

MINUTE ITEM

This Calendar Item No 43  
was approved as Minute Item  
No 43 by the State Lands  
Commission by a vote of 3  
to 0 at its 4/28/77  
meeting.

CALENDAR ITEM

43

ROYALTY OIL

4/77

ADW

PRC 4837.1

PRC 3033.1

PRC 3413.1

On November 1, 1976, the State notified Union Oil Company that effective May 1, 1977, the State would no longer be taking its royalty share of oil production in kind under leases PRC 3033.1 and PRC 3413.1. The notice was based on the assumption that the Federal Energy Administration (FEA) regulations would not extend the term of the Royalty Oil Sales Contract with World Oil Company under which the State sells the royalty oil from these leases.

World contested the State's interpretation of the Federal regulations and solicited advice from the FEA. The FEA's informal advice was that there was a sound basis for World's claim of a valid supplier/purchaser relationship (which would extend the existing contract for the duration of the FEA program) for the State's royalty oil and that the State would be wise to continue delivering the oil to World.

Based on these representations from the FEA and World's agreement to hold the State harmless against any damages sustained by Union as a result of the State's continued delivery of royalty oil to World, the Executive Officer rescinded the notification of November 1, 1976, and advised Union that the State will continue to deliver its royalty oil to World.

IT IS RECOMMENDED THAT THE COMMISSION CONFIRM THE FOLLOWING ACTION OF THE EXECUTIVE OFFICER:

1. APPROVAL OF A LETTER DATED APRIL 14, 1977, FROM WORLD OIL COMPANY HOLDING THE STATE HARMLESS AGAINST ANY DAMAGES SUSTAINED BY UNION OIL COMPANY AS A RESULT OF THE STATE'S CONTINUED DELIVERY OF ROYALTY OIL TO WORLD AND
2. ISSUANCE OF A NOTICE TO UNION OIL COMPANY OF THE STATE'S INTENTION TO CONTINUE TAKING ITS ROYALTY SHARE OF OIL PRODUCED UNDER STATE OIL AND GAS LEASES PRC 3033.1 AND PRC 3413.1 IN KIND FROM AND AFTER MAY 1, 1977, UNTIL THE FEDERAL ENERGY ADMINISTRATION CRUDE OIL ALLOCATION PROGRAM TERMINATES.