

Presidents Message

**Thomas G. Dahlgren,
Warren E&P, Inc.**

Thank you to everyone who attended January’s joint meeting of Geologists and Landmen, it was a great turnout. During the meeting a geologist stopped by our table looking for several landmen to assist him with a large scale project. Several independents were sitting at our table and exchanged cards. Nothing like being at the right place and the right time – that is “Lady Luck” running into opportunity!

Our next meeting is March 18th and more information on the guest speaker is covered in this issue of “The Override,” just happens to be opposite of this column – take a look.

I want to encourage everyone to bring a guest, especially managers making land, staffing, and contract decisions. Our big effort this year is providing current updates on legal and political issues affecting the oil industry. A case in point, our luncheon speaker, Mr. Carbone, an employment law and labor attorney, will discuss the never ending “battle lines” behind employee/contractors.

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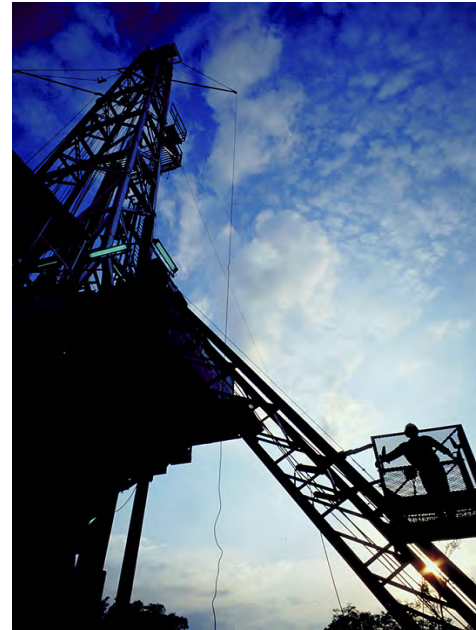
Like many companies, we have heard much discussion on compensations, bonus, health care programs, etc. Today I received CIPA’s latest 2009 salary survey which is why this issue came to mind. (No, I do not spend all my time thinking of money... well maybe). CIPA surveyed many of the job levels from laborers to professionals. Here is a brief synopsis of that survey, based on averages:

- Field roustabouts - \$42,241
- Field electricians - \$70,008
- Pumper/Operator - \$56,436
- Production Engineer - \$123,899
- Engineer Tech - \$58,982
- Landman - \$123,164
- Geologist - \$138,259

Of course, levels of experience drive some of these rates much higher.

The latest survey conducted by the AAPL was in 2007, which showed the averages for landmen over several years, based on years of experience. In 2007, someone with 11 to 15 years experience was pegged around \$102,793, with 16 to 20 years \$113,554, 21 to 30 years \$126,697, and over 30 years \$133,584. A CPL in 2007 averaged \$134,823 and a RLP averaged \$114,968. I would guess compensation is continuing to rise, many in the form of annual bonuses.

Anyway, it is a good time to be in the oil business (that is pronounced “O Bidness”, according to my Texas associates). See you all at the March Luncheon.



Meeting Luncheon Speaker

**Review of Labor and Employment
Laws – Employees vs. Contractors**

Mr. Javier Rivera Carbone is an experienced fully-bilingual (English/Spanish) attorney who has concentrated his practice on representing management in labor and employment law matters. Javier has over 10 years of large law firm practice on the wide-range of employment law and labor relations matters faced by local and international employers. He has litigated discrimination, retaliation and wage and hour cases, including class action lawsuits.

Javier has successfully represented clients in arbitration, mediation and litigation before federal, California and Puerto Rico courts. He has also represented clients before administrative agencies such as the EEOC, Department of Fair Employment and Housing, Department of Industrial Relations, U.S. Department of Justice

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Editor's Corner

Joe Munsey Newsletter Chair

Southern California Gas Company
March 18th came upon me swiftly and I virtually found myself in a position without much to say. "Poppycock.... gibberish," I can hear many of you say. Some may even be thinking, "When does the Editor of this fine award winning publication find himself without something to be officious about?" It is possible....but not probable. Something is always rolling around in that grey matter commonly called the brain – are you ready for more? "More of what, you might be saying to yourself." Ah....with great delight I shall indulge the reading audience with my wit.

In our last column we were thrilled with headlines reporting what the climate change lobby hoisted upon the world was a practical joke, the soothsayers of which nearly pulled off the fraud of the century. The "inconvenient truth" was becoming an "inconvenience" to the Climate Armaged-donians crowd. However, we soon discovered that truth was going to be swept under the rug and those attending the Copenhagen Climate Change Conference were not going to dodge a slip of the tongue, er, emails.

A case in point; a man I admire from a distance had to put on a good face at the conference and continue to plead the case of climate change, or global warming or climate "-----" [you fill in the blank]. I not sure if this former world leader is in the same

boat as our illustrious actor-governator, Arnold Schwarzenegger, is in, but the resemblance sure seems to bear it out. Former Prime Minister Tony Blair took a thrashing for supporting the United States in our war in Iraq; not only personally but for "dragging" Britain into the foray. Furthermore, he takes it on the chin for being a man of faith. So how does he ingratiate himself with the Progressives of the world? Like Governor Schwarzenegger, our good friend began running to his labor party roots as fast as his feet could take him to plead redemption.

In a recent article, "Ignoring 'Climategate'" by Jillian Melchior, in the February 2010 issue of *Commentary*, Mr. Blair was reduced to saying the following. "It is said that the science around climate change is not as certain as its proponents allege. It doesn't need to be. What is beyond debate, however, is that there is a huge amount of scientific support for the view that the climate is changing and as a result of human activity. Therefore, even purely as a matter of precaution, given the seriousness of the consequences, if such a view is correct, and the time it will take for action to take effect, we should act." I guess it brings Mr. Blair back into the "fold."

So, those scientific professionals who hold as high credentials as their brothers on the other side of the isle are not allowed to set forth compelling data to the contrary? Of course not, we now have discovered that articles not kowtowing to the "in-crowd" were squelched. Eventually, Professor Phil Jones of the University of East Anglia, the leader of the "facts" had to admit they were caught red-handed. So where do good people like Mr. Blair go when his new found fair weather friends are confronted with truth? I am not sure anything happens, but politics do indeed make strange bedfellows. Who would have thought in a million years we would be privately thanking China and India for standing up to the arts and croissant crowd.

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Thomas G. Dahlgren
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Plains Exploration & Production
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Joe Munsey, RPL
Local Director
Southern California Gas Company
714-634-3143

L. Rae Connet, Esq.
Local Director
Independent
PetroLand Services

Joel W. Miller
Past - President
Transamerica Minerals Co.
310-533-0508

Joe Munsey, RPL
Editor
Southern California Gas Company
714-634-3143

Randall Taylor, RPL
Publisher
Taylor Land Service, Inc.
949-495-4372

Joel W. Miller
AAPL Director
Transamerica Minerals Co.

Back to the task of supplying the world with.....should I repeat the dreaded words, "oil and gas?" Part of that chore requires landmen to do their part in keeping the pumps primed with go-go juice. As such, it means bringing on staff as employees or for the most part contractors to get the job done. To circumvent the problems companies run into, including brokerage houses, is the use of contractors or employees. We have Mr. Carbone, an attorney, whose expertise is to guide us in making sure the lines are not blurred or erased when brokers are employed to do a company's bidding. That being said and the gauntlet being dropped, I'll see you all on March 18th at the Long Beach Petroleum Club for good food and a great topic.

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(Office of the Special Counsel for Immigration Related Unfair Labor Practices), U.S. Department of State, and the U.S. Citizenship and Immigration Services Bureau. Javier has extensive experience in providing preventive counseling and training to employers, as well as significant experience in traditional labor law issues, including representation before the National Labor Relations Board.

Mr. Carbone completed his undergraduate studies at the University of Dayton and his graduate studies at the Inter-American University School of Law where he obtained his Juris Doctorate, Magna Cum Laude. He is admitted to practice in the California and Puerto Rico Bars.

**SCHEDULED LAAPL
LUNCHEON TOPICS
AND DATES**

March 18th, 2010

Speaker

Javier Rivera Carbone, Esq.

“Contractors vs. Employees Update”

May 20th, 2010

Julie Carter, Esq.

Day Carter & Murphy LLP

“Legal & Land Issues Affecting Horizontal Drilling”

Officer Elections

September 16th, 2010

Don Clarke, Geologist

“Technical Aspects of Horizontal Drilling”



Lawyers’ Joke of the Month

**Jack Quirk, Esq.
Bright and Brown**

Have you ever been guilty of looking at others your own age and thinking, “Surely I can’t look that old?” Well then, you might enjoy this.

While sitting in the waiting room for my first appointment with a new dentist, I noticed his DDS Diploma, which bore his full name.

Suddenly, I remembered a tall, handsome, dark-haired boy with the same who had been in my high school class some 40-odd years back. Could this be the same guy that I had a secret crush on, way back then?

Upon seeing him, however, I quickly discarded any such thought. This balding, gray-haired man with the deeply lined face was way too old to have been my classmate.

But after he examined my teeth, I asked him if he had attended Morgan Park High School.

“Yes. Yes, I did. I’m a Mustang.” He gleamed with pride.

“When did you graduate?” I asked.

He answered, “In 1959. Why do you ask?”

“You were in my class,” I exclaimed.

He looked at me closely.

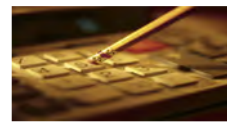
Then, that ugly, old, bald, wrinkled, fat ass, gray-haired, decrepit son-of-a-bitch asked, “What did you teach?”

OUR HONORABLE GUESTS

January’s luncheon was a successful joint meeting with the LABSG and LAAPL Chapters held at the Grand at Willow Street Conference Center.

LAAPL’s “known” guest of honor who attended:

Gerry Tintle, ConocoPhillips



**Treasurer’s
Report**

As of 4/1/2009, the LAAPL account showed a balance of

Deposits

Total Checks,
Withdrawals, Transfers

Balance as of 4/30/2009

Merrill Lynch Money
Account shows a total

New Members and Transfers

**Our Chapter Board of Directors
welcomes the following new member
to the Los Angeles Chapter:**

None to Report

Transfers

None to Report

**CHAPTER BOARD
MEETINGS**

The LAAPL Board of Directors will hold its Board Meeting at the Long Beach Petroleum Club at 11:00 AM. The “Override” editor will be in attendance to report matters discussed:

On the agenda:

- Officer Nominations and Nominations Committee
- LAAPL Annual Mickelson Golf Classic
- LAAPL to discuss WCLI
- Call for membership dues
- Other matters

The Board of Directors meets on the third Thursday of the month at 11:00 AM at the Long Beach Petroleum Club. Board meeting dates coincide with the LAAPL’s luncheons.

We encourage members to attend and see your Board of Directors in action.



POOLING: BENEFITS AND PITFALLS

by L. Rae Connet, Esq.

I. INTRODUCTION

Both within the oil and gas industry, and in the judicial decisions that interpret oil and gas leases, the terms "pool" and "unit" (and "pooling" and "unitization") are often used interchangeably, as if there were no distinction between the two. Both pooling and unitization involve combining multiple leases into a single operating area and the day to day operation of a Pool and a Unit are very similar. Yet the legal ramifications of pooling and unitization differ in material aspects. This article will discuss unitization in general terms, but will focus more particularly on the nuances of pooling and the benefits and pitfalls more frequently associated with pooling.

Unitization is generally used to consolidate all or a significant portion of an entire natural reservoir so that it can be developed efficiently with respect to the subsurface structures. Unitization is most often employed when secondary recovery operations, such as water flooding, are contemplated or for the purposes of causing products to migrate across lease lines. Unitization is also used to effect field-wide pressure maintenance operations to prevent or ameliorate land subsidence. Voluntary Unitization is most frequently accomplished by the execution of a Unit Agreement wherein the parties agree on their individual participating percentages based on an analysis of the relative value each tract of land has in relationship to the unit area, but occasionally Units are formed on the basis of acreage alone.

Pooling, on the other hand, is generally used to combine multiple leases into a single operating area based on surface criteria, land use ordinances, statutory spacing requirements, or well density regulations. Pooling agreements or pooling clauses in leases don't, generally, attempt to ascertain the relative value of the oil and gas reserves under each parcel of land within the pool. Instead, they tend to allocate production from the pooled area based on the ratio of surface acreage each parcel has to the pooled area.

The loose use of terminology within the industry, the statutes and the judicial decisions has lead to considerable confusion. Some of the confusion naturally stems from the fact that the term "pool" also may refer to a physical structure, zone or formation, but overall such confusion has been exacerbated by the fact that the terms "unit," "production unit," and "operating unit" are often used to describe a group of pooled leases, rather than a group of unitized leases. For the purpose of this article, the term "Pool" will refer to an area

of land wherein multiple leases have been combined together by virtue of a pooling agreement, the pooling provisions of the leases, a community lease, or which have been force pooled pursuant to statute, but will not include lands which have been committed to a written Unit Agreement. The term "Unit" will be used only to refer to a group of parcels committed to a written Unit Agreement.

II. METHODS BY WHICH POOLING AND UNITIZATION ARE ACCOMPLISHED:

Both Pooling and Unitization can be accomplished voluntarily or by force of statute, within the limits of the statutes. However, pooling can also result by inadvertence, as when lessors of separate properties join in a single lease without the intention to create a community lease but where a community lease will be implied in law. The manner in which pooling is accomplished can have unexpected ramifications and the language of the instrument that creates a pool is determinative of the rights and obligations of the parties within the pool.

A. Voluntary Pooling and Unitization

Today, pooling is most frequently accomplished pursuant to an express pooling clause in the oil and gas lease. Generally, such clauses grant the lessee the unilateral authority to declare a pool by the recordation of a declaration of pooling with the local agency responsible for recording deeds and other instruments affecting land title. In most cases, the lessors are not required to further consent to pooling or to ratify the declaration of pooling. There are, however, many different pooling clauses and there are lessors who have retained the right to require their consent to pooling, so individual leases authorizing pooling must be read carefully. Moreover, there remain many older leases which do not contain pooling clauses.

Voluntary pooling can also be accomplished by use of a separate pooling agreement. This is most commonly done when the leases have no pooling provision, or where there has been significant competition in an area, or where the leases to be pooled have significantly different pooling provisions, or when an operator seeks to pool newer leases with older ones. Voluntary pooling can also be accomplished by use of a community oil and gas lease, wherein owners of separate parcels of land enter into a single lease with the lessee and combine their lands in the lease itself. (Community Leases are discussed more fully in Section III, below.)

In California, the statutory provisions authorizing voluntary

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and involuntary unitization are found in various sections of the Public Resources Code ("PRC"). PRC Section 3300, et seq. authorizes the voluntary and involuntary formation of Units to prevent the unreasonable waste of natural gas.

Voluntary unitization is also authorized under PRC Section 3641. Section 3641 authorizes the voluntary formation of units "for the management, development, and operation thereof as a unit to prevent, or to assist in preventing, waste and to increase the ultimate recovery of oil and gas." The process requires the agreement of working interest owners and royalty owners. A Unit Agreement may be filed with the Department of Oil, Gas and Geothermal Resources ("DOGGR") for approval, but is not required to be so filed. A voluntary Unit Agreement is valid and binding upon those who consent to it whether it is filed with DOGGR or not. However, unless a Unit Agreement is filed with and approved by DOGGR, those lessors who did not consent to the Unit Agreement are not bound by it and their rights are not affected by the Unit Agreement.

B. Forced Pooling and Unitization

Statutes authorizing involuntary pooling or unitization vary greatly between jurisdictions and so analysis of any forced Pool or Unit must concern itself with the statute under which it was authorized. A comparative analysis of the various state statutes is beyond the scope of this article and the discussion herein will confine itself to forced pooling and unitization under California statutes.

1. Pooling Small Parcels

California PRC Section 3600, et seq. imposes well spacing requirements throughout the State which have the effect of restricting the ability of owners of small parcels from developing their minerals. For example, Section 3600 declares any well drilled for oil or gas within 100 feet of an outer boundary of a parcel of land, or within 100 feet of a public street, road or highway, or within 150 feet of another well to be a public nuisance.¹ Section 3602 restricts parcels of land containing one acre or more, but less than 250 feet in width, from drilling more than one well per acre of the surface area of the parcel, and requires that such wells be located as far from the lateral boundary lines of the parcel as the parcel will permit.² Such restrictions have been upheld as a valid exercise of the State's police power to regulate for the protection of the public safety and have been found to have been enacted to provide protection against fire, explosion and other hazards. (*Bernstein v. Bush* (1947) 29 Cal.2d 773.)

¹ A typical suburban lot size is 150' x 50' in many areas throughout the State. In such areas, none of the parcels could meet the spacing requirements, and therefore could only be realistically developed by pooling.

² Note: The provisions of California PRC Sections 3600 through 3609 do not apply to any field producing oil or gas on August 14, 1931. (PRC § 3605.)

Despite the fact that the spacing laws are a valid exercise of the State's police powers, challenges to the constitutionality of the spacing requirements have been raised and adjudicated. There is no doubt that the spacing requirements deny small land owners the right to drill for the purposes of developing their mineral resources. Accordingly, application of these regulations in circumstances that do not provide an adequate means of protection as a substitute for the right to drill offset wells has been held unconstitutional as a denial of equal protection and as a taking of private property without due process. (*Bernstein v. Bush*, supra, 29 Cal.2d 773.) However, where the land owner was afforded the right to share royalties proportionally with other lessors pursuant to leases on surrounding properties, the spacing requirements have withstood constitutional attack. (*Hunter v. Justice's Court of Centinela Tp.*, Los Angeles County (1950) 36 Cal.2d 315.)

The statutory mechanism that allows California's spacing requirements to withstand constitutional attack, are the forced pooling provisions found in PRC Section 3608. Section 3608 addresses lands aggregating less than one acre. Where such lands are surrounded by other lands which are subject to an oil and gas lease aggregating one acre or more, and where the provisions of Section 3600 to 3607 prohibit the drilling of a well on the lands aggregating less than one acre, said land shall be deemed included in the surrounding oil and gas lease and shall share proportionately the royalties in proportion to the area said land bears to the total area covered by the leases. A request for inclusion in the surrounding leases may be made by the land owner, or by the lessee, or by the State on its own motion. This provision, thus, recognizes the correlative rights of the small land owner in a common source of supply and protects his or her lands from drainage by wells on larger parcels where drilling is permitted. The protections provided by Section 3608 allow the spacing requirements to pass constitutional scrutiny.

2. Forced Pooling of Small Parcels

Section 3608 may also be invoked by the lessee of the surrounding parcels. Invoking Section 3608 allows a lessee to force pool the lands of a small property owner who refused to sign a lease. The lessee must first make a reasonable effort to lease each parcel of land. If such efforts are not successful, the lessee needs to secure leases surrounding the small parcel and then request that DOGGR include the surrounded land in the lease. Within 20 days of receipt of such a request, DOGGR is required to record a declaration deeming the surrounded land to be included in the oil and gas lease. The declaration must be recorded in the county in which the land lies. Throughout the highly urbanized areas of California, such as the Los Angeles Basin, Section 3608 has been widely used with great success to force pool hundreds, if not thousands, of townlots, many of which have

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been included in pools that have been producing for decades.

In addition to the procedure detailed above, in order to prevent waste and to increase the ultimate economic recovery of oil or gas, PRC Section 3609 allows DOGGR to adopt a different well-spacing pattern for any geologic pool discovered after the effective date of Section 3609, and authorizes the supervisor to force all or any portion of the lands overlying the geologic pool into a pooling or unit agreement. In exercising this power, the supervisor must hold a public hearing.

3. Unitization for Pressure Maintenance or to Increase Ultimate Recovery

Public Resources Code Section 3642, et seq. covers forced unitization for the purposes of either field pressurization, pressure replenishment, or any other joint operation to increase the ultimate recovery of oil and gas.³ It requires the consent of at least 75% of the working interest owners and 75% of the royalty interest owners in the proposed unit area. Upon receipt of an application for unitization, DOGGR must hold a public hearing and shall, thereafter, approve the proposed Unit Agreement if it finds all of the following: (a) the unit area includes all tracts of land which should be considered a part of and related to the field or pool or pools, or portions thereof, proposed for unit operations, and no tracts which should not be considered a part of or related to the field or pool; (b) at least 75% of the working interest owners and 75% of the lessors' royalty interest owners have consented; (c) the unitized management and operation of the field or pool is reasonably necessary in order to carry on pressure maintenance or pressure replenishment operations, reduction of oil viscosity operations or a combination thereof, or any other form of joint effort calculated to increase the ultimate recovery of oil and gas from the unit area; (d) the value of the estimated recovery, or the increased present value due to accelerated recovery will exceed the estimated additional cost of conducting such operations; (e) the proposed Unit Agreement provides for a reasonable allocation of the production; (f) the proposed Unit Agreement provides for the organization and consolidation of surface facilities in such a manner as will eliminate wasteful and excessive use of land surface areas; (g) the proposed Unit Agreement is fair and reasonable; and (h) if State lands are included, the proposed Unit Agreement has been approved by the State Lands Commission.

³Section 3642 applies only to lands defined in Section 3635.5, which provides:

"Tracts of land" means land areas under separate ownership which are all of the following:

- (a) Contiguous either on the surface or in the subsurface.
- (b) Located within a field which has been producing for more than 20 years.
- (c) Located within a field over 75 percent of which lies within incorporated areas.

4. Involuntary Unitization to Prevent Subsidence

Section 3315, et seq., further authorizes the involuntary unitization of lands for the purpose of "arresting and ameliorating the subsidence and compaction of land in those areas overlying or immediately adjacent to producing oil or gas pools within the State where valuable buildings, harbor installations and other improvements are being injured or imperiled or where subsidence is interfering or may interfere with commerce, navigation and fishery, or where substantial portions of such areas may be inundated if subsidence continues, thereby endangering life, health, safety, public peace, welfare and property."⁴ Pooling under Section 3315, et seq., allows the State to "exercise its power and jurisdiction to require the carrying on of repressuring operations which will tend to arrest or ameliorate subsidence by maintaining or replenishing underground pressures in formations underlying such areas." The State can initiate this type of unitization on its own. Additionally, any city, county, lessee, or working interest owner can submit a request to unitize. The request must be supported by an engineering report and plan for field-wide repressuring operations designed to arrest or ameliorate the subsidence.

III. COMMUNITY OIL AND GAS LEASES

The execution of a single lease by owners of separate parcels of land as if they were joint owners creates a community lease, regardless of the name given to the lease. The courts across the country have dealt with community leases very differently, largely because of the rule of non-apportionment. Under the Rule of Non-Appportionment, upon subdivision of lands subject to an oil and gas lease the royalties are not apportioned between the original lessor and the new owners. For example: if a lessor signs an oil and gas lease covering his 100 acre parcel and subsequently conveys the southwesterly 25 acres to another, and a well is later drilled on the southwesterly 25 acres, the new owner of the southwesterly 25 acres will receive all the royalties from that well and the original lessor will receive nothing. If another well is drilled on the northerly half of the 100 acres, the original lessor will receive all the royalties from the second well, and the new owner of the southwesterly 25 acres will not receive any of the royalties on the second well. The Rule of Non-Appportionment is followed in all states except California and Mississippi, where the Rule of Apportionment has been

⁴Whereas forced unitization under P.R.C. § 3642 requires that at least 75% of the land within the field be within an incorporated area, Section 3315 does not. Section 3315 applies to any lands "overlying or immediately adjacent to a producing pool or pools, when such lands are subsiding, portions of which lands are subject to threat of inundation from the sea and which subsidence is endangering the life, health and safety of persons or which is damaging or is threatening to cause damage to, any surface or underground improvements located on such lands overlying or immediately adjacent to such pool or pools." (P.R.C. § 3317.)

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adopted. Using the same example from above, in California and Mississippi, upon subdivision the royalties on all wells are apportioned between the owners, so that the owner of the southwesterly 25 acres will receive 25% of the royalties on both the first and second well, and the original lessor will receive 75% of the royalties on both wells.

In Texas, the case law "suggests that merely entering into a community lease will constitute, as a matter of law, a pooling of the respective interests, unless there is contained within the lease itself express language clearly showing a contrary intent." (Kramer and Martin, *The Law of Pooling and Unitization* (Rel. No. 38, Oct. 2008, LexisNexis) Vol. 1, §7.03[1] [a] pg.7-37.)

In California, the courts treat a community lease as raising a presumption of pooling, and allow extrinsic evidence to be admitted to determine the true intent of the lessors. (*Higgins v. California Petroleum & Asphalt Co.* (1895) 109 Cal. 304.)

Both Texas and California view pooling as constituting a cross conveyance of title, although the ramifications of that differ between the states. (*Tanner v. Title Insurance & Trust Co.* (1942) 20 Cal.2d 814; *Tanner v. Olds* (1946) 29 Cal.2d 110; *Veal v. Thomason* (1942) 159 S.W.2d 472.) Following is an example of a 1922 California community oil and gas lease:

"The rental and royalty agreed to be paid hereunder shall go to the parties of the first part [lessors], regardless of which lot or lots the well or wells, may be on, as follows: One-third to each of said lessors. Provided, further, that in the event that the Lessors, or any of them, shall in good faith desire to subdivide their respective premises hereby leased, the lessee shall abandon any and all way, roads, tracks, reservoirs, tanks, pipe lines and similar works and appliances upon being furnished by said lessors or lessor with ways, roads, tracks, reservoirs, tanks, pipe lines and similar works and appliances reasonably convenient for the purpose of the lease."

Under the Rule of Apportionment, and the express terms of the lease, the heirs and assigns of the the lease continue to share proportionately in all the royalties for all the wells on the property, despite the fact that the vast majority of the surface of the land has been sub-divided and developed commercially.

Under the *Tanner v. Title Insurance & Trust* case in California, each lessor under a community oil and gas lease transfers to the lessee oil company his right to drill for and produce oil and other petroleum products for the term of the lease, and each of the lessors assigned or conveyed to his co-lessors a percentage interest in all oil produced on his land by the lessee during the continuance of the lease. The royalty interest transferred by each landowner to his co-lessors is entirely separate and distinct from the royalty interest

retained by him in oil which might be produced from his own premises. The only connection between the two interests is that the pro-rata assignment by one of the lessors of the royalty from his land is the consideration for the conveyance of the other lessors to him. The rights owned by the grantor in the oil produced from the land of the co-lessors, does not follow the conveyance of the lessor's land, but can only be conveyed by a specific transfer of that interest. Thus, when a lessor in a community oil and gas lease transfers his property by grant deed, without an express assignment of the rights in the lease, only the mineral rights in the lessor's land are conveyed to the new owner. The original lessor retains the rights to receive the royalties derived from any wells within the pool that are on other lands within the pool.

This cross-conveyance of rights under a community oil and gas lease explains why when running title in California, it is not at all uncommon to see grant deeds and separate assignments of the oil and gas lease with nearly every conveyance in the chain of title after a community oil and gas lease was executed.

Eventually, the oil companies attempted to draft around the effect of the rule of cross-conveyance and the holding in the *Tanner* case. Therefore, careful attention must be paid when analyzing a community oil and gas lease.

Ultimately, the oil and gas industry in California largely moved away from community oil and gas leases and now relies primarily on express pooling provisions to create pools. But thousands of community oil and gas leases are still producing and still causing conveyance challenges for lessors, operators and title examiners.

Unlike California, the Texas courts view the cross-conveyance created upon the execution of a community oil and gas lease as "real property" and therefore all rights under a community lease run with the land and are conveyed with the fee interest unless reserved or excepted.

IV. BENEFITS OF POOLING

The benefits of pooling and unitizing are substantial and benefit both the lessee and lessor. By allowing for the efficient operation of the leases, the lessee saves capital, which can be put to better use in developing the pool. By reducing the competition that derives from the Rule of Capture, pooling and unitization allow for the orderly development of a Pool or Unit, which ultimately increases the amount of recoverable oil and gas. Such efficiency and increased recovery benefit both the lessee and lessor.

1. Drilling Operations Anywhere in the Pool Satisfy the Drilling Obligations on all Leases in the Pool

In almost all of the jurisdictions, it has been held that production on a unitized or pooled area will continue all the



pooled leases in force. In the absence of a "Pugh" Clause, production or operations in the pool will serve to hold all lands of all of the leases in effect, whether such lands are inside or outside of the unit. (Hemingway, Law of Oil and Gas (3d ed. 1991) (West Publishing Co.) §7.13.)

A Pugh Clause is designed to insure that leased lands that are not pooled are not held by production from the Pool. This is a provision that benefits the lessor, and compels the lessee to make the lands not committed to a pool productive, or release them from the lease. The clause takes its name from its original author, attorney Lawrence G. Pugh, of Louisiana. The provision he drafted read as follows:

"Notwithstanding anything to the contrary herein contained, the commencement of operations for drilling, the drilling or reworking of a well, or the production of oil, gas or other mineral from any well situated on lands included within a unit embracing a portion of the leased premises and other lands not covered hereby shall serve only to maintain this lease in force as to that portion of the leased premises embraced in such unit; but during the primary terms delay rentals payable hereunder shall be proportionately reduced and be payable on that portion of the leased premises not included in such unit." (Kuntz, A Treatise on the Law of Oil and Gas (Anderson Publishing Co., Cincinnati) Vol. 4, § 48.4, pg 231.)

Generally, unless the lease states otherwise, a lessee may pool the whole lease or any part thereof, or particular products, or specific formations or intervals. For example, the lessee may include only half of a lease in any given pool, or may pool only gas, or only the formations below 6,000 feet.

Beware, however, if the leases are pooled for one product (gas) and the well produces another (oil), only the lease on which the production was obtained will be held by such production, the other leases in a gas Unit are not so held by oil production, in the absence of express language.⁵ Similarly, if the pool is restricted to deep formations, production from a shallow formation within the pooled area is attributable only to the lease on from which the well produces and such production will not hold any of the other pooled leases.

2. Efficient Development of the Pool

Probably the best reason to pool leases is that pooling allows for more efficient development of the leases. The selection of where to drill and how many wells are needed and the determination as to when and to what extent secondary recovery methods are used can be made sole with regard to the producing structure, without consideration of the arbitrary property lines that form the basis for the lessor's ownership rights or the working interest owner's leasehold rights.

⁵ This rule is not necessarily the same in Federal Units. The scope of this article does not address the unique attributes of Federal Communitization.

3. Avoidance of Waste

Pooling eliminates the inefficiencies that are the natural result of the Rule of Capture - it eliminates the rush to produce before the neighboring parcel drains your parcel. By pooling or unitizing the leases, duplication of equipment, storage tanks, gas processing facilities, water treatment facilities, and pipelines can be reduced or avoided.

4. Increase the Ultimate Recovery of Oil and Gas

Joint management of the pool increases the ultimate recovery of the oil and gas from the pooled area. Pooling and unitizing allow the joint management and operation of the Pool or Unit and thereby allow for better pressure maintenance or replenishment, gas injection operations, and water flooding operations.

5. Indispensable Parties

Another benefit of pooling, at least from the operator's perspective, is that a lessor who desires to declare the lease in default or who wants to legally challenge the validity of the lease or pool cannot act unilaterally. Community lessors have been deemed to be indispensable parties to any litigation because the termination of the lease as to one community lessor would affect all the other community lessors. (Southern California Title Clearing Co. v. Laws (1969) 2 Cal.App.3d 586.)

V. PITFALLS OF POOLING

There are many pitfalls for the unwary operator who pools without a thorough understanding of the nuances of pooling or without attention to the precise language of the leases being pooled. Care should be taken to read each lease that is being committed to a pool or unit because the terms do have distinct meanings and may limit the authority granted to the lessee.

1. The Power to Pool Must be Exercised in Compliance with the Pooling Provision

The exercise of the authority to pool or unitize must be done in strict compliance with the clause granting the authority. An exercise of the power not in compliance with the clause is void. (See, e.g. Yelderman v. McCarthy, (Tex.Civ.App) 474 S.W.2d 781 [pooling held invalid where lessee formed a 320 acres gas unit and only 40 acre unit authority was provided for in the lease]; Sauder v. Frye, (Tex.Civ.App. 1981) 613 S.W.2d 63 [pooling held invalid where lease required declaration of pooling to be recorded in county recorder's office but was never recorded]; Pampell Interest, Inc. v. Wolle, (Tex.App. 1990) 797 S.W.2d 392 [held that pooling unit designation filed by a third party was invalid, even where the third party acted as an agent for the lessee]; Gibson Drilling Co. v. B. & N Petroleum Co., (Tex.App. 1986) 703 S.W. 2d 822 [held a pooling unit which attempted to pool the deep drilling rights contained in one lease with the shallow rights in a prior

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lease was void and pooling could only be accomplished with horizontal leases].)

2. Exercising the Power to Pool in Good Faith

Even where the lessee strictly complies with the pooling provisions in the lease, a question still remains as to whether the pooling authority has been exercised in good faith. "The lessee's exercise of the pooling authority must be fair and in good faith in regard to the circumstances, the reasonable development of the property, and the interests of both the lessor and the lessee." (Hemingway, Law of Oil and Gas (3rd ed. 1991) (West Publishing Co.) §7.13.)

Pooling to comply with government requirements is good faith. (Gillham v. Jenkins (Okla. 1952) 244 P.2d 291.) Pooling near the end of a primary term for the purpose of extending the leases, when coupled with the intent to properly develop and operate the leases has been found to be good faith. The mere fact that the exercise was close to the end of the primary term did not make the exercise arbitrary. (Boone v. Kerr-McGee Oil Industries, Inc. (10th Cir. 1954) 217 F.2d 63.)

Pooling to bring in worthless land or land condemned by prior drilling can be bad faith. (Southwest Gas Producing Co. v. Seale, (Miss. 1966) 191 So.2d 115 [pooling productive lands with adjacent non-productive lands, as evidenced by a dry hole, to create a buffer from adjacent drilling operations was bad faith]; Imes v. Globe Oil & Refining Co., (Okla. 1938) 84 P.2d 1106 [inclusion of six of lessee's own lots that had been condemned as valueless simply to increase the interest of the lessee in the oil and gas already being produced was held to be bad faith]; Amoco Production Co. v. Underwood (Tex. Civ. App. 1977) 558 S.W. 2d 509 [pooling non-productive acreage with productive acreage, merely to hold the leases, without plans to drill further was not good faith exercise of the pooling clause].)

Unless expressly authorized in the pooling clause, pooling after drilling has commenced has been held to be bad faith. (Mallett v. Union Oil and Gas Corp, 232 La. 157, 94 So.2d 16.)

3. Enlarging or Changing the Pool

Most pooling provisions provide that the lessee may enlarge or change the pool. But care must be exercised in reading the pooling provision. Courts have held that the power to "enlarge and change" the pool does not include the power to "reduce" the pool. This would seem, however, to depend on both the language of the pooling provision and the jurisdiction in which the leasehold exists. In California, the surrender or release of pooled acreage does not effect the apportionment of royalties to the pooled lessors of the withdrawn lands. (Howard Townsite Owners, Inc. v. Mills (1968) 268 Cal.App.2d 223.; Clark v. Elsinore Oil Co. (1934) 138 Cal.App. 6.) But in states following the Rule of Non-

Apportionment when the lessee attempts to exercise the pooling power to reduce the size of the Pool after production has been obtained pooling has been invalidated. In Grimes v. La Gloria (Tex. Civ. App. 1952) 251 S.W. 2d 755, the court held that "enlarge or change" did not mean that the lessee could reduce the unit if by doing so lands included in the previous unit were excluded. Generally, [outside of California] where the effect of the change was to reduce the participation of the royalty owner in the unit production, the court denied the lessee the right to reduce the size of the pool. (Hemingway, Law of Oil and Gas (3rd ed. 1991) (West Publishing Co.) §9.12.)

4. Pooling only a Specified Formation or Interval

Unless the lease states otherwise, a lessee may limit pooling to specific formations or intervals. Most modern pooling provisions make this an express right. In the absence of a Pugh Clause, production from the pooled formation will hold the entire lease, including those depths not included in the pool. However, where the lease contains a Pugh Clause, an open question exists as to whether the Pugh Clause affects a horizontal severance of the lease, causing the un-pooled strata not to be held by production within the pooled strata. Only two cases have dealt with this question and have reached opposite conclusions based on the same Pugh Clause. In Rogers v. Westhoma Oil Co., (10th Cir.) 291 F.2d 726, the court held that the Pugh clause effected a horizontal severance and that the part of the lease not in the unit, including lower depths, terminated. In Rist v. Westhoma Oil Co., (Okla. 1963) 385 P.2d 791 the Oklahoma court held the same clause did not effect a horizontal severance and that the lease was held as to the lower depths.

5. Exercising the Authority to Pool More than Once

Some pooling provisions may lead to the implication that the authority to pool may only be exercised once, or that once exercised there is no authority to alter or change the size or shape of the pool. Most modern pooling clauses expressly address this issue and allow the lessee to exercise the power to pool more than once.

6. Pooling Authorization Limited to Specified Substances

Some pooling provisions permit the lessee to pool only gas or only oil. Such provisions create problems where a pooled well produces gas and oil or where pooling occurs before drilling and in anticipation of striking a gas deposit but the well finds oil and is completed as a producer of oil. (Lowe, Cases and Materials on Oil and Gas Law (4 th ed. 2002) (West Publishing Co.) at 698.)

7. Pooling Leases Without Pooling Provisions

What are the implications of pooling leases that contain a pooling provision with leases that do not contain such a

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provision? Upon first impression it seems that a lessor whose lease authorizes pooling but whose land is combined in a pool with other land which the lessee has no authority to pool, conveys the right for other lessors to receive a proportionate share of any oil or gas produced from his land, but arguably, he receives no reciprocal right to benefit from a well drilled on the lands of the lessee who has not authorized pooling. But is this really a concern for the lessor who authorized pooling? The pool is valid as to those lessors who authorized pooling and the lessee is obligated to pay them their proportionate share of the royalties for all wells drilled in the pool. By pooling a lease that did not authorize pooling, the lessee committed itself to paying the proportionate share of royalties to the pooled lessors but did not relieve itself of the obligation to pay to the non-consenting lessor the full royalties due under the non-consenting lease for any well drilled on that lease. "If a lessee pools its interest under a lease without a pooling clause with that of other property owners and drills a well on the leased premises, the lessee must account to the lessor for the full lease royalty on production from the well, though its pooling agreement allocates to it only a portion of production from the well. Without the agreement of the lessor, either in the lease or by separate agreement, the lessee cannot affect the lessor's rights." (Lowe, John S., *Oil and Gas Law in a Nutshell* (4th ed. Thomas-West.) at pg. 241.)

The consenting pooled lessor is not harmed by having his lease pooled with other leases that do not contain pooling provisions and he cannot invalidate the Pool for that reason. In *Heath v. Fellows* (W.D. Okla. 1981) 526 F. Supp. 723, the lessee pooled the lessor's land with other leases, some of which did not contain pooling clauses. A producing well was completed within the pool, but not on the plaintiff lessor's land. The plaintiff sued to cancel the lease on the ground that the pooling provision was exercised in bad faith because it included leases that did not authorize pooling. The court held the act of pooling was valid as to those who had signed the pooling clauses. In *Celsius Energy Co. v. Mid America Petroleum, Inc.* (10th Cir. 1990) 894 F.2d 1238, a lessee pooled only a 37.5% interest in a lease with other leases. Some of the lessors sued to cancel the leases, claiming the declaration of pooling was unauthorized and invalid. The court held that the leases did not restrict the lessee's power to pool the leases with less than 100% of another leasehold interest, so the pooling was valid and authorized under the leases.

In California, a typical declaration of pooling includes a legal description of the area pooled, a plat depicting the pooled lands, and a list of the leases that are then in existence and which are included in the pool. The declaration also includes a statement that the pool covers not only those leases which the lessee currently has, but any leases in the pooled area

which the lessee may subsequently obtain. This practice has been the industry standard since at least the 1960's. There does not appear to be any reported decision invalidating such declarations of pooling.

8. Effect of an Undivided Interest Owner's Unilateral Agreement to Pool

California courts do not appear to have addressed the question of what to do when an undivided interest owner agrees to pool his lands, but Texas courts have. In Texas, it is not necessary to get consent to pool from 100 percent of all undivided interest owners. One undivided interest owner may agree to pool his or her undivided interest in a parcel without the joinder or consent of the other undivided interest owners. (*Whelan v. Placid Oil Co.* (Tex. Civ. App. 1954) 274 S.W. 2d 125.) Under such circumstances, the pool or unit is binding on those who have consented. While no reported decision on this issue has been found in California, it is likely that California would treat the question similarly.

9. Lessee May Have a Duty to Pool

Generally speaking, the lessee has no duty to exercise the power to pool. However, leases are subject to a variety of implied duties, including the implied duty to protect the lease from drainage, and the duties implied where a lessee is the owner of adjoining property. Where the lessee is the owner of a leasehold interest in the adjoining property and has drilled the well that is draining the subject property, the protection provided by even an express offset provision will not control. Under such circumstances, the lessee will be obligated to protect the property being drained by drilling an offset well, unless there is a lease provision that expressly controls this implied duty. (*Hartman Ranch Co. v. Associated Oil Co.* (1937) 10 Cal.2d 232, 239.)

Consider a situation where the lessee has the power to pool the leases, and regulatory circumstances are such that the leases cannot be developed unless they are pooled (e.g. a spacing requirement or local drilling ordinance). It is reasonable to assume that a reviewing court might imply a duty to pool under such circumstances.

At least one commentator agrees: "The presence of a pooling or unitization clause in a lease makes it more likely that a court will impose a duty upon a lessee to act to protect its lessor.... the lessee is required to exercise the powers it has received from the lessor in good faith and with prudence. Because the lessee has taken from the lessor the right to decide whether to pool or unitize, the lessor can no longer act to protect himself. Therefore, the courts are likely to find that the operator was imprudent or acted in bad faith in situations that are less clear-cut." (Lowe, John S., *Oil and Gas Law in a Nutshell* (4th ed. Thomson-West) pg. 250.)

VI. CONCLUSION

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The benefits of pooling and unitizing are substantial for all parties to the lease, but to reap those benefits operators must act in good faith and proceed with caution in order to sidestep the pitfall along the path to pooling. As always, the lease language is a critical part of the path to understanding the lessee's rights and obligations.

Special Article

LAAPL APPOINTS NOMINATION COMMITTEE

The LAAPL's Board of Directors has appointed Rae Connet of PetroLand Services, Joel Miller of Transamerica Minerals and Jennifer Evans of Aeneas, Inc., to seek out qualified candidates for officers. The officers will serve from July 1st, 2010 – June 30th, 2011. For all qualified members interested in submitting their names as candidates are encouraged to contact the committee members:

- Rae Connet @ 310-486-4955, email: petrolandservice@aol.com
- Joel Miller @ 310-533-0508, email: joel.miller@transamerica.com
- Jennifer Evans @ 949-500-8346, email: jennifer@aeneasinc.com

Per Section 7 (7a) of the By-laws, the membership will be provided with a list of nominees for officers for Vice President, Secretary, Treasurer and two (2) Directors at the March meeting. Further nominations from the floor will also be accepted at the March meeting. Members whose names are placed in nomination must give prior consent to be nominated and by mail or email up to May 1, 2010. The election will take place at the last regular meeting of the Association this fiscal year, which is scheduled for May 20, 2010.

Special Article

LAAPL CALL FOR ANNUAL DUES

Charlotte Hargett, Land Technician
Plains Exploration & Production Company
LAAPL Treasurer

Per Chapter by-laws, a Notice for Dues was recently sent out to LAAPL Chapter Members. Renewal is \$40.00; please send your renewal notices along with your payment as follows:

Charlotte Hargett
LAAPL Treasurer
Plains Exploration & Production Company
5640 S. Fairfax Avenue
Los Angeles, CA 90056

Special Article

EDUCATIONAL CORNER

As our Chapter President mentioned in his President's Message, experience plus education is one of the keys to compensation. Attending seminars which provide continuous education credits should part of every professional landman.

Need continuous education credit? You can generally earn them by attending our luncheons based upon speaker and subject matter. Listed below are continuous educational courses available for the second quarter of 2010.

Advanced Oil and Gas Contracts

Presented by the American Association of Professional Landmen

When: April 1, 2010
Where: Traverse City, MI

RL/RPL Continuing Education Credits: 6.0
CPL Recertification Credits: 6.0

Southwest Land Institute

Presented by the American Association of Professional Landmen

When: April 15, 2010
Where: Fort Worth, TX

RL/RPL Continuing Education Credits: 7.0
CPL Recertification Credits: 7.0

Oil and Gas Land Review and CPL/RPL Exams

Presented by the American Association of Professional Landmen

When: May 18 – 21, 2010
Where: The Woodlands, TX

RL/RPL Continuing Education Credits: 18.0
CPL Recertification Credits: 18.0
Includes 1.0 credit for Ethics and 1.0 credit for ESA

Vail Seminar - Pooling – Contractual and Regulatory Class takes place during AAPL Annual Meeting

When: June 16, 2010
Where: Vail, CO

RL/RPL Continuing Education Credits: 6.0
CPL Recertification Credits: 6.0

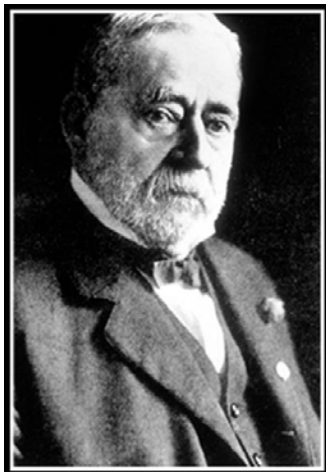
For information regarding speakers, topics and cost please go to www.landman.org.

GUEST ARTICLE

MABEL'S EYELASHES

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Few associate 1860s oil wells with women's smiling faces, but they are fashionably related. This is the story of how the goop that accumulates around an oil well's sucker-rod first made its way to the eyelashes of American women.



In 1865, a 22-year-old chemist left the prolific oilfields of Titusville, Pa., to return to his Brooklyn laboratory and experiment with a waxy substance that clogged well-heads.

Within a few years Robert Augustus Chesebrough would patent a method that turned the paraffin-like goop into a balm he called “petroleum jelly.” In 1872, he patented a new product, “Vaseline.”

Even before America's first oil well was drilled in Pennsylvania, Chesebrough was in the “coal oil” business in Brooklyn. His expertise was in the reduction of cannel coal into kerosene -- a much in demand illuminant.

Chesebrough knew of the process for refining oil into kerosene, so when Col. Edwin Drake's Aug. 27, 1859, discovery launched the petroleum industry, he was one of many who rushed to the Titusville oilfields to make his fortune.

Scientific American reported, “Now commenced a scene of excitement beyond description.

The Drake Well was immediately thronged with visitors arriving from the surrounding country, and within two or three weeks thousands began to pour in from the neighboring States.”

Robert Chesebrough's fortune was out there somewhere; he just had to find it.

Purifying Petroleum

In the midst of the Venango County oilfield chaos, Chesebrough noted that drilling was paraffin-like substance that clogged the wellhead and drew the curses of riggers who had to stop drilling to scrape away the stuff.

The only virtue of this goopy “rod wax” was as an immediately available “first aid” for the abrasions, burns, and other wounds routinely afflicting the crews.

Chesebrough eventually abandoned his notion of drilling a gusher and returned to New York, where he began working in his laboratory to purify the troublesome sucker-rod wax, which he dubbed “petroleum jelly.” By August of 1865, he had filed the first of several patents, “. . .for purifying petroleum or coal oils by filtration.”

He experimented with the purported analgesic effect of his extract by inflicting minor cuts and burns on himself, then applying his purified petroleum jelly. He gave it to Brooklyn construction workers to treat their minor scratches and abrasions.

On June 4, 1872, Chesebrough patented a new product that would endure to this day -- “Vaseline.” His patent extolled Vaseline's virtues as a leather treatment, lubricator, pomade, and balm for chapped hands. He soon had a dozen wagons distributing the product around New York. Customers used the “wonder jelly” creatively: treating cuts and bruises, removing stains from furniture, polishing wood surfaces, restoring leather, and preventing rust. Within 10 years, Americans were buying it at the rate of a jar a minute.

An 1886 issue of *Manufacture and Builder* even reported, “French bakers are making large use of vaseline in cake and other pastry. Its advantage over lard or butter lies in the fact that, however stale the pastry may be, it will not become rancid.”

Flavor notwithstanding, Chesebrough himself consumed a spoonful of Vaseline each day and lived to be 96 years old.

Lash-Brow-Ine

It wasn't long before thrifty young ladies found another use for Vaseline. As early as 1834, the popular book *Toilette of Health, Beauty, and Fashion* had suggested alternatives to the practice of darkening eyelashes with elderberry juice or a mixture of frankincense, resin, and mastic.



“By holding a saucer over the flame of a lamp or candle, enough ‘lamp black’ can be collected for applying to the lashes with a camel-hair brush,” the book advised. Chesebrough’s female customers found that mixing lamp black with Vaseline made impromptu mascara.



The story goes that in 1913, Miss Mabel Williams, in pursuit of her boyfriend “Chet,” employed just such a concoction. Perhaps she used coal dust or some other readily available darkening agent, but in any case, her brother, Thomas L. Williams, was intrigued.

Inspired by his sister’s example, Williams began selling the mixture by mail-order catalog, calling it “Lash-Brow-Ine” (an apparent concession to the mascara’s Vaseline content). Women loved it.

By 1915, it was clear that his “Lash-Brow-Ine” had potential, despite the product’s less than memorable name. In honor of his newly married sister Mabel (she had married Chet in 1914), he renamed the mascara “Maybelline” and launched a cosmetics empire. Hollywood helped.

The 1920s silent screen brought new definitions to glamour. Theda Bara (an anagram for “Arab Death”) and Pola Negri, each with daring eye makeup, smoldered in packed theaters across the country.

Maybelline trumpeted its mail-order mascara in movie and confession magazines as well as Sunday newspaper supplements. Sales continued to climb. By the 1930s, Maybelline mascara was available at the local five-and-dime store for ten cents a cake.

Today, both Vaseline (now part of Unilever) and Maybelline (now a subsidiary of L’Oréal), continue with highly successful products, distantly removed from Titusville’s antique derricks and oil wells. Unilever’s Park Avenue public relations agency, M Booth & Associates of New York, proclaims:

“From Vaseline Petroleum Jelly – the ‘Wonder Jelly’ introduced in 1870, to Vaseline Intensive Care Lotion...Vaseline products have helped deliver healthy, moisturized skin for 135 years.”



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Cedar Rapids, IA 52499
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Terry L. Alfred, VP
Transamerica Minerals Co
1899 Western Way, Suite 330
Torrance, CA 90501
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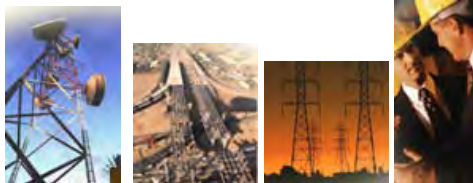
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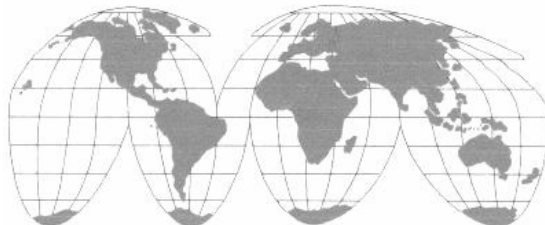
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Venoco is an independent energy company primarily engaged in the acquisition, exploration and development of oil and natural gas properties. It has headquarters in Denver, Colorado and regional offices in Carpinteria, California and Houston, Texas. Venoco operates three offshore platforms in the Santa Barbara Channel, has non-operated interests in three other platforms, operates three onshore properties in Southern California, has extensive operations in the Northern California's Sacramento Basin and operates 18+ fields in the Texas Gulf Coast and South Texas. Venoco is publicly traded on the New York Stock Exchange under the symbol "VQ".

Corporate HQ, 370 17th Street, Suite 3900, Denver, CO 80202, Tel: 303 626-8300

6267 Carpinteria Avenue, Carpinteria, CA 93013
805 745-2100

1021 Main Street, Suite 2500, Houston, TX 77002
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www.venocoinc.com



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