

MINUTE ITEM

10/27/66

26. COMPENSATORY ROYALTY AGREEMENT, GILL RANCH GAS FIELD, MADERA AND FRESNO COUNTIES; SHELL OIL COMPANY - W.O. 6131, P.R.C. 3650.1.

After consideration of Calendar Item 8 attached, and upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION, AS PROVIDED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE (IN LIEU OF THE DRILLING OF OFFSET WELLS ON STATE LAND), AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH SHELL OIL COMPANY COVERING LANDS INCLUDED IN THE GILL RANCH GAS FIELD, AS INDICATED IN EXHIBIT "B" OF SAID AGREEMENT, SO AS TO PROTECT THE STATE'S INTEREST IN PORTIONS OF THE BED OF THE SAN JOAQUIN RIVER AND ASSOCIATED WATER COURSES LYING WITHIN SECTIONS 21 AND 22, T. 13 S., R. 16 E., M.D.B. & M., MADERA AND FRESNO COUNTIES. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

1. 16-2/3% OF THE SALE VALUE OF ALL GAS ALLOCATED TO STATE LANDS. IN THE EVENT IT IS NECESSARY TO COMPRESS THE GAS FOR DELIVERY TO THE LINE, THE ROYALTY RATE HEREUNDER SHALL BE 15% IN LIEU OF 16-2/3%;
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 8 (2 pages)

COMPENSATORY ROYALTY AGREEMENT, GILL RANCH GAS FIELD, MADERA AND FRESNO COUNTIES;
SHELL OIL COMPANY - W.O. 6131.

The Shell Oil Company and the staff have prepared a compensatory royalty agreement wherein the State would be compensated for drainage of gas from State sovereign lands by wells drilled on uplands adjoining the State lands within the Gill Ranch Gas Field (as shown on Exhibit "B" attached). The State lands include portions of the bed of the San Joaquin River in Madera and Fresno Counties. The compensation for drainage would be in lieu of drilling offset wells on State lands.

Section 6815 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 drillsites 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...."

Shell Oil Company is the owner or operator of upland oil and gas leases within the Gill Ranch Gas Field, adjoining the San Joaquin River, which include portions of Sections 21 and 22 of T. 13 S., R. 16 E., M.D.B. & M., Madera and Fresno Counties.

Fifteen wells have been drilled and completed as producers in the Gill Ranch Gas Field since discovery in 1943. Shell Oil Company drilled three of these wells that are draining gas from the adjoining State lands, as follows:

Shell Oil Company "Edison Securities Well 25-22",

Shell Oil Company "Gill Well 13-22",

Shell Oil Company "Edison Securities Well 85-21".

The State lands are all within the comparatively narrow channel of the San Joaquin River and associated water courses, and therefore are considered to be located unsatisfactorily for inclusion in any other reasonable type of reservoir development program such as would be conducted under an oil and gas lease offered pursuant to competitive public bidding.

For the purpose of computing royalties, the percentage of production to be allocated to State lands under the proposed agreement would be the proportion that affected State lands would bear to the effective drainage area of each well as established by circumscribing a 160-acre circle around each well. Under the

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compensatory agreement, Shell Oil Company agrees to account for and to pay in money to the State on gas produced and saved since April 1, 1966, on all wells now or hereafter drilled within the Gill Ranch Gas Field that drain gas from the adjoining State lands, in accordance with the following schedule:

1. 16-2/3% of the sale value of all gas allocated to State lands. In the event it is necessary to compress the gas for delivery to the line, the royalty rate hereunder shall be 15% in lieu of 16-2/3%.
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.

It is the opinion of the Office of the Attorney General that the agreement will comply with the requirements of Public Resources Code, Section 6815, and with the provisions of the law and the Rules and Regulations of the Commission relating to compensatory agreements, and will adequately protect the interests of the State.

IT IS RECOMMENDED THAT THE COMMISSION, AS PROVIDED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE (IN LIEU OF THE DRILLING OF OFFSET WELLS ON STATE LAND), AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH SHELL OIL COMPANY COVERING LANDS INCLUDED IN THE GILL RANCH GAS FIELD, AS INDICATED IN EXHIBIT "B" OF SAID AGREEMENT, SO AS TO PROTECT THE STATE'S INTEREST IN PORTIONS OF THE BED OF THE SAN JOAQUIN RIVER AND ASSOCIATED WATER COURSES LYING WITHIN SECTIONS 21 AND 22, T. 13 S., R. 16 E., M.D.B. & M., MADERA AND FRESNO COUNTIES. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE 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.