

18. APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, LATHROP GAS FIELD, SAN JOAQUIN COUNTY; OCCIDENTAL PETROLEUM CORPORATION AND GULF OIL CORPORATION - W.O. 4470, P.R.C. 3340.1.

After consideration of Calendar Item 23 attached, and upon motion duly made and unanimously 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 OCCIDENTAL PETROLEUM CORPORATION COVERING LANDS INCLUDED IN THE LATHROP 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 MIDDLE RIVER AND ASSOCIATED WATER COURSES LYING WITHIN PROJECTED SECTION 33, T. 1 N., R. 6 E., PROJECTED SECTIONS 4, 5, 6, 7, 8, AND 9 OF T. 1 S., R. 6 E., AND PORTIONS OF PROJECTED SECTIONS 1 AND 12 OF T. 1 S., R. 5 E., M.D.B. & M., SAN JOAQUIN COUNTY. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE OF 0.538936 OF ONE PERCENT OF ALL GAS AND GAS PRODUCTS PRODUCED FROM THE AREA INCLUDED IN THE COMPENSATORY AGREEMENT 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.

Attachment

Calendar Item 23 (2 pages)

23.

APPLICATION FOR COMPENSATORY ROYALTY AGREEMENT, LATHROP GAS FIELD, SAN JOAQUIN COUNTY; OCCIDENTAL PETROLEUM CORPORATION AND GULF OIL CORPORATION - W.O. 4470.

An application has been received from Occidental Petroleum Corporation for a compensatory royalty agreement wherein 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 Lathrop Gas Field (as shown on Exhibit "B" attached). Occidental and the Gulf Oil Corporation hold leases within the field. The State lands include portions of the bed of the San Joaquin River and Middle River in San Joaquin County. 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"

Occidental Petroleum Corporation is the owner or operator of the lessee's interest in the upland oil and gas leases within the Lathrop Gas Field, which includes portions of projected Section 33, T. 1 N., R. 6 E., projected Sections 4, 5, 6, 7, 8, and 9 of T. 1 S., R. 6 E., and projected Sections 1 and 12 of T. 1 S., R. 5 E., San Joaquin County.

Twenty-one wells have been drilled and completed as producers in the Lathrop Gas Field; some of these wells are draining gas from the adjoining State lands. The State lands are all within the comparatively narrow channels of the San Joaquin River and Middle 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, staff review of all data developed during drilling operations has indicated that it is in the State's best interests to base the percentage of production to be allocated to State lands on the ratio that the gas reserves underlying State lands bears to the gas reserves underlying the Lathrop Gas Field, adjusted for B.T.U. differences in each producing zone. This percentage has been determined to be 0.538936 of one percent.

Under the compensatory agreement, Occidental Petroleum Corporation agrees to account for and to pay in money to the State on gas produced and saved since January 10, 1963, on all wells now or hereafter drilled within the Lathrop Gas

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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 agreement has been reviewed as to form by the office of the Attorney General and found to be satisfactory provided that a ratification of compensatory royalty agreement executed by the Gulf Oil Corporation is added thereto. Gulf has executed the ratification delegating to Occidental Petroleum Corporation the power and authority to enter into this agreement as though both of the lessees had been named as parties to the agreement and had executed the agreement.

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 OCCIDENTAL PETROLEUM CORPORATION COVERING LANDS INCLUDED IN THE LATHROP 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 MIDDLE RIVER AND ASSOCIATED WATER COURSES LYING WITHIN PROJECTED SECTION 33, T. 1 N., R. 6 E., PROJECTED SECTIONS 4, 5, 6, 7, 8, AND 9 OF T. 1 S., R. 6 E., AND PORTIONS OF PROJECTED SECTIONS 1 AND 12 OF T. 1 S., R. 5 E., M.D.B. & M., SAN JOAQUIN COUNTY. THIS AGREEMENT SHALL PROVIDE FOR ROYALTY PAYMENTS TO THE STATE OF 0.538936 OF ONE PERCENT OF ALL GAS AND GAS PRODUCTS PRODUCED FROM THE AREA INCLUDED IN THE COMPENSATORY AGREEMENT 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.