

MINUTE ITEM

29. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, RIVER ISLAND AREA, SACRAMENTO AND SAN JOAQUIN COUNTIES; THE DOW CHEMICAL COMPANY, PRODUCING PROPERTIES, INC., AND THE HOWARD CORPORATION - W.O. 3254, P.R.C. 3131.1.

After consideration of Calendar Item 13 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 AN OFFSET WELL ON STATE LAND), AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH THE DOW CHEMICAL COMPANY, PRODUCING PROPERTIES, INC., AND THE HOWARD CORPORATION, COVERING LANDS INCLUDED IN THE RIVER ISLAND AREA, AS INDICATED IN EXHIBIT "B" OF SAID AGREEMENT, SO AS TO PROTECT THE STATE'S INTEREST IN A PORTION OF THE BED OF THE MOKELUMNE RIVER LYING IN PROJECTED SECTION 5, T. 3 N., R. 4 E., M.D.B. & M., SACRAMENTO AND SAN JOAQUIN COUNTIES. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE ON ALL GAS AND GAS PRODUCTS PRODUCED FROM THE AREA INCLUDED IN THE COMPENSATORY AGREEMENT IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

1. 
$$R = (.01 \frac{P}{W}) \times 2.08$$

WHERE R IS THE ROYALTY RATE IN PERCENT APPLICABLE TO THE TOTAL OF THE PRODUCTION ALLOCATED TO STATE LANDS.

W IS THE NUMBER OF WELLS WHICH PRODUCED GAS DURING THE MONTH.

P IS THE DAILY AVERAGE QUANTITY IN MCF OF GAS PRODUCED, DETERMINED BY DIVIDING THE TOTAL QUANTITY OF GAS PRODUCED DURING THE MONTH BY THE NUMBER OF DAYS DURING SUCH MONTH IN WHICH DELIVERIES OF GAS ARE MADE FROM SUCH WELL; PROVIDED, HOWEVER, THAT THE LESSEE SHALL PAY AT ALL TIMES A MINIMUM ROYALTY OF SIXTEEN AND TWO-THIRDS (16-2/3) PERCENT.

IN THE EVENT IT IS NECESSARY TO COMPRESS THE GAS FOR DELIVERY TO THE SALES LINE, THE LESSEE SHALL BE ALLOWED A COMPRESSION CHARGE OF TWO (2) CENTS PER THOUSAND CUBIC FEET OF GAS COMPRESSED.

2. LESSEE SHALL PAY TO THE STATE A ROYALTY OF TWENTY (20) PERCENT OF THE SALES VALUE OR USE VALUE OF ALL GASOLINE OR OTHER PRODUCTS EXTRACTED OR CAUSED TO BE EXTRACTED FROM THE QUANTITY OF GAS ALLOCATED TO STATE LANDS AND PRODUCED FROM SAID WELL.

Attachment

Calendar Item 13 (2 pages)

CALENDAR ITEM

13.

APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, RIVER ISLAND AREA, SACRAMENTO AND SAN JOAQUIN COUNTIES; THE DOW CHEMICAL COMPANY, PRODUCING PROPERTIES, INC., AND THE HOWARD CORPORATION - W.O. 3254

An application has been received from The Dow Chemical Company, a Delaware corporation, on behalf of The Dow Chemical Company, Producing Properties, Inc., a Delaware corporation, and The Howard Corporation, a Texas corporation, for a compensatory royalty agreement whereunder the State would be compensated for drainage of gas from State sovereign land by a well drilled in projected Section 5, T. 3 N., R. 4 E., M.D.B.& M., on leased upland adjoining the State lands within the River Island area, as shown on Exhibits "A" and "B" attached. The State lands include a portion of the bed of the Mokelumne River in Sacramento and San Joaquin Counties. Such compensation would be in lieu of drilling an offset well on State land.

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, 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 land for the payment of compensation to the State for such drainage."

Brazos Oil and Gas Company, as operator, drilled and completed a producing well, Tyler Island Farms No. 4, on September 27, 1955, in the southern extension of the River Island Gas Field adjoining State Gas Lease Agreement P.R.C. 714.1. The compensatory agreement provides that the amount of gas to be allocated to the State for drainage from State lands shall be the ratio of the affected State lands to the effective drainage area. Expressed as a percentage this amount is 14.50. Lessee agrees to account for and pay in money to the State a royalty for all gas allocated to affected State lands, as hereinafter defined, according to the following schedule:

$$R = \left( .01 \frac{P}{W} \right) \times 2.08$$

Where R is the royalty rate in percent applicable to the total of the production allocated to State lands.

W is the number of wells which produced gas during the month.

P is the daily average quantity in Mcf of gas produced, determined by dividing the total quantity of gas produced during the month by the number of days during such month in which deliveries of gas are made from such well; provided, however, that the Lessee shall pay at all times a minimum royalty of sixteen and two-thirds (16-2/3) percent on the gas produced, saved, and sold, or produced, saved and removed from said royalty well, commencing with January 19, 1956 (the initial date of gas sales), and until said well is plugged and abandoned.)

CALENDAR ITEM 13. (CONTD.)

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, AS PROVIDED BY SECTION 6815 OF THE PUBLIC RESOURCES CODE (IN LIEU OF THE DRILLING OF AN OFFSET WELL ON STATE LAND), AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE A COMPENSATORY ROYALTY AGREEMENT WITH THE DOW CHEMICAL COMPANY, PRODUCING PROPERTIES, INC., AND THE HOWARD CORPORATION, COVERING LANDS INCLUDED IN THE RIVER ISLAND AREA, AS INDICATED IN EXHIBIT "B" OF SAID AGREEMENT, SO AS TO PROTECT THE STATE'S INTEREST IN A PORTION OF THE BED OF THE MOKELUMNE RIVER LYING IN PROJECTED SECTION 5, T. 3 N., R. 4 E., M.D.B. & M., SACRAMENTO AND SAN JOAQUIN COUNTIES. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE ON ALL GAS AND GAS PRODUCTS PRODUCED FROM THE AREA INCLUDED IN THE COMPENSATORY AGREEMENT IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

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