

MINUTE ITEM

R. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, WALNUT GROVE AREA, SAN JOAQUIN AND SACRAMENTO COUNTIES; STANDARD OIL COMPANY OF CALIFORNIA, THE DOW CHEMICAL COMPANY, TEXACO INC., UNION OIL COMPANY OF CALIFORNIA, E. L. DOHENY, WILLIAM H. DOHENY, LUCY D. WASHINGTON, AND E. C. BROWN, OPERATOR, AN INDIVIDUAL - W.O. 3753, P.R.C. 2966.1.

After consideration of Calendar Item 6 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION, AS PROVIDED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE (IN LIEU OF THE DRILLING OF OFFSET WELLS ON STATE LAND), AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH STANDARD OIL COMPANY OF CALIFORNIA, THE DOW CHEMICAL COMPANY, TEXACO INC., UNION OIL COMPANY OF CALIFORNIA, E. L. DOHENY, WILLIAM H. DOHENY, LUCY D. WASHINGTON, AND E. C. BROWN, OPERATOR, AN INDIVIDUAL, COLLECTIVELY REFERRED TO AS LESSEE, COVERING LANDS INCLUDED IN THE WALNUT GROVE AREA, AS INDICATED IN EXHIBIT "B" OF SAID AGREEMENT, SO AS TO PROTECT THE STATE'S INTEREST IN PORTIONS OF THE BED OF THE SACRAMENTO RIVER, MOKELUMNE RIVER, SNODGRASS SLOUGH, AND GEORGIANA SLOUGH, LYING IN SECTIONS 1 AND 2, T. 4 N., R. 4 E., SECTION 6, T. 4 N., R. 5 E., SECTIONS 23, 24, 25, 26, 27, 34, 35, AND 36, T. 5 N., R. 4 E., AND SECTIONS 19, 30, AND 31, T. 5 N., R. 5 E., M.D.B.&M., SAN JOAQUIN AND SACRAMENTO COUNTIES. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE OF 6.4% OF ALL GAS AND GAS PRODUCTS PRODUCED FROM THE AREA INCLUDED IN THE COMPENSATORY AGREEMENT IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

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

Attachment
Calendar Item 6 (2 pages)

CALENDAR ITEM

6.

APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, WALNUT GROVE AREA, SAN JOAQUIN AND SACRAMENTO COUNTIES; STANDARD OIL COMPANY OF CALIFORNIA, THE DOW CHEMICAL COMPANY, TEXACO INC., UNION OIL COMPANY OF CALIFORNIA, E. L. DOHENY, WILLIAM H. DOHENY, LUCY D. WASHINGTON, AND E. C. BROWN, OPERATOR, AN INDIVIDUAL. W.O. 3753.

An application has been received from Union Oil Company of California, a California corporation, on behalf of Union and other lessees, for a compensatory royalty agreement whereunder the State would be compensated for drainage of gas from State sovereign lands by wells drilled on leased uplands adjoining the State lands within the Walnut Grove area as shown on Exhibit "B" attached. The State lands include portions of the bed of the Sacramento River, Mokelumne River, Snodgrass Slough, and Georgiana Slough, in San Joaquin and Sacramento Counties. Such compensation would be in lieu of drilling offset wells on 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 land for the payment of compensation to the State for such drainage".

Standard Oil Company of California, The Dow Chemical Company, Texaco Inc., Union Oil Company of California, E. L. Doheny, William H. Doheny, Lucy D. Washington, and E. C. Brown, Operator, an individual, are the owners of the lessees' interest in upland oil and gas leases within the Walnut Grove area, which includes portions of Sections 1 and 2, T. 4 N., R. 4 E.; a portion of Section 6, T. 4 N., R. 5 E.; portions or all of Sections 23, 24, 25, 26, 27, 34, 35, and 36, T. 5 N., R. 4 E.; and portions of Sections 19, 30, and 31, T. 5 N., R. 5 E.; M.D.B. & M., Sacramento and San Joaquin Counties.

Thirty-four wells have been drilled and completed as producible in the Walnut Grove area, and some of these wells are draining gas from the adjoining State lands. The State lands are all within the comparatively narrow channels of the Sacramento River, Mokelumne River, Snodgrass Slough, and Georgiana Slough, 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.

For the purpose of computing royalties, staff review of all data developed during drilling operations has indicated that it is in the State's best interest to base the percentage of production to be allocated to State lands on the ratio that the weighted volume of gas sand underlying State land bears to the total weighted volume of gas sand underlying the Walnut Grove area. This percentage has been determined to be 6.4%.

Under the compensatory agreement, each party named as lessee agrees to account for and pay to the State a royalty on the gas allocated to State land on gas

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produced and saved since June 16, 1958, on all wells now or hereafter drilled within the Walnut Grove area in accordance with the following schedule:

1. 16-2/3% of the sale 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 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 and found to be satisfactory.

IT IS RECOMMENDED THAT THE COMMISSION, AS PROVIDED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE (IN LIEU OF THE DRILLING OF OFFSET WELLS ON STATE LAND), AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH STANDARD OIL COMPANY OF CALIFORNIA, THE DOW CHEMICAL COMPANY, TEXACO INC., UNION OIL COMPANY OF CALIFORNIA, E. L. DOHENY, WILLIAM H. DOHENY, LUCY D. WASHINGTON, AND E. C. BROWN, OPERATOR, AN INDIVIDUAL, COLLECTIVELY REFERRED TO AS LESSEE, COVERING LANDS INCLUDED IN THE WALNUT GROVE AREA, AS INDICATED IN EXHIBIT "B" OF SAID AGREEMENT, SO AS TO PROTECT THE STATE'S INTEREST IN PORTIONS OF THE BED OF THE SACRAMENTO RIVER, MOKELUMNE RIVER, SNODGRASS SLOUGH, AND GEORGIANA SLOUGH, LYING IN SECTIONS 1 AND 2, T. 4 N., R. 4 E., SECTION 6, T. 4 N., R. 5 E., SECTIONS 23, 24, 25, 26, 27, 34, 35, AND 36, T. 5 N., R. 4 E., AND SECTIONS 19, 30, AND 31, T. 5 N., R. 5 E., M.D.B. & M., SAN JOAQUIN AND SACRAMENTO COUNTIES. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE OF 6.4% OF ALL GAS AND GAS PRODUCTS PRODUCED FROM THE AREA INCLUDED IN THE COMPENSATORY AGREEMENT IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

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