

MINUTE ITEM

4. (CONSULTING BOARD REVIEW OF OIL AND GAS LEASES - W. O. 2653.)

Following presentation by the Executive Officer of Calendar Item 23 attached, the Chairman informed those present that Dr. Kaveler and Mr. Wanenmacher, both nationally recognized petroleum engineers and highly recommended on the basis of their background and their ability, were making surveys of the oil and gas leasing procedures of the Commission for the purpose of advising the Commission as to leasing procedures to secure the best interests of the State under existing law. It was explained that the reports to be presented were progress reports, and that the final reports containing the recommendations of the consultants will be made public.

Mr. Wanenmacher, in presenting his report, included the following points:

The statutes, even though they are specific on many points, leave numerous broad discretionary powers in the Commission.

A study of the problems which confront the Commission has been made, and although it has not yet definitely been determined which problems are most important, the four major problems with which the Commission is faced in using its discretionary powers appear to be:

First, the policies to be adopted in deciding whether a lease will be offered on the basis of the highest cash bid, or on the basis of the highest royalty;

Second, the question of well spacing;

Third, the question of whether the State should lease all of its acreage on a prospect at any one time, or should retain a portion of the acreage for future lease offer; and

Fourth, the determination of a sliding-scale royalty to be applied when leases are awarded to the bidder who gives the highest cash bonus, where it is required by law that the minimum be 16-2/3 percent, with the maximum to be at the discretion of the Commission.

Dr. Kaveler suggested that the Commission should consider the establishment of general leasing policies, in which at least the following three elements would be important:

1. The diligent exercise by the Commission of the many discretionary powers given to it by the statutes, in order that the terms of any lease offered may be made completely effective.
2. The maintenance by the Commission of not only a competent staff, but also a sufficient staff to accomplish its own independent appraisals of the prospects of unleased lands and to maintain the efficient operation of the development of lands. Efficient administration of the statutes could not be accomplished until the Commission has--if it does not already have--an adequate staff, so that leases can be based upon information which comes from its own sources.

3. The exercise by the Commission of its full and complete authority to reject all bids when in any instance it appears that none of the bids received is in the best interests of the State.

With respect to specific policies, Dr. Kaveler cited, as one, the question of the size of the tracts which are granted under any particular lease, stating that it was his opinion that the Commission should adopt the policy of leasing small tracts as compared to large tracts (with the words "large" and "small" to be relative for the present). Also, the Commission should invite bids on the basis of whether or not lands can be regarded as wildcat lands, or as semi-proven or lands on which there is a probability of production, or as proven lands, with these classifications to be understood to mean the following:

Proven Lands: Lands that are offsetting producing wells or producing properties.

Semi-proven Lands: Those lands on which there is a probability of production because they are located geologically on a producing structure.

Wildcat Lands: Lands completely dissociated from production.

Dr. Kaveler stated further that it appears that the Commission should offer lands for lease only when one or more potential bidders request a lease; that a policy should be adopted of not granting leases so large as to encompass an entire field; that lessees should be expected to commence operations for the boring of a hole within the three-year drilling term provided by statute, with only actual boring operations to be regarded as commencement of drilling; that the three-year drilling term should be extended only under most unusual and very compelling conditions; that an annual rental should be charged, to be due and payable on the anniversary date of the lease; and that the annual rental should not be waived in the event the Commission should extend the primary term of the lease for any number of years.

In the opinion of Dr. Kaveler, the statutes require that there shall always be a sliding-scale royalty provision, and the particular type of formula which has been applied by the Commission heretofore seems to be fair and reasonable.

Following the presentations by Mr. Wanenmacher and Dr. Kaveler, the Chairman announced that the final reports of the two consultants, containing their recommendations, are expected not later than the next meeting of the State Lands Commission, and that at that time copies of the reports will be available to all interested parties.

The consultants will be available for consultation with industry representatives between the time of the current meeting and the time of submittal of final reports.

Attachment  
Calendar Item 23 (1 page)

CALENDAR ITEM

INFORMATIVE

23.

(CONSULTING BOARD REVIEW OF OIL AND GAS LEASES - W. O. 2653.)

Pursuant to service contracts authorized by the Commission on September 13, 1957 (Minute Item 7, page 3444), Dr. Herman H. Kaveler, and Mr. J. M.

~~Wanenmacher of Keplinger and Wanenmacher~~ have conducted studies relative to oil and gas lease procedures to be recommended for action under existing legislative authorization for the issuance of oil and gas leases.

Preliminary reports relative to recommended procedures and to the scope of studies to be completed will be presented to the Commission by the respective consultants.