

MINUTE ITEM

16. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, LIBERTY ISLAND FIELD, SOLANO COUNTY; RESERVE OIL AND GAS COMPANY; TEXACO INC.; STANDARD OIL COMPANY OF CALIFORNIA; LENNART G. ERICKSON; SERGEANT M. REYNOLDS; J. S. MERRIAM; AND MAX NEWTON, d.b.a. FALCON PETROLEUM COMPANY - W.O. 4238, P.R.C. 3238.1.

After consideration of Calendar Item 15 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE EXECUTIVE OFFICER IS AUTHORIZED TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH RESERVE OIL AND GAS COMPANY; TEXACO INC.; STANDARD OIL COMPANY OF CALIFORNIA; LENNART G. ERICKSON; SERGEANT M. REYNOLDS; J. S. MERRIAM; AND MAX NEWTON, D.B.A. FALCON PETROLEUM COMPANY, COLLECTIVELY REFERRED TO AS LP3EE, COVERING LANDS INCLUDED IN THE LIBERTY ISLAND GAS FIELD, AS INDICATED IN EXHIBIT "B" OF SAID AGREEMENT, TO PROTECT THE STATE'S INTEREST IN PORTIONS OF THE BEDS OF CACHE SLOUGH, PROSPECT SLOUGH, MINER SLOUGH, SHAG SLOUGH AND LINDSEY SLOUGH, LYING IN ALL OR PORTIONS OF SECTIONS 6, 7, 16, 17, 18, 19, 20, 21, 28, 29, 30, 31, 32, T. 5 N., R. 3 E., AND PORTIONS OF SECTIONS 25 AND 36, T. 5 N., R. 2 E., M.D.B.& M., SOLANO COUNTY. THIS AGREEMENT SHALL PROVIDE ROYALTY PAYMENTS TO THE STATE OF 21.000% OF THE VALUE OF ALL GAS, GASOLINE, AND OTHER PRODUCTS SOLD OR USED FROM THE WELLS OF SUCH PARTY WITHIN THE SOUTH POOL OF SAID LIBERTY ISLAND GAS FIELD, IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

1. 16-2/3% OF THE SALE VALUE OF ALL GAS ALLOCATED TO STATE LANDS; OR 15% ROYALTY FOR ALL GAS ALLOCATED TO STATE LANDS IN THE EVENT THAT IT IS NECESSARY TO COMPRESS THE GAS FOR DELIVERY TO TRANSMISSION LINE.
2. 16-2/3% OF THE SALE OR USE VALUE OF ALL GASOLINE AND OTHER PRODUCTS EXTRACTED FROM THE QUANTITY OF GAS ALLOCATED TO STATE LANDS.

Attachment

Calendar Item 15 (2 pages)

CALENDAR ITEM

15.

APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, LIBERTY ISLAND FIELD, SOLANO COUNTY; RESERVE OIL AND GAS COMPANY; TEXACO INC.; STANDARD OIL COMPANY OF CALIFORNIA; LENNART G. ERICKSON; SERGEANT M. REYNOLDS; J. S. MERRIAM; AND MAX NEWTON, d.b.a. FALCON PETROLEUM COMPANY - W.O. 4238.

An application has been received from Reserve Oil and Gas Company, a California corporation, on behalf of the other lessees, for a compensatory royalty agreement whereunder the State would be compensated for drainage of gas from State sovereign lands by wells drilled on leased uplands adjoining the State lands within the Liberty Island Field, as shown on Exhibit "B" attached. The State lands include portions of Cache Slough, Prospect Slough, Miner Slough, Shag Slough, and Lindsey Slough, in Solano County. Such compensation would be in lieu of drilling offset wells on State lands.

Section 6825 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, or where the provisions of Section 6827 are deemed by the Commission to be impractical in the particular case by reason of the small size, or irregular configuration of the property, or its inaccessibility from surface drill sites reasonably available or obtainable, the Commission, in lieu of following the provisions of Section 6827, may negotiate and enter into agreements with the owners or operators of such wells on private lands for the payment of compensation to the State for such drainage, or may negotiate and enter into leases for the development of the State lands through drilling from adjoining lands only. . . ."

Reserve Oil and Gas Company; Texaco Inc.; Standard Oil Company of California; Lennart G. Erickson; Sergeant M. Reynolds; J. S. Merriam; and Max Newton, d.b.a. Falcon Petroleum Company, are the owners of the lessees' interest in upland oil and gas leases within the Liberty Island Field, which includes portions or all of Sections 6, 7, 16, 17, 18, 19, 20, 21, 28, 29, 30, 31, 32, T. 5 N., R. 3 E., and portions of Sections 25 and 36, T. 5 N., R. 2 E., M.D.B. & M., Solano County.

The productive structure of the gas field is divided into a South Pool and North Pool; all of the productive State lands overlie the South Pool. Eleven wells have been drilled and completed as producible in the Liberty Island Field, including eight in the South Pool and three in the North Pool, and some of these wells are draining gas from adjoining State lands. The State lands are all within the comparatively narrow channels of the aforesaid sloughs, and therefore are considered to be located unsatisfactorily for inclusion in any other reasonable type of reservoir development such as would be conducted under a gas lease offered pursuant to competitive public bidding. For the purpose of computing royalties, staff review of all data developed during drilling operations has indicated that it is

CALENDAR ITEM 15, (CONT'D)

in the State's best interest to base the percentage of production to be allocated to State lands on the ratio that the volume of gas sand underlying State land bears to the total volume of gas sand underlying the South Pool of the gas field. This percentage has been determined to be 21.000%. The area that is productive in the North Pool does not underlie State land.

Under the compensatory agreement, each party named as lessee agrees to account for and pay to the State a royalty (except that Reserve Oil and Gas Company will account and forward royalty payments on behalf of Lennart G. Erickson; Sergeant M. Reynolds; J. S. Merriam; and Max Newton, d.b.a. Falcon Petroleum Company, on the gas allocated to State land produced and saved since August 22, 1961, and hereafter produced from the South Pool of the Liberty Island Field, in accordance with the following schedule:

1. 16-2/3% of the sale value of all gas allocated to State lands; or 15% royalty for all gas 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 and other products extracted from the quantity of gas allocated to State lands.

The draft of the proposed compensatory royalty agreement has been reviewed as to form by the office of the Attorney General and found to be satisfactory.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH RESERVE OIL AND GAS COMPANY; TEXACO INC.; STANDARD OIL COMPANY OF CALIFORNIA; LENNART G. ERICKSON; SERGEANT M. REYNOLDS; J. S. MERRIAM; AND MAX NEWTON, D.B.A. FALCON PETROLEUM COMPANY, COLLECTIVELY REFERRED TO AS LESSEE, COVERING LANDS INCLUDED IN THE LIBERTY ISLAND GAS FIELD, AS INDICATED IN EXHIBIT "B" OF SAID AGREEMENT, TO PROTECT THE STATE'S INTEREST IN PORTIONS OF THE BEDS OF CACHE SLOUGH, PROSPECT SLOUGH, MINER SLOUGH, SHAG SLOUGH AND LINDSEY SLOUGH, LYING IN ALL OR PORTIONS OF SECTIONS 6, 7, 16, 17, 18, 19, 20, 21, 28, 29, 30, 31, 32, T. 5 N., R. 3 E., AND PORTIONS OF SECTIONS 25 AND 36, T. 5 N., R. 2 E., M.D.B. & M., SOLANO COUNTY. THIS AGREEMENT SHALL PROVIDE ROYALTY PAYMENTS TO THE STATE OF 21.000% OF THE VALUE OF ALL GAS, GASOLINE, AND OTHER PRODUCTS SOLD OR USED FROM THE WELLS OF SUCH PARTY WITHIN THE SOUTH POOL OF SAID LIBERTY ISLAND GAS FIELD, IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

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2. 16-2/3% OF THE SALE OR USE VALUE OF ALL GASOLINE AND OTHER PRODUCTS EXTRACTED FROM THE QUANTITY OF GAS ALLOCATED TO STATE LANDS.