

MINUTE ITEM

25. APPLICATION FOR COMPENSATORY GAS ROYALTY AGREEMENT; SYCAMORE AREA, COLUSA AND SUTTER COUNTIES; PATRICK A. DOHENY - W.O. 4635, P.R.C. 2990.1.

After consideration of Calendar Item 20 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 GAS ROYALTY AGREEMENT WITH PATRICK A. DOHENY, AN INDIVIDUAL, FOR THE STATE'S INTERESTS IN THE BED OF THE SACRAMENTO RIVER INCLUDED IN THE SYCAMORE AREA AND LYING IN A PORTION OF SECTION 13 AND SECTIONS 14, 23, AND 24, 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 PRODUCED AND SAVED WHICH IS ALLOCATED TO STATE LANDS; OR 15% OF THE VALUE OF ALL GAS PRODUCED AND SAVED WHICH IS 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 GAS PRODUCED AND SAVED WHICH IS ALLOCATED TO STATE LANDS.

Attachment

Calendar Item 20 (2 pages)

CALENDAR ITEM

20.

APPLICATION FOR COMPENSATORY GAS ROYALTY AGREEMENT; SYCAMORE AREA, COLUSA AND SUTTER COUNTIES; PATRICK A. DOHENY - W.O. 4635.

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 to be 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 uplands, referred to as the Sycamore Area, adjoining the Sacramento River in Section 19, T. 15 N., R. 1 E., M.D.B. & M., and of Sections 13, 14, 23, and 24, T. 15 N., R. 1 W., M.D.B. & M., in Colusa and Sutter counties (see Exhibit "A" attached).

Doheny has drilled and completed a producible well, "Unit R-X 23-3 Well", in Section 23, T. 15 N., R. 1 W., M.D.B. & M., and proposes to drill additional wells. These wells, when connected to a gathering 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 exploration and development in common are justified. For the production of gas, lands may be pooled so as to create a compact operating unit or units, each of which shall not exceed 660 surface acres.

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 Sacramento River within the Sycamore Area:

1. 16-2/3% of the value of all gas produced and saved which is allocated to State lands; or 15% of the value of all gas produced and saved which is allocated to State lands in the event that it is necessary to compress the gas for delivery to a transmission line;
2. 16-23% of the sale or use value of all gasoline or other products extracted from gas produced and saved which is allocated to State lands.

CALENDAR ITEM 20. (CONTD.)

Whenever production of gas is obtained from any unit created, there shall be allocated to the State lands included in such unit, the fractional portion of the production from such unit that the number of acres of State lands in the unit bears to the total number of acres included in the unit. In the event that all or a portion of State lands within the Sycamore Area are not included in such unit, for non-unit wells there shall be allocated to State lands the fractional portion of the production from each well that affected State land area bears to the effective drainage area of each producing 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 GAS ROYALTY AGREEMENT WITH PATRICK A. DOHENY, AN INDIVIDUAL, FOR THE STATE'S INTERESTS IN THE BED OF THE SACRAMENTO RIVER INCLUDED IN THE SYCAMORE AREA AND LYING IN A PORTION OF SECTION 13 AND SECTIONS 14, 23, AND 24, 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 PRODUCED AND SAVED WHICH IS ALLOCATED TO STATE LANDS; OR 15% OF THE VALUE OF ALL GAS PRODUCED AND SAVED WHICH IS 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 GAS PRODUCED AND SAVED WHICH IS ALLOCATED TO STATE LANDS.