

A DISTANCE OF APPROXIMATELY 18,300 FEET TO THE INTERSECTION WITH THE BOUNDARY LINE OF STATE EASEMENT NO. 415, (THIS POINT IS ALSO THE INTERSECTION OF THE BOUNDARY LINE OF STATE EASEMENT NO. 415 AND THE RANGE LINE BETWEEN RANGES 3 EAST AND 4 EAST, P.D.B. & M.) THENCE NORTHWESTERLY ALONG THE BOUNDARY LINE OF STATE EASEMENT NO. 415, A DISTANCE OF APPROXIMATELY 10,700 FEET TO THE POINT OF BEGINNING, CONTAINING AN AREA OF 15,500 ACRES MORE OR LESS.

10. PROPOSED REVISION OF GAS SALES CONTRACT, AGREEMENT FOR EASEMENT 415, STANDARD OIL COMPANY OF CALIFORNIA - W.O. 465) The Commission was informed that the consideration by the Commission of the proposal of the Standard Oil Company of California, lessee under Agreement for Easement No. 415, Rio Vista, to modify the Gas Sales Contract of May 16, 1940, between Standard Oil Company and Pacific Gas and Electric Company, has resulted heretofore in a request to the Attorney General for a formal opinion on the legal issues involved (Minute Page 1080-31, Item 43). The contract amendment as proposed would result in the determination of the price of gas for royalty computations in relation to the posted price for Standard Bunker Fuel Oil instead of fuel oil corresponding to Pacific Specification 400 as stated in the original contract. Such amendment of price base would result in a decrease of approximately \$200,000. in royalties payable to the State under Easement 415 for the calendar years 1949 and 1950 as compared with the royalties computed upon the original contract base as contended by the Division of State Lands.

The Standard Oil Company has now submitted an alternative proposal for amendment of the gas sales contract of May 16, 1940. This proposal would also revise the contract effective January 1, 1949 to relate the price of gas to the posted price for Standard Bunker Fuel Oil for delivery at Richmond, California (and consequently, the same \$200,000. difference in royalty computation discussed above would exist) but, the consideration for the amendment of the contract would be the specification of higher gas price minima and price increase increments determined from the posted price for Standard Bunker Fuel Oil for the calendar years 1951 through 1955. The specification of these increased unit values would result in increased royalty income to the State under the terms of Agreement for Easement 415. On an assumed basis of continuation of past production rates and oil prices for the contract period, this increase would exceed the royalty which would accrue under the original gas sales contract of May 16, 1940, by more than \$1,000,000. More detailed estimates reflecting possible production and price variations based upon extrapolation of past production and marketing experience from the field, and estimates of reserve production capacity confirm the probability that the net royalty increase under the proposed revised gas sales contract would exceed royalties computed under the original contract by more than \$1,000,000.

In summary, the latest proposed revision to the gas sales contract of May 16, 1940, would result in a substantial royalty increase to the State over the gas royalties due under Easement 415 and the terms of the original gas sales contract as interpreted by the Division of State Lands.

Consideration has also been given to the probability that inasmuch as the Standard Oil Company of California as lessee and seller of the gas has been paid heretofore by the Pacific Gas and Electric Company on an interpretation of the contract which has resulted in a lower gas price than results from the Division of State Lands interpretation, final resolution of such differences could probably be had only through litigation.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED AUTHORIZING THE EXECUTIVE OFFICER TO APPROVE THE AMENDMENT OF THE GAS SALES CONTRACT OF MAY 16, 1940, AS SUBMITTED BY THE STANDARD OIL COMPANY OF CALIFORNIA, ON JANUARY 11, 1951, SUBJECT TO THE FOLLOWING CONDITIONS UNDER THE TERMS OF AGREEMENT FOR EASEMENT 415, EFFECTIVE JANUARY 1, 1949, AND AUTHORIZE THE STANDARD OIL COMPANY OF CALIFORNIA, AS LESSEE UNDER AGREEMENT FOR EASEMENT 415, TO TAKE CREDIT IN THE AMOUNT OF \$193,466.66 AS PREPAID ROYALTY, SAID SUM BEING THE AMOUNT PAID CONDITIONALLY HERETOFORE BY THE LESSEE DURING 1949 AND 1950 AND BEING IN EXCESS OF THE ROYALTY DUE UNDER AGREEMENT FOR EASEMENT 415 AS COMPUTED FROM THE REVISED GAS SALES CONTRACT APPROVED HEREIN. THE CONDITIONS OF THE APPROVAL ARE TO BE:

1. INCLUSION IN THE AMENDMENT OF A FIRM DEFINITION FOR THE TYPE OF FUEL OIL DESIGNATED AS THE PRICE BASE.
2. PREPAID ROYALTY CREDITS TO BE TAKEN BY THE LESSEE ACCORDING TO THE FOLLOWING SCHEDULE:

CREDIT AGAINST ROYALTIES DUE FOR MONTH OF	AMOUNT
JANUARY 1951	\$38,813.50
FEBRUARY	52,101.96
MARCH	51,699.86
APRIL	50,851.34
TOTAL	<u>\$193,466.66</u>

11. (REFUND UNDER CANCELLED GRAZING LEASE P.R.C. NO. 1201, M. A. WEATHERWAX, KERN COUNTY) The Commission was informed that on November 20, 1950 (Minute Item 3, page 1216), the Commission authorized the sale of the N $\frac{1}{2}$ , N $\frac{1}{2}$  of SE $\frac{1}{4}$  and SW $\frac{1}{4}$  of SE $\frac{1}{4}$  of Section 16, T. 29 S., R. 33 E., M.D.M., containing 140 acres in Kern County, to M. A. Weatherwax and Maxine Weatherwax at a cash price of \$2,200.00. Completion of this sale automatically terminated Grazing Lease P.R.C. No. 1201 covering the same lands, held by M. A. Weatherwax, the first and fifth annual rentals for which had been paid upon the execution of the lease on June 3, 1949. Section 6505.5 of the Public Resources Code provides that the sale of said lands ipso facto terminates said lease, and Section 6509 of said code provides that upon the sale of the land by the State the lessee shall surrender the lease to the Commission and receive in exchange therefor from the Commission a certificate showing the proportionate amount of the annual rental to be refunded to the lessee. Therefore, Mr. Weatherwax, as the lessee, is entitled to a refund of \$39.62 out of the money paid in advance for the last year's rental, being the sum proportionate to the unexpired remainder of such last year.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, A RESOLUTION WAS ADOPTED AUTHORIZING THE EXECUTIVE OFFICER TO ISSUE A REFUND CERTIFICATE TO MR. M. A. WEATHERWAX IN THE AMOUNT OF \$39.62 REPRESENTING THE UNEARNED RENTAL UNDER CANCELLED GRAZING LEASE P.R.C. NO. 1201 UPON SURRENDER OF SAID GRAZING LEASE BY MR. WEATHERWAX.

12. (STATE EXCHANGE APPLICATION 038645, OWL SPRINGS HEALTH RESORT - SAC. W.O. 5278) The Commission was informed that on July 6, 1950 (Item 33, pages 1156, 1157) a resolution was adopted authorizing the Executive Officer to proceed with the exchange application and acquire the Southeast 160 acres (or SE $\frac{1}{4}$ ) of Section 13, T. 18 N., R. 3 E., S.B.M., in exchange for the SE $\frac{1}{4}$

STANDARD B & P "NOLEAR"

"NOLEAR"