

MINUTE ITEM

4/30/75
ADW

24. APPROVAL OF MODIFICATION OF ROYALTY INTERESTS IN 91 MAIN ZONE UNIT; HUNTINGTON BEACH, ORANGE COUNTY - W 9121, PRC 91.

After consideration of Calendar Item 22 attached, and upon motion duly made and carried, the following resolution was adopted:

THE COMMISSION:

1. . RESCINDS THE RESOLUTION OF DECEMBER 19, 1974, AND
2. AUTHORIZES THE APPROVAL OF THE TERMS OF AGREEMENTS AND DELEGATION OF AUTHORITY TO THE STAFF TO ENTER INTO AGREEMENTS WITH THE LESSEES OF CERTAIN OF THE LEASES INCLUDED WITHIN THE 91 MAIN ZONE UNIT AMENDING AND MODIFYING SAID LEASES FOR THE PURPOSES OF CONTINUING A PROFITABLE LIFETIME OF THE 91 MAIN ZONE UNIT AGREEMENT AND MAXIMIZING ECONOMIC OIL RECOVERY AND THE STATE'S INCOME THEREUNDER, MORE PARTICULARLY DESCRIBED IN EXHIBIT "A" ATTACHED AND BY REFERENCE MADE A PART HEREOF. THE AGREEMENTS IDENTIFIED AS EXHIBITS I, II, III & IV ARE ON FILE IN THE OFFICE OF THE STATE LANDS COMMISSION AND BY REFERENCE MADE A PART HEREOF.

Attachment:

Calendar Item 22 (5 pages)

APPROVAL OF MODIFICATION OF ROYALTY INTERESTS IN 91 MAIN ZONE UNIT

On December 19, 1974 (Minute Item 27, page 1206, the Commission adopted a resolution authorizing approval of the terms of agreements and delegation of authority to the staff to enter into agreements with the various lessees of the leases included within the 91 Main Zone Unit amending and modifying said leases for the purposes of continuing a profitable lifetime of 91 Main Zone Unit Agreement and maximizing the State's income thereunder.

Subsequent to the December 1974 action and as a result of additional review of the impact that certain of the terms of agreements would have on maximizing State income from the 91 Main Zone Unit operations, the Division staff and the State lessees renegotiated certain terms of agreements. The amended terms, mutual agreed to by the State and lessees, results in an improved royalty revenue position for the State and have been approved by the Attorney General. The terms of agreements are set forth in the attachment Exhibit "A", and the agreements are on file in the Commission's office.

IT IS RECOMMENDED THAT THE COMMISSION:

1. RESCIND THE RESOLUTION OF DECEMBER 19, 1974, AND
2. AUTHORIZE THE APPROVAL OF THE TERMS OF AGREEMENTS AND DELEGATION OF AUTHORITY TO THE STAFF TO ENTER INTO AGREEMENTS WITH THE LESSEES OF CERTAIN OF THE LEASES INCLUDED WITHIN THE 91 MAIN ZONE UNIT AMENDING AND MODIFYING SAID LEASES FOR THE PURPOSES OF CONTINUING A PROFITABLE LIFETIME OF THE 91 MAIN ZONE UNIT AGREEMENT AND MAXIMIZING ECONOMIC OIL RECOVERY AND THE STATE'S INCOME THEREUNDER, MORE PARTICULARLY DESCRIBED IN EXHIBIT "A" ATTACHED AND BY REFERENCE MADE A PART HEREOF. THE AGREEMENTS IDENTIFIED AS EXHIBITS I, II, III & IV ARE ON FILE IN THE OFFICE OF THE STATE LANDS COMMISSION AND BY REFERENCE MADE A PART HEREOF.

Attachment: Exhibit "A"

RESOLUTION OF APPROVAL OF THE TERMS OF AGREEMENTS AND DELEGATION OF AUTHORITY TO THE EXECUTIVE OFFICER TO ENTER INTO AGREEMENTS WITH THE LESSEES OF CERTAIN LEASES INCLUDED WITHIN THE 91.1 MAIN ZONE UNIT AGREEMENT TO AMEND AND MODIFY AND AMENDING AND MODIFYING SAID LEASES FOR THE PURPOSES OF CONTINUING THE PROFITABLE LIFETIME OF THE 91.1 MAIN ZONE UNIT AGREEMENT, MAXIMIZING THE ECONOMIC RECOVERY OF OIL THEREUNDER, AND MAXIMIZING THE STATE'S INCOME THEREUNDER.

I

The Commission by this resolution approves the terms of, and delegates to the Executive Officer authority to enter into Agreements with the lessees of the price-sensitive Easement Well Leases presently subject to the Main Zone Unit Agreement, Huntington Beach Oil and Gas Field, Tideland Pool, Orange County, dated January 1, 1972 and the lessees of PRC 91.1 (hereinafter referred to as "the said Leases") as follows:

In recognition that (i) the price of oil has increased substantially since September 1, 1973, (ii) the increases in the price of oil have proportionately increased the State royalties calculated under the price-sensitive royalty formula presently in effect on the said Leases except PRC 91.1, (iii) there was an overestimate of reserves recoverable under the Unit operations, and (iv) therefore, operations to produce in paying quantities pursuant to said Unit Agreement, as well as profitable and feasible operations, are threatened; and in recognition that royalty modifications and other considerations as set forth in parts II, III and IV of this Resolution are in the mutual and reciprocal benefit of the parties and that said royalty modifications and other considerations are a fair, reasonable and good faith solution to extend the profitable lifetime of the 91.1 Main Zone Unit Agreement, and to settle any disputes between the parties in revising the royalty formula set forth in said Leases so that changes in market price of oil shall not have an unreasonable effect on the calculation of State royalties, the parties agree that the State and the respective lessees of the said Leases shall execute for each of the said Leases respectively, a separate Agreement amending and modifying each of said Leases as set forth in Parts II, III and IV of this Resolution and that the Agreement executed pursuant to this Part of this Exhibit, together with each Agreement entered into pursuant to Parts II and III of this Resolution, represents an equitable and binding resolution to the threat to profitable and feasible Unit operations.

II

The Commission by this Resolution approves the terms of, and delegates to the Executive Officer authority to enter into, Agreements with Burmah Oil and Gas Company and its co-lessees amending and modifying PRC 91.1 and all price-sensitive Easement Well Leases in which a partial or complete interest is held by Burmah Oil and Gas Company and which are presently included within the 91.1 Main Zone Unit as follows:

(1) Each of the price-sensitive Easement Well Lessees included in the 91.1 Main Zone Unit Agreement in which a partial or complete interest is held by Burmah Oil and Gas Company, other than PRC 91.1, will be amended to impose a maximum State oil royalty rate of 45% on oil allocated under the Unit Agreement to such leases from and after December 1, 1974 for the lifetime of the Primary Production Period. For purposes of the Secondary Production Period on these same leases the current price-sensitive royalty formula (that formula applicable to secondary production before the execution of any Agreement pursuant to this resolution) will be unchanged except that a 75% maximum oil royalty rate will be effective from October 1, 1974.

(2) PRC 91.1 will be amended so that the royalty due to the State from Burmah Oil and Gas Company and its co-lessees excluding Exxon Company, U.S.A. as to the Main Zone (the Unitized Formation), will be increased to the rate of 19% of $76\frac{2}{3}\%$ of the oil production allocated to PRC 91.1 under the Unit Agreement during the Secondary Production Period; provided, however, that in the event of the termination of the 91.1 Main Zone Unit Agreement, the PRC 91.1 Main Zone State royalty rate on Secondary production or allocation shall remain 19% of $76\frac{2}{3}\%$ of PRC 91.1's Main Zone oil throughout the lifetime of PRC 91.1's Main Zone.

(3) Each of the price-sensitive Easement Well Leases in which a partial or complete interest is held by Burmah Oil and Gas Company and which is presently included within the 91.1 Main Zone Unit will be amended to provide that in the event the 91.1 Main Zone Unit Agreement is terminated by the voluntary action of all or any of the Working Interest Owners, which action includes but is not limited to the exercise of rights granted pursuant to Paragraph 18.2 of the Unit Agreement, or if secondary recovery operations shall cease on the leasedlands pursuant to Paragraph 2 of the Secondary Recovery Amendment to the respective price-sensitive Easement Well Lease or Paragraph 2 of the Secondary Recovery Amendment to PRC 91.1 with respect to the Unitized Formation under conditions which do not result in a termination of said Unit Agreement under Paragraph 18.1 of said Unit Agreement, Burmah Oil and Gas Company will pay to the State the dollar difference between the royalties actually received by the State and the royalties the State would have received if the royalty rates of said price-sensitive Easement Well Leases had not been modified in accordance with an Agreement entered into pursuant

to this Resolution; provided, however, that the provisions of this Paragraph shall not apply to termination of the Unit Agreement pursuant to Paragraph 18.1 of the 91.1 Main Zone Unit Agreement.

(4) Each price-sensitive Easement Well Lease in which a partial or complete interest is held by Burmah Oil and Gas Company and which is presently included in the 91.1 Main Zone Unit Agreement and the 91.1 lease, will be amended to provide that said Lease may not be quitclaimed or otherwise surrendered to the State or any other party without the prior written consent of the State, which consent shall not be unreasonably withheld.

III

The Commission by this Resolution approves, and delegates to the staff authority to enter into, separate Agreements with the lessees of all of the price-sensitive Easement Well Leases presently included in the 91.1 Main Zone Unit Agreement other than those leases in which a partial or complete interest is held by Burmah Oil and Gas Company, amending and modifying such leases as follows:

(1) Each of these price-sensitive Easement Well Leases in which Burmah Oil and Gas Company holds no interest will be amended to provide that the State oil royalty rate on oil allocated to each such Lease from and after December 1, 1974 throughout the Primary Production Period of the 91.1 Main Zone Unit Agreement shall be calculated as follows:

(a) For purposes of this calculation, "Gross Proceeds" means the "reasonable market price" (as determined under the provisions of each such Lease) of all oil allocated under the 91.1 Main Zone Unit Agreement to the Tracts covered by each such Lease.

(b) The State's oil royalty rate shall equal the ratio in percentage that the Gross Proceeds less a sum of \$2.25 per barrel of all such oil allocated to the Tracts covered by each such Lease bears to the Gross Proceeds; provided, however, the Lessee shall pay at all times a minimum oil royalty as set forth in each lease.

(2) Each of the price-sensitive Easement Well Leases in which Burmah holds no interest will be amended so that in the event that the 91.1 Main Zone Unit Agreement is terminated by the voluntary action of any or all of the Working Interest Owners, which action includes but is not limited to an exercise of rights granted pursuant to paragraph 18.2 of the Unit Agreement, or if secondary recovery operations shall cease on the leased

lands pursuant to Paragraph 2 of the Secondary Recovery Amendment to the respective price-sensitive Easement Well Lease or Paragraph 2 of the Secondary Recovery Amendment to PRC 91.1 with respect to the Unitized Formation under conditions which do not result in a termination of said Unit Agreement under Paragraph 18.1 of said Unit Agreement, the respective lessees will pay to the State the dollar difference between the royalties the State would have received if the royalty rates of the subject leases had not been modified in accordance with an Agreement or Agreements entered into pursuant to this resolution.

(3) Each of the price-sensitive Easement Well Leases in which Burmah holds no interest will be amended so that said Leases may not be quitclaimed or otherwise surrendered to the State or any other party without the prior written consent of the State, which consent shall not be unreasonably withheld.

IV

Provided, however, that no Agreement pursuant to Part II of this Resolution shall be executed unless and until the Agreement approved in Part I of this Resolution has been executed; provided further that no Agreement pursuant to Part III of this Resolution shall be executed unless and until the Agreements approved in Part II of this Resolution has been executed.