

H-3203-1 - Leasing Terms

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I. Introduction

This Handbook Section provides guidelines for adjudication where lease terms have been continued by reason of production or where leases qualify for extensions.

Also provided is information regarding the diligent exploration expenditure requirement, consolidation of leases, and readjustment of lease terms and conditions.

The procedures concerning the dating of leases, lease acreage limitations, and description of lands in lease applications or offers are covered in H-3210-1

and H-3220-1.

II. Additional Term Keywords

A. Continuation by Production

A lease may be continued beyond its primary term if one or CONTINUATION more wells have been completed thereon which are producing BY or utilizing geothermal resources in commercial quantities PRODUCTION or are capable of producing geothermal resources in commercial quantities. The latter requires the operator to demonstrate to the satisfaction of the authorized officer that diligent efforts are being made to bring the lease into actual production. At least 60 days prior to the anniversary date of the lease, the operator must provide the authorized officer a description of diligent efforts completed for the lease year and planned for the following year. Such information may include, but is not limited to, descriptions of negotiations for geothermal resources and/or electricity sales contracts, marketing arrangements, electrical generating and/or transmission agreements, and operations conducted or planned to better define the geothermal resource. See Manual Section 3203.13A and 43 CFR 3203.1-3.

Responsible

Official Step Action Keywords

Authorized 1. Provide Adjudication with a copy of NOTIFICATION Officer the First Production Memorandum, OF (District or which is also submitted when an PRODUCTION State Office) initial producible well is completed,

or other means showing lease is in
production in commercial quantities
or capable of such production

Docket 2. Assign case file to Adjudication.

Adjudication 3. Prepare notice to the lessee to notify NOTICE TO
of the lease continuation and transfer LESSEE
of the lease account from nonproducing
(terminable) to producing (nonterminable)
status (see Illustration 1).

4. Prepare accounting advice for MMS, Data ACCOUNTING
Management Division (MMS-DMD) to place ADVICE -
lease in producing status (see PRODUCTION
Illustration 2).

5. Check notice, attach copy of lease with
copy of first production memo, surname,
and route for signature.

6. Stamp case file "PRODUCING LEASE."

Responsible

Official Step Action Keywords

ALMRS Entry 7. Enter Action Date: (MANDATORY ACTION AUTOMATED
CODE) DE 1775/2910 Action Code (AC) 650 NOTATION
(actual production) or DE 1775/2910 AC
652 (well determined producible).

8. Also enter DE 1775/2910 AC 643 and DE
1775 AC 644/DE 2910 AC 658 and other
applicable AC's in accordance with
current Data Standards guidance.

9. Enter Action Date: (MANDATORY ACTION

CODE) DE 1775 AC 057/DE 2910 AC 102

(notice sent to MMS-DMD of lease

changing from nonproducing (terminable)

to producing (nonterminable) status).

10. Remove DE 1775/2910 AC 763-EXPIRES

while lease is in producing status.

Signing 11. Review and sign notice.

Official

Docket 12. File case file.

III. Extensions Keywords

A. Extension by Drilling

A lease may be extended for an additional 5 years EXTENSION

beyond its 10-year primary term if actual drilling BY

has commenced and is diligently continued over DRILLING

the end of the primary term until the well reaches

a bona fide geologic objective. The drilling must

occur on the lease. If production or utilization

in commercial quantities is occurring at the end

of the 5-year extended term, the lease may continue

for so long thereafter as geothermal steam is produced

or utilized in commercial quantities, up to 35 additional

years. (See Manual Section 3203.14B.)

Responsible

Official Step Action Keywords

Authorized 1. Report to Adjudication any drilling NOTIFICATION

Officer operation diligently performed. If OF DRILLING
(District or there are no activities to extend ACTIVITIES
State Office) lease, see Step III.B.1

Adjudication 2. Receive evidence of 11th year rental
payment (MMS rental receipt
information).

3. Check out case file from Docket.

Adjudication 4. Prepare decision to lessee DECISION
extending term of lease for 5 years TO LESSEE
(see Illustration 3).

5. Prepare accounting advice for ACCOUNTING
MMS-DMD to reflect the new expiration ADVICE
date (see Illustration 4). EXTENSION

6. Route for signature and ALMRS Entry.

ALMRS Entry 7. Enter Action Date: (MANDATORY ACTION AUTOMATED
CODE) Effective date of lease NOTATION
extension; DE 1775 AC 258/DE 2910 AC

235 (extended). Action Remarks:

Extended THRU MM/DD/YY (5 years beyond
primary term). General Remarks:

Indicate "BY DRILLING."

Responsible

Official Step Action Keywords

8. ENTER ACTION DATE: (MANDATORY ACTION
CODE) Enter new lease expiration date;
DE 1775/2910 AC 763-EXPIRES.

Docket 9. File case file.

B. Rejection of Diligent Drilling Extension

Responsible

Official Step Action Keywords

Adjudication 1. Receive report from authorized officer REPORT ON

(District/SO) that operations were not NONDILIGENCE

diligently conducted.

2. Prepare decision to lessee stating

that the lease did not qualify for

extension and had, therefore,

expired (see Illustration 5).

ALMRS Entry 3. Enter Action Date: (MANDATORY ACTION AUTOMATED

CODE) Date lease expired; DE 1775 AC NOTATION

762/DE 2910 AC 234 (expired).

NOTE: Do not close case file until

after end of appeal period.

Adjudication 4. Prepare accounting advice RENTAL

for MMS/DMD to show expiration and REFUND

to authorize refund of rental

(see Illustration 6).

5. Route case file to ALMRS Entry and

Records.

ALMRS Entry 6. Enter Action Date: If no appeal filed, AUTOMATED

enter DE 1995/2910 AC 970 (case closed). NOTATION

Records 7. Note expiration, remove lease number

from plat.

8. Route case file to Docket.

Docket 9. Close case file.

Adjudication 10. Make lands available for leasing in accordance with 43 CFR 3210 or 3220.

Keywords

C. Leases Committed to an Approved Cooperative EXTENSION BY or Unit Plan or Communitization Agreement - DRILLING

Extension by Drilling

A lease committed to an approved plan or agreement may be extended for an additional 5 years beyond its primary term if, prior to the end of its primary term, approved actual drilling operations are commenced on any committed tract and those operations thereafter are conducted diligently over the end of the lease's primary term until the well reaches a depth sufficient to test the geothermal objective specified by the plan or agreement or at a shallower depth with authorized officer approval. (See Manual Section 3203.14B.)

Responsible

Official Step Action Keywords

Authorized 1. Notify Adjudication of diligent NOTIFICATION Officer drilling activities under the plan OF DRILLING (District or or agreement that are being ACTIVITIES State Office) conducted over the end of the primary term of a lease committed to the plan or agreement.

Adjudication 2. Request Docket to pull affected case file(s).

3. Issue decision to lessee extending DECISION

lease pursuant to 43 CFR 3203.1-4(b) TO LESSEE

(see Illustration 7).

4. Prepare accounting advice to extend ACCOUNTING

term of lease in MMS-DMD (see ADVICE

Illustration 4). EXTENSION

ALMRS Entry 5. Enter Action Date: (MANDATORY ACTION AUTOMATED

CODE) Effective date of lease extension; NOTATION

DE 1775 AC 258/DE 2910 AC 235 (extended).

Action Remarks: Extended THRU MM/DD/YY

(5 years beyond primary term). General

Remarks: Indicate "BY DRILLING."

6. ENTER ACTION DATE: (MANDATORY ACTION

CODE) Enter new lease expiration date;

DE 1775/2910 AC 763-EXPIRES.

Docket 7. File case file.

Keywords

D. Leases Committed to an Approved Cooperative CONTINUATION

or Unit Plan or Communitization Agreement - BY PRODUCTION

Continuation by Production

If, prior to the end of its primary term, a lease is committed to a plan or agreement under which production or utilization in commercial quantities is occurring, or under which a producible well has been completed, the term of that lease may be continued for the remaining term of the plan or agreement provided that the lease remains committed to the plan or agreement.

(See Manual Section 3203.14 C2.)

Responsible

Official Step Action Keywords

Authorized 1. Notify Adjudication by memorandum of NOTIFICATION

Officer the establishment of a participating OF ESTABLISH-

(District or area (PA). The memorandum should MENT OF

State Office) include the effective date and the PARTICIPATING

boundary of the PA. AREA

Adjudication 2. Determine leases affected. Notify

Docket to pull case files.

3. Prepare decision extending the leases DECISION

to be continued for the remaining TO LESSEE

term of the plan or unit agreement

if the lease term would expire prior

to that of the plan or unit agreement.

Transfer lease accounts to MMS-DMD

(see Illustration 8).

4. Prepare accounting advices for MMS-DMD ACCOUNTING

to transfer leases into producing ADVICE

status (see Illustration 9). PRODUCTION

ALMRS Entry 5. Enter Action Date: (MANDATORY ACTION AUTOMATED

CODE) DE 1775/2910 AC 650 (actual NOTATION

production), or DE 1775/2910 AC 651

(allocated production), or DE 1775/2910

AC 653 (held by production elsewhere in

unit), or DE 1775/2910 AC 652 (well

determined producible).

6. Also enter DE 1775/2910 AC 643 and other

applicable AC's in accordance with
current Data Standards guidance.

Responsible

Official Step Action Keywords

7. Enter Action Date: (MANDATORY ACTION
CODE) DE 1775 AC 057/DE 2910 AC 102

(notice sent to MMS-DMD of producing
lease status).

8. Remove DE 1775/2910 AC 763-EXPIRES
while lease is in producing status.

Docket 9. File case files.

Keywords

E. Extension by Meeting the Steam Act

Amendments Requirements

Under Section 3 of the Geothermal Steam Act Amendments EXTENSION
of 1988 (P.L. 100-443; 102 Stat. 1766), a lease may be BY MEETING
extended for two successive 5-year periods beyond its STEAM ACT
primary term provided the lessee has made a bona fide AMENDMENTS
attempt to produce or utilize geothermal resources and REQUIREMENTS
agrees to either make payments in lieu of commercial
quantities production or make significant expenditures
during the periods of lease extensions.

The request for a lease extension under the Steam Act
Amendments (SAA) requirements shall be made 60 days
prior to the end of the primary term or extension
period. In making a request for an SAA extension,
the lessee/operator must indicate at the time of the

request: (1) diligent efforts made during the primary or current extension period, including attempts to negotiate a sales contract, (2) current economic conditions and factors affecting the efforts to produce from the lease, and (3) whether (a) payments in lieu of commercial quantity production, or (b) significant expenditures will be made on an annual basis during the extension.

Annual payments (in addition to the base annual rental) charged for payments in lieu of commercial quantities production are \$3 per acre yearly for the first 5-year extension and \$6 per acre yearly for the second 5-year extension.

If lessee/operator elects to make significant expenditures, the minimum amount that must be spent is \$15 per acre yearly for the first 5-year extension and \$18 per acre yearly for the second 5-year extension. To obtain credit towards meeting the significant expenditures requirement, the lessee/operator must submit to the BLM authorized officer a report of expenditures that qualify (those involving actual drilling operations on the lease, geochemical or geophysical surveys for exploratory or development wells, road or generating facility construction on the lease, architectural or engineering services procured for the design of generating facilities to be located on the lease, or environmental studies required by State or Federal law).

The report of expenditures shall be filed no later than

60 days after the end of the lease year in which the expenditures were made.

F. Actions by Adjudication on Requests for

Extension By Meeting the Steam Act

Amendments Requirements

Responsible

Official Step Action Keywords

Adjudication 1. Receive request for extension from lessee/operator.

2. Obtain case file from Docket.

3. Determine if extension application

complies with the regulation and if

lease is eligible for extension.

4. Request recommendation/review report

from District or Field Office

authorized officer.

ALMRS Entry 5. Enter Action Date: (MANDATORY ACTION

CODE) Date lease extension request

was filed; DE 1775 AC 238/DE 2910 AC

224 (extension request received).

6. Enter Action Date: Date report

requested from District or Field

Office; DE 1775 AC 152/DE 2910 AC

910. Action Remarks: Ext. Rqst -

43 CFR 3203.1-4(c).

Authorized 7. Determine if diligent efforts meet

Officer the SAA extension requirements.

(District or

State Office)

8. Report to State Office Adjudication

whether the lease is eligible for

SAA extension.

ALMRS Entry 9. Enter Action Date: Date report

received from District or Field

Office; DE 1775 AC 153/DE 2910 AC

911. Action Remarks: Ext. Rqst -

DO/Field Office response.

Responsible

Official Step Action Keywords

10. Prepare decision to lessee requesting

any monies due prior to issuing

5-year extension (an extensions under

the provisions of payment in lieu

commercial production)

11. Allow 30 days from receipt of this

decision in which to make payment.

This decision is an interlocutory

decision (see Illustration 10).

12. Check decision for correctness,

surname, route to signing official

for signature.

Signing 13. Review and sign decision.

Official

ALMRS Entry 14. Enter Action Date: Date decision

issued; DE 1775 AC 718/DE 2910 AC

393. Action Remarks: Nature of
decision.

15. Return case file to Docket pending
lessee's compliance with Step 16
above.

16. If lessee/operator has complied with
the requirements outlined in Step 16,
obtain case file from Docket.

17. Write decision to lessee extending
term of lease for 5 years (see
Illustration 11).

18. Check decision for correctness,
surname, and route to signing
for signature.

Signing 19. Review and sign decision.

Official

Adjudication 20. Prepare accounting advice to
forward to MMS-DMD the payment
received in lieu of commercial
quantities production (see
Illustration 12).

Responsible

Official Step Action Keywords

ALMRS Entry 21. Enter Action Date: (MANDATORY
ACTION CODE) Date additional payment
made in lieu of commercial production

under 43 CFR 3203.1-4(c) (2) (i);

DE 1775/2910 AC 144. Action Remarks:

Amount; lease year for which payment

is made; OR

22. Enter Action Date: (MANDATORY

ACTION CODE) Date of approval by

authorized officer that significant

expenditures were met under 43 CFR

3203.1-4(c) (2) (ii). Action Remarks:

Identify applicable lease year.

23. Enter Action Date: (MANDATORY

ACTION CODE) Effective date of lease

extension; DE 1775 AC 258/DE 2910 AC

235 (extended). Action Remarks:

"THRU MM/DD/YY;" and indicate whether

"1st EXT" or "2nd Ext." General

Remarks: Identify whether "BY STEAM

ACT AMENDMENTS."

24. Enter Action Date: (MANDATORY

ACTION CODE) Enter new lease

expiration date; DE 1775/2910 AC

763 (expires).

Adjudication 25. Return case file to Docket.

Keywords

IV. Suspension of Operations and Production or

Suspension of Operations

The term of any lease under a suspension of operations SUSPENSION OF

and production pursuant to 43 CFR 3205.3-8 will be OPERATIONS AND adjusted at the time the suspension is lifted. The PRODUCTION OR amount of time in which the lease was under suspension SUSPENSION OF shall be added to the primary term of that lease. No OPERATIONS lease will expire during any period of suspension.

The actions that need to be taken on leases affected by suspensions are outlined in H-3205-1.

Keywords

V. Segregation of Leases on Commitment to a SEGREGATION

Cooperative or Unit Plan or Communitization OF LEASES

Agreement COMMITTED TO

UNIT OR CA

This section outlines the procedures to follow when a cooperative or unit plan or communitization agreement (CA) has been approved and specifically covers the process of segregating leases that result from such an approval.

The regulations at 43 CFR 3203.1-5 provide for the segregation of leases that are committed to a plan or agreement and which are only partially within the boundary of that plan or agreement. The lands outside of the boundary are to be segregated into a new lease and the base lease will be comprised of those lands within the boundary of the plan or agreement.

The effective date of a segregation is the same as the approval date of the plan or agreement.

The term of the segregated lease will not be extended by reason of the segregation and will remain the same as

provided for in the original lease terms. (See Manual Section 3203.15.)

Responsible

Official Step Action Keywords

Authorized 1. Send Adjudication a copy of the NOTIFICATION

Officer approved unit, Exhibit A (a map of OF PLAN

(District or the unit boundary), Exhibit B APPROVAL

State Office) (description of lands in leases

within unit area) and a transmittal

memorandum which includes the unit

approval date and a list of leases

within the unit, including those

leases which require segregation.

Adjudication 2. Make a unit case file labeled with

the unit name. Serialize the unit

case file and enter into ALMRS.

Records 3. Note plan or agreement on affected RECORD

plats. NOTATION

Adjudication 4. Determine affected leases. Notify

Dockets to pull case files.

Responsible

Official Step Action Keywords

Docket 5. Send case files to Adjudication.

Adjudication 6. Check description of leases against

Exhibit B. Any discrepancies are to

be reported by memorandum to the

authorized officer (District or State

Office) who approved the agreement.

7. For those leases that are either LEASES entirely or partially within the unit NOT boundary but are not committed to the COMMITTED unit the memorandum should be marked "NOT COMMITTED" and placed in the lease case file for information.

Route to ALMRS Entry.

8. For leases that are entirely within LEASES and committed to the unit agreement, ENTIRELY route to ALMRS Entry and to Docket. COMMITTED

9. Leases that are partially within the SEGREGATION unit boundary and are committed to OF LEASES the unit will require segregation PARTIALLY of the lands that are outside of the COMMITTED boundary into a new lease.

10. If there are any pending assignments PROCESS on a lease that can be processed PENDING with an effective date prior to the ASSIGNMENTS agreement effective date, they must be processed before the lease segregation.

11. Determine if any bond coverage is BOND required for the segregated portion COVERAGE of the lease. If coverage is required, REQUIRED it must be taken care of prior to the segregation.

12. Prepare segregation decision SEGREGATION

(see Illustration 13). DECISION TO
LESSEE

NOTE: The segregated lease will not be
extended as would an oil and gas
lease under the same circumstances.

The term of the segregated lease
remain the same as under the
terms of the original lease.

Responsible

Official Step Action Keywords

13. Prepare an accounting advice for ACCOUNTING
MMS-DMD (Illustration 14). ADVICE -
SEGREGATION

14. Request new serial number from
Accounts. Prepare a new folder for
segregated lease. Make copies of
pertinent documents in base lease to
be placed in new file. Pertinent
documents must include the lease,
lease terms, stipulations, etc.

ALMRS Entry 15. Enter Action Date: (MANDATORY ACTION AUTOMATED
CODE) Effective date of unit or CA NOTATION
approval; DE 1775 AC 226/DE 2910 AC 232
(lease committed to unit) or DE 1775 AC
256/DE 2910 AC 246 (lease committed to
CA). Action Remarks: Serial number

and name of unit or serial number of CA.

16. For leases partially committed to

unit/CA - Enter Action Date: (MANDATORY

ACTION CODE) Effective date of unit or

CA approval; DE 1775 AC 259/DE 2910 AC

700 (lease segregated). Action Remarks:

Enter "INTO" serial number of new lease

case.

17. For new lease segregated due to

unit/CA - Enter Action Date: Effective

date of unit/CA approval; DE 1775 AC

569/DE 2910 AC 209 (case created by

segregation). Action Remarks: Enter

"OUT OF" serial number of parent lease.

NOTE: Also add additional AC's in

accordance with current Data

Standards guidance, e.g., DE 1775

AC 001/DE 2910 AC 387 to

establish case, etc., including

DE 1775/2910 AC 763-EXPIRES.

18. For leases in unit/CA area but not

committed - Enter Action Date:

(MANDATORY ACTION CODE) DE 1775 AC

262/DE 2910 AC 233 (lease in

unit/uncommitted). Action Remarks:

Serial number of unit/CA.

Responsible

Official Step Action Keywords

Records 19. Note segregation of lease on plat RECORD and historical index (HI). Place NOTATION copy of plat in new case file.

Docket 20. File case files with active cases.

VI. Segregation of Leases on Contraction of a Keywords

Cooperative or Unit Plan or Communitization

Agreement

Contraction of an agreement is the process of reducing a SEGREGATION unit area to the boundaries of the PA, as outlined in the OF LEASES terms of the agreement. Pursuant to Article IV of the CONTRACTED model unit agreement, the unit must contract to the FROM UNIT approximate boundaries of the PA 5 years after the first OR CA PA is established unless drilling in the unit but outside the PA is diligently occurring on four-month intervals. Such drilling will extend the unit term. Check Article IV of the subject agreement.

Leases that are entirely eliminated from the plan or agreement are not entitled to an extension. The term of these leases will be as provided in the original lease.

(See 43 CFR 3203.1-5(c).)

Elimination of a portion of a lease committed to a plan or agreement upon contraction of that plan or agreement will result in a segregation of the eliminated portion into a new and distinct lease pursuant to 43 CFR 3203.1-5(b).

The segregated lease is not entitled to an extension and the term of the lease will remain the same as provided in

the terms of the original lease. (See Manual Section 3203.15 and 43 CFR 3203.1-5.)

Responsible

Official Step Action Keywords

Authorized 1. Notify State Office Adjudication NOTIFICATION Officer by memorandum that drilling is OF CONTRACTION

(District or occurring in the plan or unit

State Office) agreement which would delay unit contraction.

2. Notify State Office Adjudication

by memorandum when the plan or agreement has been contracted.

The memorandum should include a

map of the new boundary, the

effective date, and a list of

leases that have been entirely

or partially eliminated.

Adjudication 3. Send unit case file to Records for

plat notation.

Records 4. Change unit boundary on plats.

Responsible

Official Step Action Keywords

Adjudication 5. Determine leases affected by the

contraction and order case files

from Docket.

Docket 6. Pull case files and make copies of

memorandum for Adjudication.

Adjudication 7. File a copy of the memorandum in all lease case files affected and the unit file.

8. For leases eliminated from the plan ELIMINATED or agreement which were within the LEASES NOT unit boundary but not committed, no COMMITTED adjudicative action is required.

ALMRS Entry 9. Remove DE 1775 AC 262/DE 2910 AC 233 AUTOMATED (lease in unit/uncommitted) when NOTATION lease is removed from within unit boundary.

10. For leases committed to unit, but ELIMINATED entirely eliminated from the plan or LEASES agreement for which lease expiration TERMINATED dates precede that of the contraction, prepare a decision to the lessee noting the contraction and terminating the lease (see Illustration 15). Send a copy of the decision to the MMS-DMD.

ALMRS Entry 11. Enter Action Date: (MANDATORY ACTION AUTOMATED CODE) Effective date of unit/CA NOTATION contraction; DE 1775 AC 257/DE 2910 AC 226 (eliminated by contraction).

Action Remarks: Serial number of unit.

12. Enter Action Date: (MANDATORY ACTION CODE) Lease termination date; DE 1775 AC 790/DE 2910 AC 244 (terminated)

13. Enter Action Date: (MANDATORY ACTION

CODE) DE 1775/2910 AC 970 (case closed).

Responsible

Official Step Action Keywords

14. For leases entirely eliminated from TRANSFER

the plan or agreement which are ACCOUNT OF

still within their primary terms: ELIMINATED

LEASES

14a. Prepare a decision to the lessee

noting the contraction and

transferring the account to

nonproducing (terminable) status

(see Illustration 16).

14b. Prepare accounting advice for

MMS-DMD to reactivate the lease in

nonproducing (terminable) status

(see Illustration 17).

ALMRS Entry 15. Enter Action Date: (MANDATORY ACTION AUTOMATED

CODE) Effective date of unit/CA NOTATION

contraction; DE 1775 AC 257/DE 2910 AC

226 (eliminated by contraction).

Action Remarks: Serial number of unit.

16. For leases partially eliminated from

unit/CA - Enter Action Date: (MANDATORY

ACTION CODE) Effective date of unit or

CA approval; DE 1775 AC 259/DE 2910 AC

700 (lease segregated). Action Remarks:

Enter "INTO" serial number of new lease case.

17. For new lease segregated due to partial elimination from unit/CA - Enter Action

Date: Effective date of unit/CA

contraction; DE 1775 AC 569/DE 2910 AC 209 (case created by segregation).

Action Remarks: Enter "OUT OF" serial number of parent lease.

NOTE: Also add additional AC's in

accordance with current Data

Standards guidance, e.g., DE 1775

AC 001/DE 2910 AC 387 to

establish case, etc., including

DE 1775/2910 AC 763-EXPIRES.

18. Enter Action Date: (MANDATORY ACTION

CODE) DE 1775/2910 AC 058 (notice sent

to MMS-DMD that lease is changed from a

producing (nonterminable) to

nonproducing (terminable) status).

Responsible

Official Step Action Keywords

Adjudication 19. Prepare a segregation decision for SEGREGATION

committed lease partially eliminated OF LEASE

due to contraction of unit/CA PARTIALLY

(see Illustration 18). (See 43 CFR ELIMINATED

3203.1-5(b).)

20. Prepare accounting advice to reactivate ACCOUNTING

new lease in MMD-DMD created due to ADVICE -

partial contraction (Illustration 14). SEGREGATION

ALMRS Entry 21. Enter Action Date: (MANDATORY ACTION AUTOMATED

CODE) DE 1775 AC 234/DE 2910 AC 253 NOTATION

(elimination by partial contraction).

Action Remarks: Serial number of

unit/CA. General Remarks: Describe

legal land description and acres of

lease eliminated from unit/CA.

Adjudication 22. Make copies of pertinent documents

to be placed in the new lease case

file such as the lease, lease terms

and stipulations and any assignments.

23. Route case files to Records.

Records 24. Note segregation of lease on plat and

historical index (HI). Place copy of

plat in new case file.

25. Route case files to Docket.

Docket 26. File case files.

Keywords

VII. Consolidation of Leases

At the request of the lessee, the authorized officer may CONSOLIDATION

consolidate two or more contiguous geothermal resources OF LEASES

leases held by the same lessee, provided that the rental,

royalty, and all other terms and conditions are the same

and that the total acreage of the combined leases does

not exceed 2,560 acres. If the lease boundaries are not adjacent, the leases may still be consolidated at the discretion of the authorized officer. Leases with different effective dates may also be consolidated, however, the effective date of the new lease will be that of the earliest issued lease.

The rental and royalty rates and the terms and conditions of the consolidated lease will remain the same as those provided for in the earliest effective lease.

Responsible

Official Step Action Keywords

Adjudication 1. Receive request for consolidation REQUEST of leases from lessee. FOR CONSOLIDATION

2. Check out affected case files.

3. Review cases for the following REVIEW OF criteria. If one or more of the REQUEST following criteria have not been met, the consolidation should be denied or curative action requested by letter from the lessee if possible. (Illustration 19).

3a. All leases must be held by the same lessee.

3b. The total acreage of all leases combined must not exceed 2,560 acres, except where the rule of

approximation applies (see 43

CFR 3203.2(a)).

4. Request recommendations on REQUEST

consolidation from the authorized RECOM-

officer (SO/District Office), MENDATION

noting if the consolidation request

involves leases which are not

adjacent (Illustration 20).

Responsible

Official Step Action Keywords

Authorized 5. Make determination on consolidation.

Officer Report recommendations to

Adjudication.

Adjudication 6. Receive recommendations from

authorized officer. If the consolid-

ation is not to be allowed, deny the

request by decision, allowing for an

appeal period. If the report from the

authorized officer is favorable,

prepare a new lease form (Illustration

21) to show the following:

6a. All of the serial numbers are to

be shown on the lease form. The

new lease is to be referenced by

the senior lease serial number.

6b. Combined land description and

total acreage.

6c. Effective date. If the consolidated leases have different effective dates, the effective date of the new lease will be that of the senior lease.

6d. Any additional information as recommended by the authorized officer.

7. Prepare decision to lessee requesting execution of the lease form (Illustration 22).

8. After receiving executed lease forms from lessee, prepare accounting advice for MMS-DMD if the leases are nonproducing (Illustration 23). If the leases are producing, a copy of the final decision is sent to MMS-DMD.

Adjudication 9. Prepare decision consolidating the leases. (Illustration 24).

Responsible

Official Step Action Keywords

10. Combine the case files under senior lease serial number.

ALMRS Entry 11. Enter Action Date: (MANDATORY ACTION AUTOMATED CODE) Date of decision consolidating NOTATION leases; DE 1775 AC 199/DE 2910 AC 972 (cases consolidated). Action Remarks:

Serial number of lease that was

consolidated into this lease.

12. On case absorbed into another lease -

12a. Enter Action Date: Date of decision

lease consolidated into other lease;

DE 1775 AC 199/DE 2910 972.

12b. Enter Action Date: Date case

consolidated; DE 1775/2910 AC 970

(case closed). Action Remarks:

Enter "INTO" serial number of

remaining senior lease.

Records 13. Note consolidation on appropriate

plat and HIs.

Docket 14. File case files.

Keywords

VIII. Diligent Exploration DILIGENT

EXPLORATION

A. Diligent Exploration Requirement

Regulation 43 CFR 3203.5 requires that diligent exploration

operations be performed on the lease until there is a well

capable of commercial production on the leased lands. In

addition, after the fifth lease year, operations must

exceed the following minimum per acre expenditures:

Lease Year Expenditure Per Acre

6th \$ 4

7th \$ 6

8th \$ 8

9th \$10

10th-15th \$12

Holders of leases have the option of either performing the minimum required diligent exploration or paying an additional \$3 per acre each year.

B. Expenditure Reports EXPENDITURE

REPORTS

Expenditure reports are to be submitted to and approved by the authorized officer (District or State Office). The lessee or operator may file expenditure reports at any time.

However, for qualifying expenditures to be credited toward diligent exploration expenditure requirements for a specific year, the report must be submitted within 60 days after the end of that lease year (see 43 CFR 3264.3). Any expenditure claims received after the 60-day deadline must be credited to the current or future lease years.

Any approved expenditures in excess of the minimum required may be credited to the expenditure for successive years. See 43 CFR 3203.5 and Manual Section 3203.5.

Keywords

C. Lease Cancellation LEASE

CANCELLATION

Although 43 CFR 3244.3 does not provide for the mandatory cancellation of a lease that is in violation of the lease terms, regulations, or law, 43 CFR 3203.5 states that "Failure to either pay the additional rental or complete

the minimum required diligent exploration by the end of a lease year shall subject the lease to cancellation."

Therefore, BLM may rightfully hold a lease for cancellation where the minimum qualifying expenditures are not made after the sixth year of the primary lease term, at which time the requirement must be continually met on an annual basis; See Union Texas Exploration Company, 81 IBLA 153 (1984) (Appendix 1).

Lessees in violation of this requirement must be allowed 30 days after receipt of the violation notice in which to correct the violation. If the violation is corrected, the lease will remain in good standing. However, such notification is not necessary when the lease would otherwise expire at the end of the primary period.

Responsible

Official Step Action Keywords

Adjudication 1. Notify the lessee that, beginning with NOTIFICATION the sixth lease year, minimum diligent OF REQUIREMENT exploration expenditures (DEE) or TO LESSEE additional rental is required by the end of that lease year. Include the amount of minimum required expenditures and the additional rental in the notice.

Also state that, in order for qualifying expenditures to be credited to the lease for the sixth year, such expenditures must be reported within

60 days after the end of that lease

year (Illustration 25).

2. Have a suspense file for DEE.

NOTE: ALMRS AC 247 may be used as a

suspense file. Notify Docket

to pull case file after end of

sixth year.

Docket 3. Pull case file for Adjudication.

Responsible

Official Step Action Keywords

Adjudication 4. Check in case file for evidence of one EVIDENCE OF

of the following: EXPENDITURES

4a. Memorandum showing approved

expenditures;

4b. Memorandum showing that no

expenditures have been reported

for the lease; or

4c. Rental receipt for additional \$3

per acre or fraction thereof.

5. If there is no evidence of steps 4a,

b, or c, above, first telephone MMS-DMD

and verify whether or not the additional

rental has been submitted.

6. If the additional rental was submitted,

check to make sure the amount is correct

and see step 13, below. If no

additional rental was submitted, see

step 7, below.

7. Sixty days after the end of the lease year, send memorandum to District/S.O.

Fluid Minerals inquiring whether any expenditures were approved for the lease (Illustration 26).

Authorized 8. Submit memorandum on expenditures Officer within 10 working days to Adjudication.

(District or If applicable, the memorandum should State Office) state if the operator has fully met the DEE requirement for the remainder of the primary term, or if a producible well has been completed on the lease.

Adjudication 9. If expenditures have been approved, check to make sure the amount exceeds the minimum required. See step 13, below.

Responsible

Official Step Action Keywords

10. If no expenditures have been DECISION approved, the lease should be held OF for cancellation in accordance with CANCELLATION 43 CFR 3244.3. Prepare a decision FOR to the lessee allowing 30 days in NONCOMPLIANCE which to comply and an additional 30 days for appeal.

ALMRS Entry 11. Optional - Enter Action Date: Date AUTOMATED

decision issued; DE 1775 AC 718/DE NOTATION

2910 AC 393. Action Remarks:

Specify what is required by the

decision. Also may enter

DE 1775/2910 AC 247-FUTURE ACTION

SUSPENSE.

Docket 12. File case file.

Adjudication 13. If expenditures have been approved

or the additional rental was sub-

mitted, see step 14. If no action

has been taken by lessee, see step 17.

14. Complete expenditure requirement work-

sheet in case file (Illustration 27).

Log case file into suspense file for

end of next lease year.

ALMRS Entry 15. Enter Action Date: (MANDATORY ACTION AUTOMATED

CODE) Date of approval by AO that NOTATION

diligent exploration expenditures met;

DE 1775 AC 221/DE 2910 AC 220 (diligent

exploration met). Action Remarks:

Indicate applicable lease year.

16. If additional rental was paid in lieu

of DEE - Enter Action Date: (MANDATORY

ACTION CODE) Date annual payment is

received in lieu of DEE; DE 1775/2910 AC

142 (additional rental in lieu of DEE).

Action Remarks: Amount; and applicable

lease year.

Adjudication 17. If no expenditures were approved and no additional rental was submitted, check to make sure the certified card was returned. Allow an additional 30-day period for any appeal.

Responsible

Official Step Action Keywords

18. If no appeal is filed, prepare decision of lease cancellation.

ALMRS Entry 19. Enter Action Date: (MANDATORY ACTION AUTOMATED CODE) Date of lease cancellation NOTATION

decision. DE 1775 AC 756/DE 2910 AC

199 (cancelled). Action Remarks:

Indicate reason.

20. Remove DE 1775/2910 AC 763-EXPIRES.

Records 21. Remove lease from plat and note HI.

Docket 22. Stamp case file "DEAD" and file.

IX. Readjustment of Terms and Conditions Keywords

A. Readjustment of Rentals and Royalties

In accordance with 43 CFR 3205.3-9, the rentals and READJUSTMENT royalties of any geothermal lease may be readjusted OF RENTALS at not less than 20-year intervals beginning 35 years AND ROYALTIES after the date that geothermal steam is produced, as determined by the authorized officer. If the rental or royalty is increased as a result of this readjustment, the rate shall not be increased more than 50 percent

above that rate paid prior to the readjustment. In no event shall the royalty rate be increased in excess of 22 1/2 percent. The authorized officer shall give notice of any proposed readjustment of the rental or royalty rate.

Unless the lessee relinquishes the lease within 30 days after receipt of the readjustment notice, the lessee will have agreed to the readjusted rates stated in the notice received (see 43 CFR 3205.3-9). The readjusted rentals and royalties shall be effective as of the end of the term being adjusted.

B. Readjustment of Lease Terms and Conditions

The terms and conditions of any geothermal lease other than the rental and royalty may be readjusted, as determined by the authorized officer, at not less than 10-year intervals beginning 10 years after the date that geothermal resources are produced and utilized commercially from the lease for any purpose, including the generation of electricity. Since the provisions of the Geothermal Steam Act of 1970 separately provided for the readjustment of the lease rental and royalty, as addressed in Step IX.A. above, the readjustment of the terms and conditions provided for by the Section 8(a) of the law shall concern terms and conditions **other** than the rental and royalty, such as environmental protection measures. In accordance with 43 CFR 3203.9, the authorized officer shall give notice of any proposed readjustment of the lease terms and conditions. Unless

the lessee files an objection within 30 days after receipt of the readjustment notice or relinquishes the lease within 30 days after receipt of such notice, the lessee will have agreed to the readjusted terms and conditions stated in the notice received (see 43 CFR 3203.9).

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