

MINUTE ITEM

This Calendar Item No. 37
was approved as Minute Item
No. 37 by the State Lands
Commission by a vote of 3
to 0 at its 10/30/81
meeting.

CALENDAR ITEM

37

10/30/81
PRC 5995.1
PRC 5996.1
PRC 5997.1
Willard
Faber
Collins

SETTLEMENT OF LITIGATION
INVOLVING LINDSEY SLOUGH
OIL AND GAS LEASES

At its April 1981 meeting, the Commission awarded three oil and gas leases involving certain tide and submerged lands in Lindsey Slough (Solano County) to Seahawk Oil International, Inc. and Casex Company who had submitted the highest net-profit bids. Since these State leases, PRC 5995.1, PRC 5996.1, and PRC 5997.1 did not allow drilling from the surface of Lindsey Slough, it was necessary for the lessees to obtain drill site and pass through rights in adjacent property.

At the time of their bid, Seahawk and Casex had obtained such rights from the owners of Hastings Tract (Knob Hill Mines, Inc.) which borders Lindsey Slough on the north. However, after the bids were taken, MCOR Oil and Gas Corporation (who had also submitted a bid) alleged that as the mineral lessee of Hastings Tract it had exclusive drill site and pass through rights in the area. Later MCOR filed the lawsuit, MCOR v. Knob Hill Mines, et al., by which it sought to prevent the State's lessees from drilling into Lindsey Slough from Hastings Tract. (At the time it was estimated that any delays in drilling could result in substantial drainage of natural gas from the State parcels and losses in State revenues of as much as \$13,000 per day.)

In early August, pursuant to the direction of the Commission, the State successfully intervened in this lawsuit. Subsequently, representatives of the parties met a number of times to see if a fair and equitable settlement was possible. Such a settlement has been worked out; its primary elements are as follows:

1. The lawsuit will be dismissed without settling the merits of the claims of any party.
2. The parties agree that they shall not further litigate their claims in the context of the activities of Casex and Seahawk, or their successors and assigns, under the three State leases.

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3. Casex and Seahawk shall assign a three percent overriding royalty in all oil and gas produced under the three State leases to MCOR and its mineral lessors.
4. MCOR and its mineral lessors shall grant to Casex and Seahawk drill site and pass through rights (to the extent they have such rights to grant) in Hastings Tract for purposes of producing oil and gas under the three State leases.
5. Casex and Seahawk agree to bottom their wells in areas beneath Lindsey Slough which are located south of MCOR's title claim line. There is a dispute between the State, MCOR and other parties as to ownership of certain portions of Lindsey Slough. This settlement shall not in any way affect that dispute but will allow the orderly development of the minerals underlying those portions of Lindsey Slough which are undisputedly owned by the State.
6. Seahawk and Casex shall be allowed to pass one-half of the above three percent overriding royalty through their State leases as a charge to the Net Profits Account. (This is permitted, with the State's consent, in settling litigation by paragraph I2C(3) of Exhibit D of said leases.)

IT IS RECOMMENDED THAT THE COMMISSION:

1. AUTHORIZE:

- A. THE SETTLEMENT OF MCOR V. KNOB HILL MINES, ET AL. (SOLANO COUNTY SUPERIOR COURT NO. 79694), AND ANY OTHER RELATED DISPUTES IN THE MANNER DESCRIBED ABOVE.
- B. AMEND THE THREE STATE LEASES, PRC 5995.1, PRC 5996.1, AND PRC 5997.1 TO CONFORM WITH SUCH SETTLEMENT AGREEMENTS; AND
- C. TAKE ALL OTHER STEPS AS ARE NECESSARY TO CONFORM TO THE SETTLEMENT AGREEMENTS.