

SEC. 3. This act is necessary for the immediate support of the state government and its existing institutions and shall take effect immediately. Effective immediately.

Passed the House March 5, 1937.

Passed the Senate March 8, 1937.

Approved by the Governor March 15, 1937.

CHAPTER 161.

[S. S. B. 176.]

PROSPECTING PERMITS AND PETROLEUM LEASES.

AN ACT relating to state lands and areas belonging to, or held in trust by the state, providing for and regulating the granting of prospecting permits and leases for the extraction of petroleum and certain preference rights to take petroleum; defining the powers and duties of certain officers in connection therewith, providing for the issuance of permits and leases at public auction in certain cases, providing for appeals, and repealing sections 175 to 185, both inclusive, of chapter 255 of Laws of 1927 (sections 7797-175 to 7797-185 of Remington's Revised Statutes).

Be it enacted by the Legislature of the State of Washington:

SECTION 1. Whenever used in this act, unless the context otherwise requires, words and terms shall have the meaning attributed to them herein:

(1) "Commence to Drill a Well": The institution of work in good faith with drilling equipment adequate for the drilling of a well to a depth that will reasonably test the oil and gas productiveness of the public lands where such well is commenced. "Commence to drill a well."

(2) "Petroleum": Any liquid or gaseous hydrocarbon occurring in nature beneath the surface of the earth. "Petroleum."

(3) "Proven Territory": Territory so situated with reference to known producing wells as to establish the general opinion that, because of its relation to them petroleum is contained in it. "Proven territory."

"Public
lands."

(4) "Public Lands": Lands and areas belonging to or held in trust by the state, including lands of every kind and nature including mineral rights reserved to the state.

"Gross
value."

(5) "Gross Value": The value of petroleum at the well produced and saved, without deduction for expense of production.

"Person."

(6) "Person": Any citizen of the United States or person who has, in good faith, declared his intention of becoming a citizen of the United States, or any corporation organized and existing under and by virtue of the laws of any state or territory of the United States and authorized to do business in this state.

"Commis-
sioner."

(7) "Commissioner": The commissioner of public lands of the State of Washington.

Contract to
prospect
public lands.

Permittee.

SEC. 2. The commissioner is hereby authorized to enter into contracts in writing designating, constituting and appointing any person as the permittee of the State of Washington with the exclusive right to prospect and explore not to exceed three sections or 1920 acres of the public lands of the State of Washington for the occurrence of petroleum therein; such contract to contain such conditions as may be prescribed by the rules and regulations adopted by the commissioner pursuant to the terms hereof and in accordance with the terms of this act. Such permit shall be for a period of three years and such permittee, pursuant to such contract, shall have the right to enter in and upon such public lands and prospect and explore the same to determine the occurrence of petroleum therein.

Permittee
entitled to
lease, when.

SEC. 3. A permittee, upon the discovery of petroleum in the lands embraced by his permit in commercial quantities, shall be entitled to a lease for the extraction of petroleum from not to exceed one section or 640 acres of such land to be selected by such permittee. Such lease shall be for a term of twenty

years and such lease shall be in terms as in this act and the rules and regulations of the commissioner provided.

SEC. 4. The commissioner shall require as a prerequisite to the issuing of any permit a fee of forty cents (40c) per acre for the first year of such permit, payable in advance to the commissioner at the time of making application therefor and a like fee of forty cents (40c) per acre annually in advance thereafter so long as such permit remains in force: *Provided*, That in the event no permit be issued such fee shall be returned to the applicant.

Fee of
forty cents
per acre.

SEC. 5. No permits shall be issued upon public lands classified as proven territory.

Proven
territory
exempted.

SEC. 6. No permittee shall commence any operation upon lands covered by his permit until he has compensated the owners of private rights therein according to law and has compensated the State of Washington for damage to the surface rights of the state in accordance with the rules and regulations adopted by the commissioner.

Damages to
owners.

SEC. 7. Permits shall require the commencement of geological, geophysical or core drilling operations thereunder within one year after the issuance of such permit and shall require the commencement of drilling operations within two years after the issuance of such permit. All operations shall be prosecuted with reasonable diligence in accordance with good oil field practice, and shall be continuous except when causes beyond the control of the permittee intervene and render continuous operations not feasible. All drilling operations under any permit shall be carried on with equipment capable of drilling to a depth of at least 2500 feet. If petroleum in commercial quantities is not encountered at the end of the primary term of such permit the same shall not expire: *Provided*, The permittee shall be

Time for
commencing
work.

then prosecuting drilling operations with due diligence and such permit shall remain in force until petroleum is encountered in commercial quantities so long as the permittee continuously and with due diligence prosecutes drilling operations on any of the lands embraced by his permit. The provisions of this section are subject to the authority of the commissioner, herein granted, to approve plans of unit operation.

Option of
surrender
by permittee.

SEC. 8. Every permittee shall have the option of surrendering his permit at any time and shall be relieved of all liability thereunder except for physical damage to the premises embraced by his permit which have been occasioned by his operations.

Petroleum
leases,
royalties.

SEC. 9. Petroleum leases shall be upon a royalty of $12\frac{1}{2}\%$ of the gross value of all petroleum produced and saved from the lands covered by such lease and shall be for a term of twenty (20) years, and shall provide for an annual rental, payable in advance, of one dollar (\$1.00) per acre. If at the expiration of any petroleum lease petroleum can be produced from the lands covered thereby, the then holder of such lease shall have the preferential right to a new lease covering such lands upon the same terms and conditions set forth in such previous lease except as to rental which shall be determined by the commissioner, at not to exceed five dollars (\$5.00) per acre per annum.

Petroleum
lease holder,
option of
surrender.

SEC. 10. Every petroleum lease holder shall have the option of surrendering his lease at any time and shall be relieved of all liability thereunder except for physical damage to the premises embraced by his lease which have been occasioned by his operations and except payment of accrued royalties thereunder. Upon such surrender the lessee shall have the right for a period of 120 days following the date of such surrender to remove all improvements placed by him on the lands covered by his lease.

SEC. 11. Petroleum leases shall not be issued on lands which have not been classified by the commissioner as proven territory. The commissioner shall issue leases to permit holders as provided herein. Upon application of any person the commissioner shall lease in areas not exceeding 640 acres or one section, at public auction, any or all unleased lands within such proven territory to the person offering the greatest cash bonus therefor at such auction.

Proven
territory
exempted.

SEC. 12. The commissioner is hereby authorized to cancel any permit or lease issued as provided herein for nonpayment of royalties or nonperformance by the permittee or lessee of any provision or requirement of the permit or lease: *Provided*, That before any such cancellation shall be made, the commissioner shall mail to the permittee or lessee by registered mail, addressed to the post office address of such permittee or lessee shown by the records of the office of the commissioner, a notice of intention to cancel such permit or lease specifying the default for which the permit or lease is subject to cancellation, and if, within thirty (30) days after the mailing of said notice to the permittee or lessee, he shall remedy the default specified in such notice, then no cancellation of the permit or lease shall be entered by the commissioner, but otherwise, the said cancellation shall be made and all rights of the permittee or lessee under the permit or lease shall thereupon automatically terminate: *Provided, further*, That failure to pay fees required under permits within the time prescribed therein shall automatically and without notice work a forfeiture of such permits and of all rights thereunder.

Cancellation
of permit
or lease.

Notice.

Failure to
pay fees
terminates
permits.

SEC. 13. Upon the expiration or forfeiture of any permit no new permit covering the lands, or any of them, embraced by such expired or forfeited permit shall be issued for a period of thirty (30) days following the date of such expiration or forfeiture. If

Public
auction.

more than one application for a permit covering such lands, or any of them, shall be made during such thirty day period, the commissioner shall issue a permit to such lands, or any of them, to the person offering the greatest cash bonus for such permit at a public auction to be held at the time and place and in the manner as the commissioner shall by regulation prescribe. Such auction shall be held at any time after the expiration of such thirty (30) day period and the only notice thereof shall be by entering in a book kept at the office of the commissioner for the purpose, which book shall be a public record, the date, place and hour of the holding of such auction.

Unit plan of
development.

SEC. 14. Whenever the commissioner shall find it is in the best interest of the state and of the production of petroleum, it is declared to be lawful for the state, the permittees, lessees, operator or any person owning or controlling royalty or other interest in separate properties of the same producing or prospective petroleum field, to enter into agreements with themselves or among each other, subject to the approval of the commissioner, for the purpose of cooperative exploration, development and operation of all or a part or parts of such field, or for the purpose of the exploration, development or operation of all or part or parts of such field as a pool or unit, and for the purpose of fixing the time, location and manner of drilling and for the purpose of regulating the location, sequence and number of exploratory wells required in the case of permits under unit operations and leases, and operating of wells for the exploration of petroleum on state and private lands and for the apportionment and division of the petroleum between the state and the several owners of land embraced within the field so placed in such pool, taking into consideration the relative character and geological showing in respect of said sev-

eral tracts of land so far as the same is reasonably ascertainable, the apparent probability of producing petroleum from the whole or any part thereof and any and all other apparent factors that may tend to aid in arriving at a fair, just and equitable participation by the state and the several owners in the apportionment and distribution of all the petroleum that shall be recovered and saved therefrom. The purpose of this section is to encourage the development and exploration of petroleum upon state lands by and through the unit plan of development. When it is in the best interests of the state the commissioner shall compel the adoption of unit plans of operation in so far as state lands are included in any productive pool or pools if the permittees or lessees of such lands shall fail to agree upon a plan of unit operation acceptable to the commissioner, the commissioner is empowered to fix the terms of such unit plan or plans and any permittees or lessees affected who fail to abide by such plan shall suffer forfeiture of their permits or leases upon notice as herein provided.

SEC. 15. The commissioner is authorized to insert in any permit or lease issued under the provisions of this act such terms as are customary and proper for the protection of the rights of the state and of the permittee or lessee and of the owners of the surface of the leased lands not in conflict with the provisions of this act.

State rights
protected.

SEC. 16. The commissioner is hereby required to prescribe and publish, for the information of the public, all reasonable rules and regulations necessary for carrying out the provisions of this act, and he may amend or rescind any rule or regulation promulgated by him under the authority contained herein: *Provided*, That no rule or regulation or amendment of the same or any order rescinding any rule or regulation shall become effective until after

Rules and
regulations.

fifteen (15) days from the promulgation of the same by publication in a newspaper of general circulation published at the state capital and shall take effect and be in force at times specified therein. All rules and regulations of the commissioner and all amendments or revocations of existing rules and regulations shall be recorded in an appropriate book or books, shall be adequately indexed and shall be kept in the office of the commissioner and shall be and constitute a public record. Such rules and regulations of the commissioner shall be printed in pamphlet form and furnished to the public free of cost.

Boundary
restrictions.

SEC. 17. All permits and leases of land containing petroleum made or issued under the provisions of this act, shall be subject to, and contain a condition that no well or wells shall be drilled within three hundred and thirty (330) feet of any of the outer boundaries of said lands so held under permit or lease, unless the right to petroleum in adjoining lands are vested in private ownership: *Provided*, That this section shall not apply to shore lands, river beds, lake beds, tide lands and submerged lands.

Right of way.

SEC. 18. Any person granted a permit or lease under the provisions of this act, shall have a right of way over public lands, as provided by law, when necessary, for the drilling, recovering, saving and marketing of petroleum. Before any such right of way grant shall become effective, a written application for, and a plat showing the location of such right of way, and the land necessary for the well site and drilling operations, with reference to adjoining lands, shall be filed with the commissioner, and all timber on said right of way and the land necessary for the drilling operation, shall be appraised by the commissioner and paid for in money by the person to whom the permit or lease is granted.

SEC. 19. All sales of timber, as prescribed herein shall be made subject to the right, power and au-

thority of the commissioner to prescribe rules and regulations governing the manner of the removal of the merchantable timber upon any lands embraced within any permit or lease with the view of protecting the same and other timber against destruction or injury by fire or from other causes, and such rules or regulations shall be binding upon the permittee or lessee, his successors in interest, and shall be enforced by the commissioner.

Removal of
timber upon
lands
embraced
in permit.

SEC. 20. After the issuance of any petroleum lease the lessee shall proceed to develop the petroleum in the lands covered thereby through the drilling of such wells as will efficiently extract the petroleum therefrom and such development shall take into account the productiveness of the producing horizon, the depth at which it occurs, the average cost of wells, the market requirements obtaining at any given time, and the maintenance of proper oil and gas ratios.

Wells drilled.

SEC. 21. All leases shall provide that the lessee shall drill an offset well to any well on adjoining land which is within three hundred fifty (350) feet of any outer boundary of the land covered by the lease, and which well on adjoining lands is producing petroleum in paying quantities and draining the lands covered by the lease, such offset to be begun within ninety (90) days from the completion of the adjoining well and drilled with due diligence to completion.

Offset well.

SEC. 22. In the case of any application for prospecting permits or leases to river beds, lake beds, and shore lands, the owner of the right to prospect for and develop and produce petroleum from the abutting lands shall have a preferential right for a period of thirty (30) days after he has received notice from the commissioner of such application, to a prospecting permit, or if petroleum has been

River beds,
lake beds and
shorelands.

discovered in commercial quantities in any structure underlying such abutting lands, a lease, to the portion of such river bed, lake bed, and shore lands as adjoins such abutting lands upon the terms and conditions herein provided, notwithstanding any acreage limitations herein provided as to permits and leases.

Submerged lands and tidelands of Pacific ocean.

SEC. 23. In the case of prospecting permits and leases to tide and submerged lands of the Pacific ocean, or any arm thereof, the commissioner shall make such regulations as may be necessary.

Commissioner has power to withhold leases.

SEC. 24. Nothing contained in this act shall be construed as requiring the commissioner to offer any tract or tracts of land for prospecting or lease, but the commissioner shall have power to withhold any tract or tracts from prospecting or leasing for petroleum purposes, if in his judgment the best interest of the state will be served by so doing.

Payment of royalties.

SEC. 25. All royalty required to be paid hereunder, when oil, is to be delivered, at the option of the commissioner, at the mouth of the wells into tanks provided by him, or into the pipe line with which the wells may be connected, to his credit; and for royalty, when gas, including casinghead gas or other gaseous substance, the lessee shall account to the commissioner for the market value thereof at the well for all that may be sold by lessee or used by lessee in the manufacture of gasoline or other product therefrom. At the election of the commissioner, in lieu of delivering the royalty, when oil, in kind, the lessee shall purchase the same at its market value at the well when produced.

Leases validated.

SEC. 26. All petroleum leases issued by the commissioner prior to the effective date of this act, which have not been legally cancelled for nonperformance by the lessees are hereby declared to be valid and existing contracts with the State of Washington,

according to their terms and provisions, and the obligation of the state to conform to the terms and provisions of such leases is hereby recognized, and the commissioner is hereby directed to accept and recognize all such leases according to their express terms and provisions. Any lease recognized and confirmed by this section may be relinquished to the state by the lessee, and a new prospecting permit, lease or leases in the form provided for in this act shall be issued in lieu of same and without bonus therefor, but the new prospecting permit, lease or leases so issued shall be as provided for in this act.

SEC. 27. Except as prohibited by the Enabling Act under which the Territory of Washington was admitted to the Union, as amended, and the Constitution of this state, assignments of permits and leases shall be valid after recording such assignments with the commissioner: *Provided*, That permits may not be assigned in part: *And provided further*, That leases may not be assigned in part when in the judgment of the commissioner such partial assignment would be prejudicial to the best interests of the state.

Assignment
of permits
and leases.

SEC. 28. Any applicant for a permit or lease under this act, feeling himself aggrieved by any order or decision, rule or regulation of the commissioner of public lands, concerning the same, may appeal therefrom to the superior court of the county wherein such lands are situated, as provided by the Public Lands Act (Remington's Revised Statutes, section 7797-125) (chapter 255, Session Laws of 1927, section 125).

Right of
appeal.

SEC. 29. If any provision or section of this act shall be adjudicated to be unconstitutional such adjudication shall not affect the validity of this act as a whole or any part thereof not adjudicated unconstitutional.

Partial
invalidity.

Statutes
repealed.

SEC. 30. That sections 175 to 185, both inclusive, of chapter 255, Laws of 1927, (Remington's Revised Statutes, section 7797-175 to section 7797-185) are hereby repealed.

Passed the Senate March 5, 1937.

Passed the House March 9, 1937.

Approved by the Governor March 16, 1937.

CHAPTER 162.

[S. S. B. 113.]

UNEMPLOYMENT COMPENSATION ACT.

AN ACT providing for relief from involuntary unemployment; declaring the public policy of the state; providing for contributions by employers and for an unemployment compensation fund; defining conditions of eligibility for and regulating benefits; establishing a procedure for the settlement of benefit claims and providing for court review thereof; creating the office of director and defining his powers and duties; accepting the provisions of the Wagner-Peyser Act of the Congress of the United States; permitting reciprocal benefit arrangements with the states; providing penalties; making appropriations for the payment of the expenses in the administration thereof; providing for the receipt of Federal monies for the administration thereof; and for the payment of claims out of the special funds established herein and for purposes specified or to be specified in certain acts of Congress, and declaring that this act shall take effect immediately.

Be it enacted by the Legislature of the State of Washington:

Title.

SECTION 1. This act shall be known and may be cited as the "Unemployment Compensation Act."

Purpose.

SEC. 2. Whereas, economic insecurity due to unemployment is a serious menace to the health, morals and welfare of the people of this state; involuntary unemployment is, therefore, a subject of general interest and concern which requires appropriate action by the legislature to prevent its spread and to