

MINUTE ITEM

3/78
Yerington

20. COMPENSATORY GAS AGREEMENT; SHELL OIL COMPANY - W 9825.

During consideration of Calendar Item 20 attached, Mr. James E. Mathews, Land Department, Shell Oil Company, appeared. Mr. Mathews stated that since the calendar item did not reflect what Shell had agreed to, he requested the item be deferred for one month.

The Commission consented Mr. Mathews' request, and the item was deferred.

Attachment: Calendar Item 20 (2 pages)

A 4, 5

S 3, 4

CALENDAR ITEM

20.

3/78
W 9825
Yerington

COMPENSATORY GAS AGREEMENT

APPLICANT: Shell Oil Company
P. O. Box 92047
World Way Center
Los Angeles, California 90009

LOCATION: Riego Area of Sacramento Airport Gas Field;
Sacramento and Yolo Counties.

TYPE OF LAND: Sovereign lands in the Sacramento River.

PERTINENT INFORMATION:

A compensatory gas agreement is proposed whereunder the State would be compensated for both past and future drainage of gas from State sovereign lands by wells drilled by Shell Oil Company on uplands adjoining the State lands within the Sacramento Airport Gas Field area. The State lands include a portion of the bed of the Sacramento River. 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 5827, 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"

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CALENDAR ITEM NO. 20. (CONTD)

Shell has furnished well data on all of the wells drilled in the area. Based upon a review of this data the staff and Shell have determined, and mutually agreed upon, the wells that will drain State lands, and that the lands being drained will be pooled into units of approximately 160 acres in accordance with the provisions of Exhibit "C" of the proposed agreement. The State lands percentage will be based on the ratio that the acreage of State lands within the unit bears to the total number of acres included in such unit. The State share of production from well "Transamerica", is 16.20 % and 1.55 % of the production from well "Hershey Estate". These are the only wells presently located in the unit that affect State lands.

Under the proposed compensatory agreement, Shell Oil Company agrees to account for and to pay in money to the State on gas produced and saved from the wells and any well hereafter drilled within the Riego area that will drain gas from adjoining State land. in accordance with the following schedule:

1. 34% of the sale value of all gas allocated to State lands or 32% 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. 34% 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 and approved by staff counsel.

EXHIBIT: A. Area Map.

IT IS RECOMMENDED THAT THE COMMISSION, PURSUANT TO SECTION 6815 OF THE PUBLIC RESOURCES CODE, AUTHORIZE THE ISSUANCE OF A COMPENSATORY GAS AGREEMENT TO SHELL OIL COMPANY COVERING THOSE STATE LANDS IN THE BED OF THE SACRAMENTO RIVER IN THE RIEGO AREA OF THE SACRAMENTO AIRPORT GAS FIELD, SACRAMENTO AND YOLO COUNTIES, SO AS TO PROTECT THE STATE'S INTEREST IN SUCH LANDS.