MINUTE ITEM

This Calendar Item No. 46 was approved as Minute Item No. 46 by the State Lands Commission by a vote of 2 to 0 at its 2/25/82 meeting.

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46

2/25/82
W 22649.2
W 9668.8
W 9977
West
Blazak
Horn
Willard

REPEAL OF REGULATIONS IN TITLE 2, DIV. 3, CHAPTER 1, ARTICLES 3, 3.5 AND 4 IN THEIR ENTIRETY AND ADOPTION OF REPLACEMENT ARTICLES 2.9, 3, 3.5 AND 4

During consideration of Calendar Item 46, attached, Mr. Allan Moore, Attorney, representing Chevron USA, appeared to express appreciation to the staff for their responsiveness and attentiveness to the needs of all interested parties during the preparation of the proposed regulations. Mr. Moore also indicated that Chevron had opposed Section 2100 of Article 2.9, that opposition being on file. However, Chevron now does support specific language regarding General Permits contained in that Section.

Mr. Zeke Grader, General Manager of the Pacific Coast Federation of Fishermen's Associations, Inc., appeared before the Commission to state that he hoped the proposed regulations would resolve the conflicts presently occurring between fishermen and seismic vessels in State waters. Mr. Grader indicated a communications network had been set up in federal waters and expressed hope that the proposed regulations would establish a similar communications system in State waters.

Claire Dedrick, Executive Officer, assured the Commission that the staff would be working with the State Department of Fish and Game to ensure that permits would satisfy public trust requirements.

Susanne Morgan, Commission-Alternate, wanted to clarify that Chevron presently did not object to the proposed language in Section 2100 of Article 2.9. Mr. Moore indicated Chevron presently supported the proposed language.

The Commission directed staff to keep them informed on the status of this matter, possibly through the Executive Officer's Report.

There being no further discussion, the recommendations in Calendar Item 46 were approved as presented.

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46

REPEAL OF REGULATIONS IN TITLE 2, DIV. 3,
CHAPTER 1, ARTICLES 3, 3 5 AND 4
IN THEIR ENTIRETY AND ADOPTION OF
REPLACEMENT ARTICLES 2.9, 3, 3.5 AND 4

Pursuant to the Commission's authorization of January 26, 1981 (Minute Item 38), and in compliance with AB 1111 (Government Code Section 11340, et seq.), staff has conducted a review of the Commission's regulations on Exploration Permits, Oil and Gas Leases, Royalty Oil Sales, and Other Minerals. As a result of the review, staff has recommended replacement of existing regulations and adopted new ones.

Notice of the review was published in the Notice Register on September 23, 1981 and mailed to persons who have expressed interest in the regulations. The notice was also published in major regional newspapers.

Public hearings were held in Long Beach and Sacramento on November 9 and 10, 1981. The purpose of these hearings was to provide the public with an opportunity to make statements, contentions or arguments, both oral and written, regarding the repeal and replacement of the existing regulations. A Final Statement of Reasons (Government Code Section 11346.6 and 11346.7) has been prepared for this rule-making process. The statement is on file in the Sacramento office of the Commission and is incorporated herein by reference. The Final Statement of Reasons summarizes the comments submitted by Mobil Oil, Exxon, Chevron U.S.A., Nekton, and others. The statement also includes staff responses to the comments together with reasons for rejecting those portions of the comments not resulting in changes to the regulations. Based upon the materials contained in the rule-making file, together with comments generated during the review/hearing process, staff believes that the regulations proposed herein for adoption meet the statutory requirements of "necessity", "authority", "clarity", "consistency", and "reference".

AB 884: N/A.

EXHIBIT: A. Articles 2.9, 3, 3.5 and 4 of 2 Cal. Adm. Code, Div. 3, Chapter 1.

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IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT THERE HAS BEEN COMPLIANCE WITH GOVERNMENT CODE SECTIONS 11346 4 THROUGH 11346.8, INCLUSIVE, (NOTICE, PUBLICATION, PURPOSE, HEARING) FOR THE PURPOSES OF REPEALING AND ADOPTING REPLACEMENT REGULATIONS IN TITLE 2, DIV. 3, CHAPTER 1, ARTICLES 2.9, 3, 3.5 AND 4.

2. DETERMINE THAT THERE ARE NO STATE-MANDATED COSTS OR SAVINGS TO ANY STATE AGENCIES OR LOCAL AGENCIES OR SCHOOL DISTRICTS IN THESE REGULATIONS THAT REQUIRE REIMBURSEMENT UNDER SECTION 2231 OF THE REVENUE AND TAXATION CODE INASMUCH AS COMPLIANCE WITH THESE REGULATIONS BY GOVERNMENTAL ENTITIES IS APPLICABLE ONLY UPON THEIR VOLUNTARY USE OF LANDS OR RIGHTS UNDER THE COMMISSION'S JURISDICTION.

3. REPEAL ARTICLES 3, 3.5 AND 4 IN THEIR ENTIRETY OF TITLE 2, DIV. 3, CHAPTER 1, OF THE CAL. ADM. CODE AND, ADOPT NEW ARTICLES 2.9, 3, 3.5 AND 4 WHICH WILL BE FILED WITH THE OFFICE OF ADMINISTRATIVE LAW, SUBSTANTIALLY AS SET FORTH IN EXHIBIT "A" ATTACHED HERETO AND BY REFERENCE MADE A PART HEREOF, WHICH REGULATIONS WILL BECOME EFFECTIVE 30 DAYS AFTER FILING WITH THE SECRETARY OF STATE EXCEPT FOR PROPOSED ARTICLE 2.9.

4. APPROVE FOR FILING WITH THE OFFICE OF ADMINISTRATIVE LAW THE FINAL STATEMENT OF REASONS SUBSTANTIALLY IN THE FORM ON FILE IN THE OFFICE OF THE COMMISSION, WHICH STATEMENT IS INCORPORATED HEREIN BY REFERENCE.

5. AUTHORIZE STAFF TO TAKE ALL STEPS NECESSARY TO GIVE EFFECT TO THE ABOVE, APPROVALS AND DETERMINATIONS, INCLUDING THE MAKING OF MINOR MODIFICATIONS TO THE TEXT OF THE REGULATIONS SO AS TO COMPLY WITH COMMENTS FROM THE OFFICE OF ADMINISTRATIVE LAW.

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EXHIBIT "A"

W 22649.2

CALIFORNIA ADMINISTRATIVE CODE, TITLE 2,
DIVISION 3, ARTICLE 2.9, 3, 3.5 AND 4

1. Repeal Article 3 (Sections 2100-2124) and add new Articles 2.9 (Sections 2100-2101) and Article 3 (Sections 2104-2123) to read:

ARTICLE 2.9. Exploration Permits

2100. Application for Exploration Permits. General permits are required for the conduct of geophysical surveys and geological surveys on State lands.

(a) Any person who meets the requirements of Section 6801 of the Public Resources Code may apply to the Commission for a geophysical survey or geological survey general permit. Such application shall contain the following:

(1) A description and map of the State lands involved.

(2) Name, address, and status of citizenship of applicant; if the applicant is a corporation, the corporate name and status, the name of the president, the secretary, and an officer authorized to execute contracts and leases and receive service of process.

(3) A description of the proposed survey methods.

(4) The dates when the survey will be commenced and completed.

(5) The purpose for conducting the survey.

(6) Such other relevant information as the Commission may require.

Authority: P.R.C. 6102, 6103, 6108, 6212.2, 6216, 6301

Reference: P.R.C. 6212.2, 6801, 6826

2101. Provisions of Exploration Permits.

Each geophysical survey or geological survey general permit shall contain such provisions as the Commission shall determine are needed, depending upon the time, place and type of operation contemplated.

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(Revised 2/22/82)

Authority: P.R.C. 6102, 6103, 6108, 6212.2, 6216, 6301

Reference: P.R.C. 6212.2, 6826

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ARTICLE 3
OIL AND GAS OPERATIONS

2104. Diligence of Well Operation. All wells capable of producing oil, gas or other petroleum products in paying quantities shall be operated continuously at the maximum efficient rate of recovery as determined by recognized engineering standards and in accordance with staff approved field production schedules unless written authorization is otherwise granted by the Staff.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301, 6828, 6829

Reference: P.R.C. 6805, 6829(b), (c), 6830

2105. Oil and Gas Production Facilities. The initial installation or subsequent alteration of any oil and gas facility or pipeline system employed to produce, process, determine volume and quantity, and transport oil and gas production from a State oil and gas lease shall require the approval of the Staff. Plats, drawings and other pertinent information as required shall be furnished to the Staff upon request.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301, 6818, 6819

Reference: P.R.C. 6818, 6819, 6829(a), (b), (c), 6873

2106. Tankage.

(a) All oil shall be stored in tanks suitable for accepted methods of calibration, gauging and sampling as expressed by the appropriate American Petroleum Institute standard.

(b) Tanks shall be equipped with such safety devices and fire walls as are required in the area in which such tanks are located.

(c) Sufficient tankage shall be provided by the lessee.

(d) No tank trucks, trailers, tank cars, or vessels will be gauged unless properly certified gauge tables or other adequate evidence of container capacity is presented to the State petroleum production inspector and approved by him in advance of use.

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(e) Sediment and other material deposited on or near the bottom of tanks shall be removed to permit proper gauging and sampling at the request of the State petroleum production inspector.

(f) All gauge tanks shall be strapped and calibrated by a disinterested party. The process shall be in accordance with that expressed in the appropriate American Petroleum Institute standard. Strapping and calibration of gauge tanks by a representative of an interested party may be permitted only upon advance notification of such action to and approval by the Staff.

(g) When tanks are to be strapped or restrapped, the State petroleum production inspector shall be notified at least 24 hours in advance to permit him to be a witness to the procedure.

(h) All tanks shall be calibrated in barrels (of 42 gallons per barrel) and the volume expressed in gauge tables computed to the nearest one-hundreth of a barrel for each one-eighth of an inch in tank height, or in accordance with the procedure expressed in the appropriate American Petroleum Institute standard.

(i) Gauge tables in duplicate for each gauge tank shall be furnished to the Staff immediately upon preparation. Additional sets of gauge tables shall be furnished to the Staff upon request.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c), (e)

2107. Sealing of Tanks.

(a) At the time of taking the high gauge of a tank the State petroleum production inspector shall seal or lock all inlet lines to the tank and any seals on the tank sales outlet line shall be removed.

(b) At the time of taking the low gauge of a tank the State petroleum production inspector shall seal or lock all outlet lines from the tank and any seals on the inlet line shall be removed.

(c) In the event any such State tank seal is removed, except by those authorized to do so, payments shall be made to the State, for the run as

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estimated by the State petroleum production inspector at the rate then prevailing for oil of the highest gravity run from the tank during the previous 30 days.

(d) Under no circumstances shall any person other than the State petroleum production inspector remove, break, or alter, any seal or lock installed by the State unless the consent of the inspector in charge of the field is first obtained. Such consent must be confirmed by the inspector in writing, otherwise the procedure specified in Section 2107(c) will govern. Where operations require, seals on bleeder valves and meter by-passes may be removed on the condition that such removal and the time thereof are reported on the applicable daily operating reports. Failure to report such removal may result in the recission of permission to the lessee to remove seals from bleeder valves and meter by-passes under any operating conditions.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2108. Shipments from Sumps or Pits.

Before any shipment of fluid is made from any sump or pit, notice shall be given by the lessee to the State petroleum production inspector. The quantity of the fluid shipped from any sump or pit shall be determined by the inspector and the quality shall be fixed by laboratory tests made pursuant to Section 2112 hereof. In the event that any fluid is shipped from any sump or pit without such determination by the inspector, the full capacity of the sump or pit will be considered to have been run and payments shall be made to the State for this presumed run at the rate then prevailing for oil of the highest gravity run from the lease during the previous 30 days.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2109. Condition of Oil.

(a) Previous to a high or opening gauge, all free water shall be drawn from the tank until the maximum level of nonmerchantable oil and water shall be at least four inches below the bottom of the outlet connection.

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(b) If dehydration or cleaning costs are allowable deductions, all the oil to be gauged and shipped shall be in a marketable condition, i.e., the percentage of bottom sediment and water shown on test shall not exceed three percent.

(c) Where a tank sample shows a bottom sediment and water content greater than three percent and the contents are shipped, the gravity of the wet oil shall be reduced to three percent wet gravity and such gravity shall form the basis of payment of the State royalty.

(d) Where an adjustment is made from a wet gravity to another wet gravity or to a dry gravity, the adjustment shall be made by the calculation of the American Petroleum Institute gravity of the oil in the mixture or emulsion or by means of the correction chart published by the Staff for that purpose, such chart being known as "Gravity of Oil in Mixtures or Emulsions of Oil and Water". In all adjustments of gravity by calculation, or the use of a correction chart, the specific gravity of the water in the mixture of emulsion shall be considered as 1.0000 at 60^{0} F unless prior written approval has been secured for another value of specific gravity as determined by tests of water produced.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2110. Gauging and Sampling.

(a) Gauges shall be taken by a State petroleum production inspector in the presence of a representative of the lessee. In the event of disagreement, gauges shall be retaken, and the average shall be binding. In the event that a representative of the lessee is not present after having been given the opportunity to be present, gauges taken by the State shall be binding on the lessee.

(b) Gauges shall be taken as specified in the appropriate American Petroleum Institute standard.

(c) Temperature of the oil in the tank shall be taken at the time of gauging with a standard thermometer which shall be immersed not less than two minutes at or about the midpoint of

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the column of oil, not less than 12 inches from the tank shell, and in the manner expressed in the appropriate American Petroleum Institute standard.

(d) Samples for laboratory testing shall be taken at the time of the high or opening gauge.

(e) The method of sampling shall correspond with the method expressed in the appropriate American Petroleum Institute standard.

(f) A sample shall consist of one liquid quart and the means for taking such sample shall be furnished by the lessee.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2111. Automatic Custody Transfer.

(a) Any lessee may submit an application to the Staff for approval to install lease automatic custody transfer equipment. The application shall include (1) a schematic drawing of the proposed system, and (2) specifications of the major equipment components. The lessee shall afford access to any manufacturer's drawings and equipment specifications of the major equipment components which the Staff may deem necessary.

(b) Lease automatic custody transfer equipment shall be in accordance with American Petroleum Institute Specification 11N and other appropriate American Petroleum Institute Standards including but not limited to Standards 1101, 2502, 2534, 2546, and RP 2533.

(c) Upon determination that acceptable standards of accuracy for measuring oil shipments have been obtained, the Staff will approve oil shipments by lease automatic custody transfer.

(d) The equipment shall be maintained and operated in a manner meeting the accepted standards of accuracy for the measurement of oil shipments. Use of this equipment shall be discontinued at any time upon determination by the lessee or the State petroleum production inspector that the standards of measurement of accuracy or quality are not being obtained.

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(e) The opening and closing meter readings shall be made with a State petroleum production inspector present.

(f) A memorandum of transfer (run ticket) shall be provided to the appropriate State Lands Commission field office promptly after each run of oil is completed.

(g) For each run of oil from the lessee's gauged tanks, a State Lands Commission run ticket will be furnished to the lessee.

(h) The lessee shall notify the appropriate State Lands Commission field office in advance of proving the calibration of the meter(s) in a lease automatic custody transfer unit so that the State petroleum production inspector can witness the test. The State may require additional proving tests as required to maintain measurement accuracy.

(i) Where approved lease automatic custody transfer equipment is in operation, the provisions of Sections 2107, 2109(d), 2110 and 2113 of this article are not applicable. Where circumstances require conventional gauging for custody transfer, the aforesaid sections shall apply.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2112. Laboratory Tests.

(a) All laboratory tests shall be made in accordance with the procedure expressed in the appropriate American Petroleum Institute Standard and shall consist primarily of the gravity and bottom sediment and water concent determination. Samples for laboratory tests shall be furnished by the lessee as required by the State.

(b) Laboratory tests shall be run not later than 24 hours after the time of taking the samples.

(c) The readings and results of tests of oil samples made by the State shall be binding upon the lessee.

(d) Lessee may furnish necessary laboratory equipment meeting American Petroleum Institute standards.

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which the State petroleum production inspector may use.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2113. Record of Oil Run.

(a) A memorandum of transfer (run ticket) shall be provided to the appropriate State Lands Commission field office promptly after each run of oil is completed from the lessee's gauged tanks.

(b) For each run of oil from the lessee's gauged tanks, a copy of the State Lands Commission run ticket will be furnished to the lessee.

Authority: P.R.C. 6102. 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2114. Oil Gravity and Volume Corrections.

Corrections of measurements of cr e oil and other liquid petroleum products shall be in accordance with the "American Petroleum Institute Standard 2540, 1st Edition, August 1980, Manual of Petroleum Measurment Standards, Chapter 11.1 - Volume Correction Factors," and subsequent revisions. The following procedure shall be used:

(a) The corrected A.P.I. oil gravity at 60° F shall be determined using Table 5A and interpolating to obtain the nearest tenth of a degree A.P.I.

(b) This corrected A.P.I. oil gravity shall be shown on each run ticket. (Note: This gravity shall be used in valuing the oil for royalty accounting purposes.)

(c) The corrected A.P.I. oil gravity at 60° F shall be rounded off to the nearest half of a degree to enter in Table 6A to determine the appropriate volume correction factor.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

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2115. Commingling of Oil and Gas Production.

(a) The commingling of oil and gas production from one State lease with another State lease or a non-State lease, or from separate producing zones on the same lease, shall require advance approval of the Staff.

(b) If commingling is permitted, the oil and gas shall be accurately measured and tested to determine its net volume and value. The equipment and methods used for measuring and testing the oil and gas shall require the approval of the Staff.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2116. Tests and Measurements of Gas.

(a) All tests and measurements of produced gas shall be in accordance with the procedures expressed by the Pacific Energy Association (formerly the California Natural Gas Association) in Bulletins TS-461, TS-561, TS-611, TS-771, and their later revisions.

(b) Liquid hydrocarbon content tests of the produced gas shall be made by or for the lessee as specified by the Staff. The frequency of the tests shall be determined by the Staff based upon volume and variation in constituents.

(c) A State petroleum production inspector shall be permitted to witness any tests for the liquid hydrocarbon content of the gas.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2117. Production Reports.

(a) Daily production reports and well tests shall be furnished to the Staff upon request.

(b) The monthly Division of Oil and Gas production and injection reports shall be provided to the Staff on or before the 25th of each month for the activity of the preceeding calendar month. Other monthly production reports shall be furnished to the Staff upon request.

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Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6828, 6829(a), (c)

2118. Accounting and Royalty.

(a) No allowance shall be made for the cost of dehydration of oil unless specifically authorized in an existing lease, in which event the allowance shall be the actual cost of dehydration not to exceed five cents per net barrel of oil so dehydrated, or the allowance as specified in the lease, whichever is less. Allowance for dehydration will be granted only after lessee has filed with the Staff an application in duplicate, setting forth the method proposed to be employed and listing the equipment and value thereof installed exclusively for the dehydration of the oil produced from State oil and gas leases. After approval of the application, lessee shall file with the Staff before the tenth of the month subsequent to that for which dehydration deduction is requested, a detailed statement of the actual cost of oil dehydration proposed to be deducted from the gross royalty payable for the preceeding month.

(b) Tank bottom and sump oil shipments are to be reported on the following value basis:

Shipments of 0.0 percent to 3.0 percent cut - quoted market price for applicable dry gravity.

Shipments of 3.1 percent to 15.0 percent cut - quoted market price for applicable dry gravity less 5 cents per gross barrel at 60° F.

Shipments of 15.1 percent cut and greater - quoted market price for applicable dry gravity less 15 cents per gross barrel at 60° F.

(c) All transfers of dry gas from the lease made by a lessee for the use or benefit of other leases or of third parties, will be considered as sales under the terms of the lease.

(d) Whenever crude oil is used in the drilling mud, it is considered to be non-recoverable oil, and therefore, no credit shall be allowed against subsequent oil production.

(e) Whenever the lessee uses foreign oil to wash perforations or otherwise stimulate a producing well, the lessee shall be allowed credit of

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50 percent of the volume of the oil used in such well work as a deduction from the total number of barrels produced from the well during the period of 30 days immediately succeeding such operations. Foreign oil is any oil not produced from the specific lease of the affected lessee.

(f) Subsection (e) shall not apply to cases where the volume of oil used exceeds 5,000 barrels for any one operation. Such cases will be the subject of specific determination as to periods and the amount of credit to be allowed.

(g) The value of oil used as a circulating medium for washing perforations or well stimulation work shall be that fixed by the lease for the quality and gravity of the oil so produced.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6827, 6828, 6829(a), (c)

2119. Sliding Scale Oil Royalty Determination.

On leases where the State's monthly oil royalty is calculated from a sliding scale royalty formula which defines the oil royalty rate in terms of the average production of oil per well per day for each month and employs as a factor the well producing days of each well, each well whose well producing days are included in the oil royalty calculations shall be capable of producing oil and gas in paying quantities. A well is considered to be capable of producing in paying quantities if the value of its monthly production less oil royalties exceeds the direct operating costs associated with its continued operation.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6827, 6829(a)

2120. Royalty Payments.

Lessees shall make payment of State oil and gas royalties to the State in money on or before the 25th of each month for royalties accrued during the preceeding calendar month. The payment shall be accompanied by a royalty statement that shows in detail the computation of royalties and determination of royalty percentage in cases wherein the royalty rate is not fixed.

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Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6829(a)

2121. Derrick Removal.

The lessee shall remove the derrick from each well within sixty (60) days after lessee has ceased making use of such derrick in its operations on and with respect to such well unless a longer period is approved by the Staff.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6819, 6829(c), 6829.1

2122. Screening of Operating Sites.

In the discretion of the Staff, all permanent onshore operating drill sites and production facilities shall be landscaped with shrubbery, or fenced so as to screen from public view as far as possible the tanks, pumps and or other permanent equipment. Such landscaping and shrubbery, or fencing, are to be kept in good condition.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301

Reference: P.R.C. 6818, 6819, 6829(c)

2123. Restrictions on the Construction of Fixed Drill Sites.

No permanent filled lands, piers, platforms, or other fixed or floating structures in, on, or over the tide and submerged lands covered by the lease or otherwise available to the lessee shall be permitted to be constructed, used, maintained, or operated where service of less than a 20-well capacity is required, without specific authority by the Commission. Operating wells not meeting the foregoing requirement shall be completed below such elevation as may be required in each case by the United States, the State, or other competent authority, with the production piped along or below the floor of the ocean to such receiving points as the Commission may determine or approve.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301, 6873(d)

Reference: P.R.C. 6818, 6819, 6829(c), 6873(a), 6873(d), 6873.1

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CALIFORNIA ADMINISTRATIVE CODE, TITLE 2, DIVISION 3, CHAPTER 1, ARTICLE 3.5 IS REPEALED IN ITS ENTIRETY AND THE FOLLOWING NEW ARTICLE IS SUBSTITUTED IN ITS PLACE:

Article 3.5. Procedure for Disposal of Royalty Oil, Gas or Other Hydrocarbons.

2150. Eligibilty to Hold Royalty Contracts.

A royalty contract shall be issued to and held by only those entities eligible pursuant to Section 6801 of the Public Resources Code.

Authority: P.R.C. 6108, 6815.1

Reference: P.R.C. 6815.1, 6801

2151. Bid Factor.

(a) The Commission shall select for each royalty sales contract, prior to offering a royalty share for bid, one of the bid factors listed below, or any other bid factor as the Commission may determine to be in the best interests of the State:

(1) $_____ per barrel (or Mcf) plus the base price.

(2) _____ percent plus 100 percent of the base price.

(3) $_____ per barrel (or Mcf), provided that the purchaser shall at all times pay the bid price or the base price plus a specified percentage of the base price as determined by the Commission, whichever is higher.

(4) $_____ bonus plus the base price.

(5) $_____ per barrel (or Mcf) for a specified gravity (or Btu) with a gravity (or Btu) differential schedule as specified in advance by the Commission, provided that the purchaser shall at all times pay the bid price or the base price plus a specified percentage of the base price as determined by the Commission, whichever is higher.

(b) A base price shall employ an objective, easily verifiable pricing mechanism.

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(c) The Commission may require a minimum bid when offering a royalty sales contract.

Authority: P.R.C. 6108, 6815.1

Reference: P.R.C. 6005, 6815.1

2152 Term.

Royalty contracts shall be entered into for a term to be determined by the Commission, but not to exceed five years.

Authority: P.R.C. 6108, 6815.1

Reference: P.R.C. 6005, 6815.1

2153. Contract Provisions.

Any royalty contract issued under the provisions of this Article shall contain convenants, conditions, requirements, and reservations as may be deemed advisable by the Commission to protect the interests of the State.

Authority: P.R.C. 6108, 6815.1

Reference: P.R.C. 6005, 6815.1

2154. Notice to Lessee.

At the time of a royalty contract award, the Commission shall direct the Executive Officer or his designee to notify the lessee(s) that the State intends to take its royalty share in kind commencing on the date specified in the royalty contract consistent with the provisions of the lease(s).

Authority: P.R.C. 6108, 6815.1

Reference: P.R.C. 6005, 6815.1

2155. Delivery Adjustments.

Lessee(s) may make deliveries of the State's royalty share to the contractor periodically, and adjustments to deliveries, overages, or underages, including quality considerations, shall be made up by the last day of the following calendar month.

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Authority: P.R.C. 6108, 6815.1

Reference: P.R.C. 6005, 6815.1

2156. Disposition of Royalty Share in the Event of Default.

In the event the contractor fails to take the royalty share as provided by the contract, the Executive Officer or his designee is authorized to dispose of the royalty share in the most expeditious manner possible. All costs incurred therein shall be deemed as a charge against the contractor. Contractor shall be responsible to the State for the difference, if any, between the amount of money received by the State in such disposition and the amount due to the State pursuant to the royalty contract.

Authority: P.R.C. 6108, 6815.1

Reference: P.R.C. 6005, 6815.1

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CALIFORNIA ADMINISTRATIVE CODE, TITLE 2, DIVISION 3, CHAPTER 1, ARTICLE 4 IS REPEALED IN ITS ENTIRETY AND THE FOLLOWING NEW ARTICLE 4 IS SUBSTITUTED IN ITS PLACE:

ARTICLE 4. Prospecting Permits and Leases for Minerals other than Oil, Gas, and Geothermal Resources

2200. Prospecting Permits.

(a) Any person desiring a prospecting permit on any land under the jurisdiction of the Commission, shall file with the State Lands Commission, a written application containing:

(1) Name, address, and status of citizenship of applicant; if applicant is a corporation, the corporate name and name of president, secretary, and officer authorized to execute contracts and leases and receive service of process.

(2) A description of the State lands involved.

(3) A statement of the proposed use of the lands.

(4) A statement of the character and use of adjoining lands.

(5) A statement of the nature of the mineral deposits proposed to be developed.

(6) Other information as may be required by the State Lands Commission.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6301, 6890, 6891, 6893

Reference: P.R.C. 6891, 6892, 6893

2201. Dredging Permits.

Upon receipt of completed application forms and filing and processing fees, the Commission will consider and may authorize the extraction or removal of sediments and other mineral matter, other than hydrocarbons and geothermal, from lands in which the State holds a mineral interest. Applications and inquiries should be directed to the Dredging Coordinator at the principal office of the Commission as designated in Article 1 of this Chapter.

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Authority: P.R.C. 6102, 6103, 6106, 6108, 6214, 6216, 6221, 6301, 6303, 6303.1, 6501

Reference: P.R.C. 6303, 6501

2202. Noncommercial Hobby Collection of Minerals.

Noncommercial hobby collection of reasonable quantities of minerals by individuals is permitted on lands under the Commission's jurisdiction. Such permission does not authorize the use of mechanically or electrically powered tools and equipment, except portable suction dredges permitted by the Department of Fish and Game, nor does it authorize collection in areas or by means prohibited by other governmental agencies.

Authority: P.R.C. 6102, 6103, 6108, 6216, 6216.5, 6407

Reference: P.R.C. 6216.5, 6407

J1zi, J22i, J24a,
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