

MINUTE ITEM

1/26/66

36. HUNTINGTON BEACH PRICE CHANGE, COMPROMISE AGREEMENT - W.O. 4868,
GEN. DATA.

After consideration of Calendar Item 18 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION ADOPTS THE FOLLOWING RESOLUTION:

1. THE EXECUTIVE OFFICER IS HEREBY AUTHORIZED TO EXECUTE THAT CERTAIN COMPROMISE AGREEMENT ATTACHED AS EXHIBIT "I" HERETO, SAID AGREEMENT TO BE SUBMITTED TO THE GOVERNOR FOR APPROVAL PURSUANT TO SECTION 6107 OF THE PUBLIC RESOURCES CODE, AND IF APPROVED BY HIM SHALL THEREUPON, BUT NOT BEFORE, BE BINDING UPON THE STATE AND THE OTHER PARTY THERETO.
2. IN CONNECTION WITH SAID COMPROMISE AGREEMENT, AND CONDITIONED UPON THE EFFECTIVENESS THEREOF, THE COMMISSION HEREBY DETERMINES THAT FOR PURPOSES OF CALCULATING STATE ROYALTIES UNDER THE TERMS OF OIL AND GAS EASEMENT 392.1, AND UNDER THE TERMS OF THAT EASEMENT ONLY, THE REASONABLE PRICE OF THE PRODUCTION FROM SAID EASEMENT AT THE WELL DURING THE PERIOD FROM JUNE 1, 1963, TO JUNE 16, 1963, INCLUSIVE, WAS THE PRICE POSTED BY THE STANDARD OIL COMPANY OF CALIFORNIA FOR THE HUNTINGTON BEACH, CALIFORNIA, FIELD FOR OIL OR LIKE GRAVITY.

Attachment

Calendar Item 18 (6 pages)

18.

HUNTINGTON BEACH PRICE CHANGE, COMPROMISE AGREEMENT - W.O. 4868.

Leases issued to Signal Oil and Gas Company for the extraction of oil and gas from tide and submerged lands in the Huntington Beach Field include a provision for the determination of the value of the oil extracted and sold.

Standard Oil Company of California and Union Oil Company, the only two companies posting prices in the Huntington Beach Field, posted identical prices for crude oil during 1963 until June 1. Effective as of that date, Standard reduced its posted price, but Union's price remained unchanged until June 17, 1963, when Union effectuated the same reduction.

This raised a question as to which price should be applicable during the period June 1, 1963, to June 16, 1963, inclusive.

The State has taken the position that the Union price was determinative in computing the royalty obligations, and the lessee has taken the position that the lower Standard price was determinative during this period, and has accounted to the State accordingly. The additional amounts which are alleged by the State to be due and payable by virtue of this difference are set forth in Schedule "A".

The lessee accounted for and paid royalties based on Standard's posted prices during this period. The matter of collection was referred to the office of the Attorney General.

A similar controversy in 1958 and 1959 was settled by a compromise agreement approved by the Commission in May 1963 (Minute Item 30, page 889).

It was then found that the language contained in Signal Oil and Gas Company's Easement 392.1 could be interpreted to mean that the Commission has discretionary power to accept any value for oil not greater than the highest posted price; thus Standard Oil Company's posted price could be acceptable; however, Signal's other leases provide that such price shall not be less than the highest price at which a major oil company then buying oil of like gravity in substantial quantities from the Huntington Beach Field is offering for oil of like gravity and kind at the well. Therefore, the Commission's discretionary authority differs as between the said easement and the leases. Court action to collect the amounts due would have protracted the date of settlement, and would have been costly. These considerations led to the conclusion that a compromise settlement appeared desirable.

A similar compromise settlement has been negotiated by the Staff and the Attorney General's Office in the current dispute with Signal Oil and Gas Company.

The proposed form of compromise agreement (Exhibit "I", attached) is based in part on the discretionary power of the Commission to establish Standard Oil Company's posted price as the price to be used in the computation of royalties due only under Easement 392.1. The agreement provides for payment to the State by Signal Oil and Gas Company of the total amount of \$1,781.43, which is the

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sum shown as due on the Commission's books less the price base adjustment \$1,647.66 for Easement 392.1. The agreement has been ratified by the lessee. Subsequent to Commission approval, the compromise agreement will require approval by the Governor under the provisions of Section 6107, Public Resources Code.

IT IS RECOMMENDED THAT THE COMMISSION ADOPT THE FOLLOWING RESOLUTION:

1. THE EXECUTIVE OFFICER IS HEREBY AUTHORIZED TO EXECUTE THAT CERTAIN COMPROMISE AGREEMENT ATTACHED AS EXHIBIT "I" HERETO, SAID AGREEMENT TO BE SUBMITTED TO THE GOVERNOR FOR APPROVAL PURSUANT TO SECTION 6107 OF THE PUBLIC RESOURCES CODE, AND IF APPROVED BY HIM SHALL THEREUPON, BUT NOT BEFORE, BE BINDING UPON THE STATE AND THE OTHER PARTY THERETO.
2. IN CONNECTION WITH SAID COMPROMISE AGREEMENT, AND CONDITIONED UPON THE EFFECTIVENESS THEREOF, THE COMMISSION HEREBY DETERMINES THAT FOR PURPOSES OF CALCULATING STATE ROYALTIES UNDER THE TERMS OF OIL AND GAS EASEMENT 392.1, AND UNDER THE TERMS OF THAT EASEMENT ONLY, THE REASONABLE PRICE OF THE PRODUCTION FROM SAID EASEMENT AT THE WELL DURING THE PERIOD FROM JUNE 1, 1963, TO JUNE 16, 1963, INCLUSIVE, WAS THE PRICE POSTED BY THE STANDARD OIL COMPANY OF CALIFORNIA FOR THE HUNTINGTON BEACH, CALIFORNIA, FIELD FOR OIL OF LIKE GRAVITY.

Attachments

Schedule "A"

Exhibit "I"

SCHEDULE "A"

Schedule of Accounts Receivable
from Signal Oil and Gas Company
for the Period June 1, 1963, to June 16, 1963

<u>Lease</u>	<u>Amount</u>
P.R.C. 163.1	\$41.09
P.R.C. 425.1	789.37
P.R.C. 426.1	945.86
P.R.C. 1344.1	<u>5.11</u>
TOTAL	\$1,781.43

EXHIBIT "I"

COMPROMISE AGREEMENT

This agreement, made and entered into at Los Angeles, California, this _____ day of _____, 196____, in _____ counterparts, by and between:

THE STATE OF CALIFORNIA, hereinafter called the State, acting by and through the State Lands Commission AND SIGNAL OIL AND GAS COMPANY, a Delaware corporation, authorized to do and doing business in the State of California, hereinafter called Signal.

WHEREAS:

1. Signal is the holder of the leases and easement listed in Exhibit "A" hereto for the production of oil, gas and other hydrocarbon substances, which leases and easement were issued by the State and are located in the Huntington Beach, California, Oil Field; and

2. Said leases and easement provide for the payment to the State of royalties on oil calculated upon the reasonable market price thereof at the well; and

3. Between the dates of June 1, 1963, and June 16, 1963, both inclusive, Signal accounted for and paid to the State oil royalties calculated upon the price posted for oil of like gravity by Standard Oil Company of California, at which time a higher price for such oil was posted by Union Oil Company; and

4. The State has asserted that at such times the price posted by Union Oil Company was determinative of the reasonable market price at the well of oil produced under said leases and easement and, based upon this assertion, has demanded payment of the additional amounts set forth in Exhibit "A" hereto; and

5. Signal has asserted that the royalties on oil accounted for and paid by them to the State, as aforesaid, were properly calculated, and based upon this assertion has refused to pay said additional amounts or any part thereof; and

6. The issues involved in this controversy are substantial and complex, and it is in the best interests of all parties to resolve them without litigation; and

7. All parties, without admitting that their respective assertions are incorrect, are nevertheless desirous of so resolving this controversy on the basis set forth herein.

THEREFORE, in consideration of the premises, and of the terms, covenants, and conditions herein contained, and of the faithful performance thereof, it is hereby agreed as follows:

1. Signal agrees to pay to the State the total amount of \$1,781.43;

2. The State agrees to accept said amount, when received, in full payment of all sums, if any, due and payable to the State under the leases and easement set forth in Exhibit "A" hereto by virtue of the difference, if any, between the actual reasonable market price at the well, computed in accordance with the provisions of said leases and easement, of the oil produced from said leases and easement during the period from June 1, 1963, to and including June 16, 1963, and the amounts accounted for and paid by Signal by virtue of said production; and

3. This agreement shall be submitted to the Governor pursuant to the provisions of section 6107 of the Public Resources Code, and if approved by him shall thereupon, but not before, be binding upon the State and upon Signal.

STATE OF CALIFORNIA
STATE LANDS COMMISSION

By _____
F. J. HORTIG
Executive Officer

Date

SIGNAL OIL AND GAS COMPANY,
a Delaware corporation

By /s/ A. E. Stebbings
Vice President

December 16, 1965
Date

(SEAL)

Lease or
Easement No.

Present Amount Indicated
as Due on the Books and
Records of the
State Lands Commission

E-392.1	\$1,647.66
ERC 163.1	41.09
ERC 425.1	789.37
ERC 426.1	945.86
ERC 1344.1	5.11

EXHIBIT "A"