

MINUTE ITEM

35. COMPENSATORY ROYALTY AGREEMENT P.R.C. 1559.1, LLANO SECO GAS FIELD, GLENN AND BUTTE COUNTIES; HUMBLE OIL & REFINING COMPANY, STANDARD OIL COMPANY OF CALIFORNIA - W.O. 3101.

After consideration of Calendar Item 21 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE EXECUTIVE OFFICER IS AUTHORIZED:

1. TO EXECUTE AND RETURN TO THE STANDARD OIL COMPANY OF CALIFORNIA THE JOINDER AGREEMENT, DATED FEBRUARY 8, 1956, BETWEEN THE STATE OF CALIFORNIA, HUMBLE OIL & REFINING COMPANY, SUNRAY MID-CONTINENT OIL COMPANY, AND THE STANDARD OIL COMPANY OF CALIFORNIA;
2. TO NOTIFY HUMBLE OIL & REFINING COMPANY AND STANDARD OIL COMPANY OF CALIFORNIA OF THE STATE LAND PERCENTAGES, DETAILED IN EXHIBIT "A" ATTACHED HERETO AND HEREBY MADE A PART HEREOF WHICH APPLY TO THE PRODUCTION FROM WELLS DRILLED ON LANDS IN THE LLANO-SECO AREA THAT DRAIN OR HAVE DRAINED STATE LAND; AND
3. TO DEMAND PAYMENT OF ROYALTY ON PRODUCTION OF GAS BASED ON SAID STATE LAND PERCENTAGES.

Attachment

Calendar Item 21 (3 pages)

CALENDAR ITEM

21.

COMPENSATORY ROYALTY AGREEMENT P.R.C. 1559.1, LLANO SECO GAS FIELD, GLENN AND BUTTE COUNTIES; HUMBLE OIL & REFINING COMPANY, STANDARD OIL COMPANY OF CALIFORNIA - W.O. 3101.

On March 31, 1955 (Minute Item 4, pages 2304-2306), the Commission authorized the Executive Officer to enter into a Compensatory Royalty Agreement with Humble Oil & Refining Company for the State's interest in Sections 4, 5, 6, 7, 8 and 9, T. 19 N., R. 1 W., M.D.B. & M., Glenn and Butte Counties, in the bed of the Sacramento River in the Llano-Seco area.

In accordance with Section 3 of the Compensatory Royalty Agreement, inasmuch as Humble does not hold oil and gas operating rights on all lands abutting both sides of the Sacramento River within the area, Humble, with the consent of the State, agrees either: (1) to consummate agreements with owners of operating rights in outside lands under which said owners will assume the obligation of this agreement with respect to production of oil and gas from wells drilled on outside lands, or (2) to surrender and release from the effect of this agreement all those portions of said lands with respect to which lessee neither owns oil and gas rights nor has consummated agreements with owners of said outside abutting lands, or (3) elects to pay compensatory royalty with respect to the production of gas from all wells drilled on outside lands.

On February 8, 1956, Standard Oil Company of California and Sunray Mid-Continent Oil Company, owners of outside lands in the Llano-Seco area not controlled by Humble but abutting State lands, executed a joinder agreement to the Llano-Seco Compensatory Agreement. Under upland leases abutting State lands, Standard has completed one well that is draining State land; Sunray Mid-Continent quitclaimed its leases without completing a well; and Humble has completed and produced to abandonment three wells that drained State land.

In accordance with Paragraph 7 of Exhibit "C" of the Compensatory Agreement, the area and location of State lands within the Llano-Seco area shall be determined to conform to the actual ownership of the State as disclosed by surveys, record titles or final decrees of a court of jurisdiction or other title determinations. It is further provided, for the purpose of determining State participation for royalty accounting upon completion of a well, that State shall notify lessee of State's participating percentage, and lessee shall pay royalty on State's percent participation of production from said well. However, in the event of an adverse claim by persons other than the State, the State will impound royalty from such well and State agrees that within two years after commencement of impound, it will either: (1) consummate an agreement with other persons claiming title adversely, (2) commence negotiations for such agreement, or (3) commence legal proceedings to establish State's title to said impounded royalty; otherwise the impounded royalty shall be deemed to be owned by persons other than the State.

Because of the time limitation of this provision and the complexity of the title question involved, no request for royalty payment has been made to the lessee.

CALENDAR ITEM 21. (CONTD.)

Because of the topography in the Llano-Seco area, the course of the Sacramento River is continually changing and it is often difficult to determine whether the river course change was due to natural causes and the State's ownership therefore is the present course, or whether the abandoned river channel should be claimed.

The Civil Engineering Section of the Division has completed a review of this subject and has prepared a preliminary map showing the river channel that reasonably should be claimed by the State. This channel would result in a more favorable royalty to the State from gas produced than would the present river channel. Some of the abandoned channel claimed by the State is also claimed by upland owners. To resolve this title dispute would involve lengthy and costly legal action. Total production from the field to date is approximately 1,852,482 Mcf., with a royalty due the State of approximately \$11,107.

Humble and Standard have agreed to accept the State's claim without prejudice to the rights of any land owner in the Llano-Seco area. It is understood that Humble and Standard have made an administrative decision which in no way reflects their views or the views of any of Humble's or Standard's present or former lessors as to title to lands in the Llano-Seco area. Humble has quitclaimed all of its upland leases in the Llano-Seco area, and, after payment of royalty, the Compensatory Agreement will be quitclaimed.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER:

1. TO EXECUTE AND RETURN TO THE STANDARD OIL COMPANY OF CALIFORNIA THE JOINDER AGREEMENT, DATED FEBRUARY 8, 1956, BETWEEN THE STATE OF CALIFORNIA, HUMBLE OIL & REFINING COMPANY, SUNRAY MID-CONTINENT OIL COMPANY, AND THE STANDARD OIL COMPANY OF CALIFORNIA;
2. TO NOTIFY HUMBLE OIL & REFINING COMPANY AND STANDARD OIL COMPANY OF CALIFORNIA OF THE STATE LAND PERCENTAGES, DETAILED IN EXHIBIT "A" ATTACHED HERETO AND HEREBY MADE A PART HEREOF WHICH APPLY TO THE PRODUCTION FROM WELLS DRILLED ON OUTSIDE LANDS IN THE LLANO-SECO AREA THAT DRAIN OR HAVE DRAINED STATE LAND; AND
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Attachment
Exhibit "A"

EXHIBIT "A"

<u>Name of Royalty Well</u>	<u>Affected State Lands in Acres</u>	<u>Effective Drainage Area in Acres</u>	<u>State Lands Percentage</u>
<u>HUMBLE</u>			
H. C. Sannar, et al. No. 2	50.08	195.37	25.63341
Parrott Investment Co. No. 2	11.26	181.38	6.20796
Parrott Investment Co. No. 3	37.69	247.04	15.25664
<u>STANDARD</u>			
Iva Goodwin Williams No. 1	11.47	256.13	4.47819