

MINUTE ITEM

30. HUNTINGTON BEACH PRICE CHANGE, COMPROMISE AGREEMENT - W.O. 3236, GEN. DATA-ACCTY., R & D.

Calendar Item 4 attached was discussed. Deputy Attorney General Jay L. Shavelson recommended settlement on the basis outlined, for the reason that litigation would be difficult, the outcome uncertain, and that any additional amounts hoped to be collected if the State were successful in legal action would be negligible. Commissioner Anderson expressed his disfavor to the proposed settlement.

Upon motion made by Commissioner Champion, and seconded by Commissioner Cranston, the following resolution was adopted, with Commissioner Anderson voting negative.

1. THE EXECUTIVE OFFICER IS HEREBY AUTHORIZED TO EXECUTE THAT CERTAIN COMPROMISE AGREEMENT ATTACHED AS "EXHIBIT I" HERETO, SAID AGREEMENT TO BE SUBMITTED TO THE GOVERNOR FOR APPROVAL PURSUANT TO SECTION 6107 OF THE PUBLIC RESOURCES CODE, AND IF APPROVED BY HIM SHALL THEREUPON, BUT NOT BEFORE, BE BINDING UPON THE STATE AND THE OTHER PARTIES THEREIN.
2. IN CONNECTION WITH SAID COMPROMISE AGREEMENT, AND CONDITIONED UPON THE EFFECTIVENESS THEREOF, THE COMMISSION HEREBY DETERMINES THAT FOR PURPOSES OF CALCULATING STATE ROYALTIES UNDER THE TERMS OF OIL AND GAS EASEMENT 392.1, AND UNDER THE TERMS OF THAT EASEMENT ONLY, THE REASONABLE PRICE OF THE PRODUCTION FROM SAID EASEMENT AT THE WELL DURING THE PERIOD FROM SEPTEMBER 1, 1958, TO OCTOBER 31, 1959, INCLUSIVE, WAS THE PRICE POSTED IN THE HUNTINGTON BEACH, CALIFORNIA, FIELD FOR OIL OF LIKE GRAVITY BY THE STANDARD OIL COMPANY OF CALIFORNIA.

Attachments

- Exhibit I (4 pages)
- Calendar Item 4 (7 pages)

## EXHIBIT I

## COMPROMISE AGREEMENT

This agreement, made and entered into at Los Angeles, California, this \_\_\_\_\_ day of \_\_\_\_\_ 1963, in \_\_\_\_\_ counterparts, by and between:

THE STATE OF CALIFORNIA, hereinafter called the State, acting by and through the State Lands Commission

## FIRST PARTY

AND SIGNAL OIL AND GAS CO., a Delaware Corporation, authorized to do and doing business in the State of California on behalf of itself and as successor in interest to Southwest Exploration Company, a dissolved California corporation, and

HUNTINGTON STATE CO., a California corporation, and

HAMMIL OIL CO., a California corporation, and

MC VICAR-ROOD, a California corporation, and

SIMARCO OIL CO., a California corporation

## SECOND PARTIES

## WHEREAS:

1. Second Parties are holders of the leases and easement listed in Exhibit "A" hereto for the production of oil, gas and other hydrocarbon substances, which leases and easement were issued by the State and are located in the Huntington Beach, California, Oil Field; and
2. Said leases and easement provide for the payment to the State of royalties on oil calculated upon the reasonable market price thereof at the well; and
3. At various times between the dates of September 1, 1958, and October 31, 1959, Second Parties accounted for and paid to the State oil royalties calculated upon the price posted for oil of like gravity by Standard Oil Company of California, at which time a higher price for oil was posted by Union Oil Company; and
4. The State has asserted that at such times the price posted by Union Oil Company was determinative of the reasonable market price at the well of oil produced under said leases and, based upon this assertion, has demanded payment of the additional amounts set forth in Exhibit "A" hereto; and

5. The Second Parties have asserted that the royalties on oil accounted for and paid by them to the State, as aforesaid, were properly calculated, and based upon this assertion have refused to pay said additional amounts or any part thereof; and

6. The issues involved in this controversy are substantial and complex, and it is in the best interests of all parties to resolve them without litigation; and

7. All parties, without admitting that their respective assertions are incorrect, are nevertheless desirous of so resolving this controversy on the basis set forth herein.

THEREFORE, in consideration of the premises, and of the terms, covenants, and conditions herein contained, and of the faithful performance thereof, it is hereby agreed as follows:

1. Second Parties agree to pay to the State the total amount of \$25,123.41;

2. The State agrees to accept said amount, when received, in full payment of all sums, if any, due and payable to the State under the leases and easement set forth in Exhibit "A" hereto by virtue of the difference, if any, between the actual reasonable market price at the well, computed in accordance with the provisions of said leases and easement, of the oil produced from said leases and easement during the period from September 1, 1958, to and including October 31, 1959, and the amounts accounted for and paid by Second Parties by virtue of said production; and

3. This agreement shall be submitted to the Governor pursuant to the provisions of Section 6107 of the Public Resources Code, and if approved by him shall thereupon, but not before, be binding upon the State and upon Second Parties.

STATE OF CALIFORNIA  
STATE LANDS COMMISSION

By \_\_\_\_\_  
F. J. NORTIC  
Executive Officer

\_\_\_\_\_  
Date

FIRST PARTY

SIGNAL OIL AND GAS COMPANY,  
a Delaware corporation

By /s/ P. S. Ottoson

Feb. 15, 1963  
Date

HUNTINGTON STATE COMPANY,  
a California corporation

By /s/ T. H. Sherman

Mar. 4, 1963  
Date

HAMMIL OIL COMPANY,  
a California corporation

By /s/ T. H. Sherman

Mar. 4, 1963  
Date

MC VICAR-ROOD,  
a California corporation

By /s/ M. M. McCallan, Pres.

Mar. 5, 1963  
Date

SIMAROO OIL COMPANY,  
a California corporation

By /s/ M. M. McCallan

Mar. 5, 1963  
Date

SECOND PARTIES

IN APPROVAL WHEREOF, I, EDWARD G. BROWN, Governor of the State of California, have set my hand and caused the Seal of the State of California to be hereunto affixed pursuant to Section 6107 of the Public Resources Code of the State of California. Given under my hand at the City of Sacramento, this, the \_\_\_\_\_ day of \_\_\_\_\_ in the year of our Lord one thousand nine hundred and sixty-three.

\_\_\_\_\_  
Governor of State

Operator	Lease No.	Present Amount Indicated as Due on The Books and Records of the State Lands Commission
Huntington State Co.	91.1	1,269.39
Hammil Oil Co.	977.1	180.43
" "	984.1	20.61
" "	985.1	18.51
" "	986.1	229.91
Signal Oil and Gas Co.	E-392.1	17,264.10
" " "	PRC 163.1	465.74
" " "	425.1	10,531.92
" " "	426.1	11,724.20
Southwest Exploration Co.	1344.1	24.32
McVicar-Rood	978.1	93.06
" "	979.1	264.30
Simaroo Oil Co.	980.1	62.43
McVicar-Rood	981.1	25.67
" "	982.1	85.82
" "	983.1	21.33
" "	996.1	6.63
" "	997.1	12.18
" "	1329.1	13.21
" "	1332.1	58.00
" "	1333.1	15.75
Totals		42,387.51

EXHIBIT "A"

CALENDAR ITEM

4.

HUNTINGTON BEACH PRICE CHANGE, COMPROMISE AGREEMENT - W.O. 3236.

Leases issued for the extraction of oil and gas from tide and submerged lands include within their terms a provision for the determination of the value of the oil extracted and sold. This value is based on the highest price in a particular field offered by a major oil company buying oil of like quality and gravity.

The following is typical of the language contained in leases issued in the past in the Huntington Beach area:

"When paid in money, the royalty shall be calculated upon the reasonable market price of oil at the well as determined by the State, which price shall not be less than the highest price at which a major oil company then buying oil of like gravity and quality in substantial quantities at the Huntington Beach field in Orange County, California, is offering for oil of like gravity and quality at the well, and it shall be due and payable not later than the twenty-fifth day of the calendar month following the calendar month in which the oil is produced." (Underscoring added.)

At various times during the period September 1, 1958, through October 31, 1959, Union Oil Company of California, as a purchaser of relatively small quantities of oil at Huntington Beach, offered a higher posted price than did Standard Oil Company of California, a major buyer. This raised a question as to which price should be applicable during the aforementioned periods for the calculation of oil royalties.

By informal opinion dated April 10, 1959, the office of the Attorney General advised in essence: Despite the fact that Union Oil Company purchased but 1.32 percent of the oil produced at the location, Union was a substantial purchaser, and the price paid by Union was determinative of the royalty due under leases producing in the area, provided that the quantity purchased by Union was deemed large enough to be subject to marketing factors generally applicable throughout the Field. Accordingly, the State's royalty computations for the periods in question (for all its lessees in the area) were based on Union Oil Company's posted prices. However, the State's lessees in the area computed royalties due the State on Standard Oil Company's posted prices, and remitted payments in accordance therewith.

The price question was complicated by the fact that in the case of Easement 322.1, Signal Oil and Gas Company, pertinent language in the lease respecting the value of the oil for royalty read: "which price shall not be greater than", rather than, "which price shall not be less than." (Underscoring added.)

An impasse was reached with respect to the collection of additional royalties due from certain lessees (see Exhibit A of Exhibit I, "Compromise Agreement", attached). The State asserted that the price posted by Union Oil Company was determinative of the value for royalty during periods in which Union's was the

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highest posted price. The lessees asserted that they had properly calculated royalties; hence, they refused to pay the additional amounts demanded, which totaled \$42,387.51. As a result, the matter of collection was referred to the office of the Attorney General.

Discussions of the problem between representatives of the office of the Attorney General and those of the lessees lead to the following findings:

1. The language contained in Easement 392.1 could be interpreted to mean that the Commission has discretionary power to accept any value for oil not greater than the highest posted price; thus Standard Oil Company's posted price could be acceptable.
2. Court actions to collect the amounts due from the various lessees involved would protract the date of settlement, could prove excessively costly, and there would be uncertainty as to the outcome.

These considerations lead to the conclusion that a compromise settlement appeared desirable. Thus, negotiations were opened to the effect a compromise agreement which eventually became the basis for a settlement.

The proposed form of Compromise Agreement (Exhibit I, attached) is based in part on the discretionary power of the Commission to establish Standard Oil Company's posted price as the price to be used in the computation of royalties due only under Easement 392.1. The agreement provides for payment to the State by its lessees of the total amount of \$25,123.41, which is the sum shown as due on the Commission's books less the price base adjustment of \$17,264.10 for Easement 392.1. The agreement has been ratified by all of the lessee parties involved. Subsequent to Commission approval, it will require approval by the Governor under the provisions of Section 6107, Public Resources Code.

By letter dated April 8, 1963, the office of the Attorney General has stated: "...it is our recommendation that the State Lands Commission authorize the Executive Officer to execute this agreement, and it is our opinion that it (the Commission) may legally do so."

IT IS RECOMMENDED THAT THE COMMISSION ADOPT THE FOLLOWING RESOLUTION:

1. THE EXECUTIVE OFFICER IS HEREBY AUTHORIZED TO EXECUTE THAT CERTAIN COMPROMISE AGREEMENT ATTACHED AS "EXHIBIT I" HERETO, SAID AGREEMENT TO BE SUBMITTED TO THE GOVERNOR FOR APPROVAL PURSUANT TO SECTION 6107 OF THE PUBLIC RESOURCES CODE, AND IF APPROVED BY HIM SHALL THEREUPON, BUT NOT BEFORE, BE BINDING UPON THE STATE AND THE OTHER PARTIES THERE TO.

CALENDAR ITEM 4. (CONTD.)

2. IN CONNECTION WITH SAID COMPROMISE AGREEMENT, AND CONDITIONED UPON THE EFFECTIVENESS THEREOF, THE COMMISSION HEREBY DETERMINES THAT FOR PURPOSES OF CALCULATING STATE ROYALTIES UNDER THE TERMS OF OIL AND GAS EASEMENT 392.1, AND UNDER THE TERMS OF THAT EASEMENT ONLY, THE REASONABLE PRICE OF THE PRODUCTION FROM SAID EASEMENT AT THE WELL DURING THE PERIOD FROM SEPTEMBER 1, 1958, TO OCTOBER 31, 1959, INCLUSIVE, WAS THE PRICE POSTED IN THE HUNTINGTON BEACH, CALIFORNIA, FIELD FOR OIL OF LIKE GRAVITY BY THE STANDARD OIL COMPANY OF CALIFORNIA.

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Exhibit I



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HUNTINGTON STATE CO., a California corporation, and

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4. The State has asserted that at such times the price posted by Union Oil Company was determinative of the reasonable market price at the well of oil produced under said leases and, based upon this assertion, has demanded payment of the additional amounts set forth in Exhibit "A" hereto; and

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STATE LANDS COMMISSION

By \_\_\_\_\_  
F. J. HORTIG  
Executive Officer

\_\_\_\_\_  
Date

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By /s/ P. S. Ottosen

Feb. 15, 1963

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By /s/ T. H. Sherman

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By /s/ M. M. McCallan, Pres.

Mar. 5, 1963

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By /s/ M. M. McCallan

Mar. 5, 1963

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Governor of State

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EXHIBIT "A"