AND 36, T. 15 N., R. 1 W., M.D.B. & M., COLUSA AND SUTTER COUNTIES, WHICH AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

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.