

**CALENDAR ITEM
C61**

A	31	02/07/17 W 40988 N. Heda
S	14	J. Fabel

CONSIDER DELEGATING AUTHORITY TO THE EXECUTIVE OFFICER TO EXECUTE A DIVISION ORDER ACKNOWLEDGING THE STATE'S 1/16th ROYALTY MINERAL INTEREST FROM THE PRODUCTION OF OIL AND GAS ATTRIBUTED TO THE GATCHELL PROSPECT PARCEL LOCATED IN THE SOUTHEAST QUARTER OF SECTION 20, T17S, R17E, MDM, NEAR FIVE POINTS, AN UNINCORPORATED AREA OF FRESNO COUNTY

INTRODUCTION:

Pursuant to section 10 of Chapter 303, California Statutes of 1921 (Chapter 303), as amended with a minor modification in wording in the Statutes of 1935, Chapter 848, page 2269, from 1921 until 1938, certain State fee-owned lands were sold with the State retaining a 1/16th mineral interest.

Temblor Petroleum Company LLC (Temblor), an oil and gas company, has entered into an oil and gas lease with the private 15/16th mineral interest holder on lands where the State retains a 1/16th mineral interest. Although the Commission does not issue leases or permits on State 1/16th reserved mineral interest lands, the State has received a Division Order, or acknowledgement of its mineral interest, that requires execution.

AREA, LAND TYPE, AND LOCATION:

Approximately 160 acres of State 1/16th reserved mineral interest known as the Gatchell Prospect located in the southeast quarter of Section 20, T17S, R17E, MDM, near Five Points, an unincorporated area of Fresno County (see the attached Land Description and Surface Map and Well Location, Exhibits A and B, respectively).

BACKGROUND:

Chapter 303 provides, in part:

"...the purchaser of the soil is hereby authorized to sell or lease... the oil and gas and other minerals that may be thereon or therein upon such terms and conditions as such purchaser and owner may deem best...provided...that the lessee or purchaser shall in every

CALENDAR ITEM NO. **C61** (CONT'D)

case pay to the state an undivided 1/16th (6.25 percent) of the mineral produced or the value thereof at the well..."

The landowner, as 15/16th mineral interest owner, is free to lease the lands for mineral development, but the landowner is also obligated to see that the State, through the Commission, is paid a full 1/16th of the value of all minerals produced from the lands. In cases where the land is leased for production purposes, the landowner, as lessor, typically instructs its lessee to make the payments directly to the State. Along with the payment, the lessee also provides to the State production statements and details on its allocation methods on a monthly basis.

STAFF ANALYSIS AND RECOMMENDATION:

Temblor Petroleum Company LLC (Temblor), an oil and gas company, is the lessee/operator for this parcel of land and as such has submitted to the Commission a Division Order (see attached Exhibit C) to recognize the State's 6.25 percent net interest in the production. Temblor drilled three exploratory wells into the Gatchell Prospect parcel; only one well, the Hanish-McCormick 3, was considered productive based on testing. This is a new discovery and production facilities need to be constructed before the well can produce oil and gas. Temblor has applied for and is presently waiting to receive a permit from Fresno County for this action. By law, a Division Order has been sent to all mineral or royalty interest owners to be signed as either an acceptance of the landowner's royalty interest and/or overriding royalty interest. A Division Order is a contract of sale to the purchaser of oil or gas. The order directs the purchaser to make payment for the value of the products taken in the proportions set out in the Division Order. Execution of the Division Order serves as an acknowledgment of the State's 1/16th interest; the 15/16th holder is obligated to provide the State remuneration for its share irrespective of whether the Division Order is executed. Staff recommends the Commission delegate authority to the Executive Officer to execute the subject Division Order.

OTHER PERTINENT INFORMATION:

1. Authorizing the execution of the Division Order is not a project as defined by CEQA because it is an administrative action that will not result in direct or indirect physical changes in the environment.

Authority: Public Resources Code section 21065 and California Code of Regulations, title 14, section 15378, subdivision (b)(5).

2. This action is consistent with Strategy 2.2 of the Commission's Strategic Plan to ensure timely receipt of revenues and royalties from the use and

CALENDAR ITEM NO. **C61** (CONT'D)

development of State lands and minerals and Key Action 2.2.1 to provide consistent and accurate revenue billing and reporting.

STATUTORY AND OTHER REFERENCES:

1. Chapter 303, sections 2 and 10

EXHIBITS:

- A. Land Description
- B. Surface Map and Well Location
- C. Division Order

RECOMMENDED ACTION:

It is recommended that the Commission:

AUTHORIZATION:

Authorize the Executive Officer or her designee to execute the Division Order substantially in the form set forth in Exhibit C acknowledging the State's 1/16th royalty mineral interest from the production of oil and gas attributed to the Gatchell Prospect parcel located in the southeast quarter of Section 20, T17S, R17E, MDM, near Five Points, an unincorporated area of Fresno County as described in Exhibit A, Land Description, and shown on Exhibit B, Surface Map and Well Location.

EXHIBIT A

W 40988

LAND DESCRIPTION

All those lands within T17S, R17E, MDM as shown on General Land Office township plat approved 2/28/1855.

The SE ¼ of Section 20, T17S, R17E, MDM

END OF DESCRIPTION

PREPARED 12/19/16 BY THE CALIFORNIA STATE LANDS COMMISSION BOUNDARY UNIT



Exhibit B

W 40988

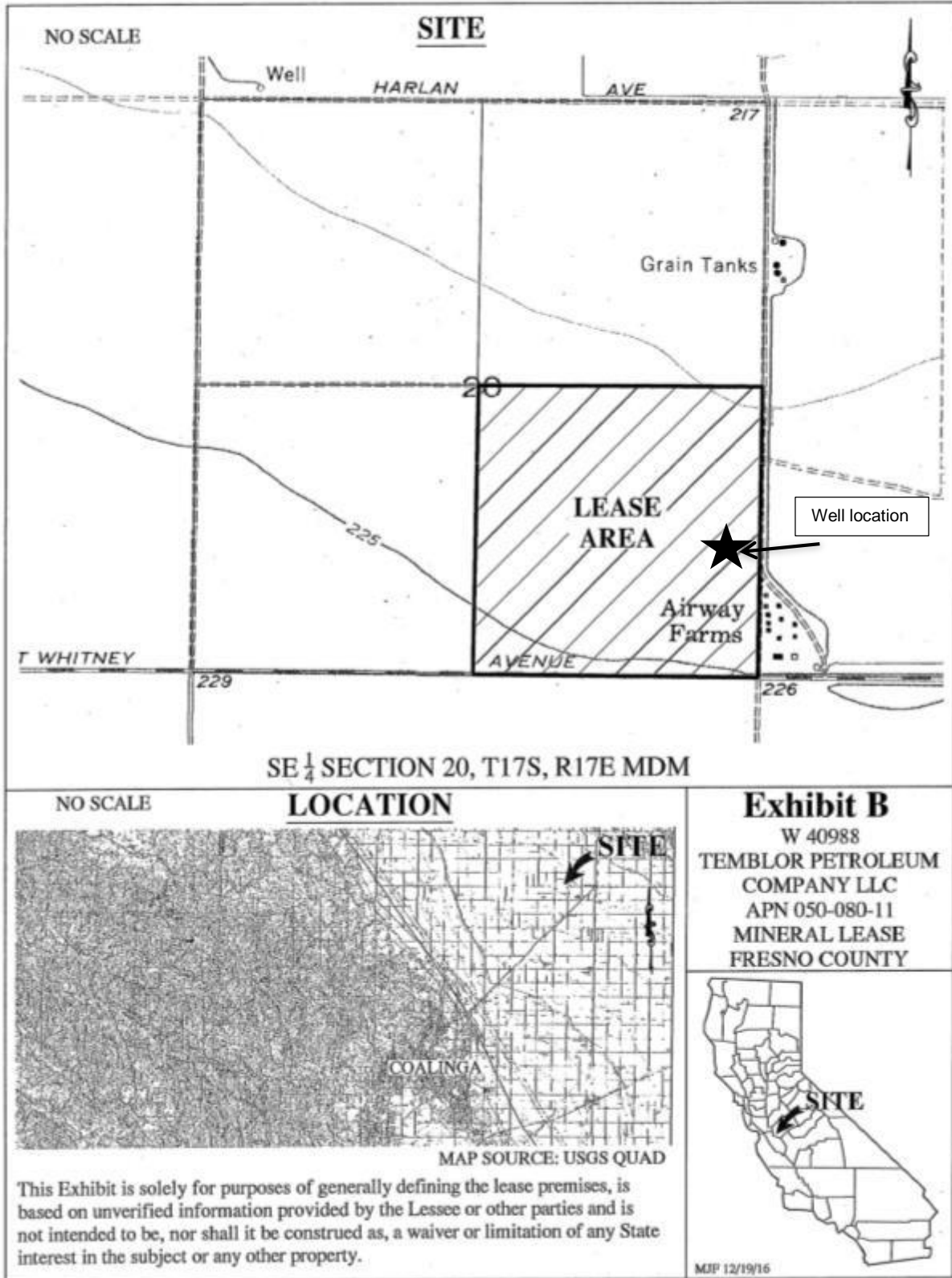


Exhibit C

W 40988

DIVISION ORDER

**Temblor Petroleum Company LLC
5201 California Avenue, Suite 340
Bakersfield, CA 93301
(hereinafter called "Company")**

Date: Oct 11, 2016

Property No: County/State: Fresno County, California

Property Name: Gatchell Prospect Operator: Temblor Petroleum
(Five Points) Company LLC

Description: The Southeast Quarter of Section 20, Township 17 South, Range 17 East, M.D.B. & M., in the unincorporated area, County of Fresno, State of California, according to the Official Plat. Total: 160.00 acres, more or less.

Production: Oil and/or Gas

Effective Date: Date of first sale

<u>OWNER NO.</u>	<u>OWNER NAME & ADDRESS:</u>	<u>INTEREST TYPE</u>	<u>NET INTEREST</u>
	California State Lands Commission Mineral Resources 200 Oceangate, 12 th Floor Long Beach, CA 90802-4331	LRI	6.25000000% (Statutory State Mineral Reservation)

Interest Type: Landowner's Royalty Interest: LRI Overriding Royalty Interest: ORI

The undersigned certifies the ownership of their decimal interest in production or proceeds, as described above, payable by Company. Upon making payment as aforesaid, Company shall be and is hereby relieved of any and all responsibility with respect to such payment and distribution.

Company shall be notified, in writing, of any change in ownership, decimal interest or payment address. Company shall not be liable for, nor shall Company be required to recognize, any such change unless and until Company shall actually receive a certified copy of the instrument changing such interest and the transferor and transferee thereof execute and return to Company such transfer order or amended division order. In no event shall Company be required to give effect to any change of interest prior to the first day of the month in which Company is notified, regardless of the effective date of the instrument transferring the same. Company may at any time, require the undersigned to furnish additional proof of title.

Company is authorized to withhold payment pending resolution of any title dispute or adverse claim asserted regarding the interest in production claimed herein by the undersigned. The undersigned agrees to indemnify and promptly reimburse Company with respect to any and all payments made by Company attributable to an interest to which the undersigned is not entitled.

Company may accrue proceeds until the total amount equals \$100.00 or pay annually, whichever occurs first, or as required by applicable state statute.

This Division Order does not amend any lease between the undersigned and the lessee or any other contracts for the purchase of oil or gas.

In addition to the terms and conditions of this Division Order, the undersigned and Company may have certain statutory rights under the laws of the state in which the property is located.

FAILURE TO FURNISH YOUR SOCIAL SECURITY/TAX I.D. NUMBER WILL RESULT IN WITHHOLDING TAX IN ACCORDANCE WITH FEDERAL LAW, AND ANY TAX WITHHELD WILL NOT BE REFUNDABLE BY COMPANY.

Owner Signature(s):

SS#/TAX ID:

California State Lands Commission

By: _____

By: _____

Owner Telephone #:

Return to: West Coast Land Service
1230 Chester Avenue
Bakersfield, CA 93301

Date Prepared: November 9, 2016
Prepared By: Fred G. Rappleye
Phone Number: 661-322-2517