

H-3107-1 - Continuation, Extension, or Renewal of Leases

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Introduction

This Handbook is designed for use in processing the extension, continuation, termination, expiration, exchange, and renewal of Federal leases. The procedures concerning Federal oil and gas leases detailed in this Handbook require close coordination between Field Office (FO) fluid mineral operations and State Office (SO) fluid lease adjudication personnel to ensure that actions affecting the term or continuation of any Federal lease as a result of field operations, such as drilling or the discovery of oil and gas in paying quantities, are promptly and correctly handled.

This Handbook generally follows the order of both the regulations found at 43 CFR Subpart 3107 and Manual Section 3107. The first portion of this Handbook addresses drilling extensions. Section II provides guidance for the FO fluid mineral operations and SO fluid lease adjudication for actions to be taken upon first production and cessation of production. Extensions of leases resulting from the formation of unit agreements and the elimination of leases in whole or part from a unit agreement or a communitization agreement (CA) are referenced in Sections III and IV of this Handbook, but the detailed guidance (including the affects on lease extensions for failure to meet the public interest requirement for a unit or CA) is contained in Handbook 3105-1 (for SO fluid lease adjudication) and Manual Section 3180 (for the FO and SO personnel supervising unit and CA operations).

Section V of this Handbook provides guidance concerning lease extensions resulting from approval of assignments and the effect of discovery of oil or gas on leases that have been subjected to partial assignments. Section VI of the Handbook cross-references Handbook 3108-1, which deals with extensions granted in connection with reinstatement of leases. Sections VII and VIII of the Handbook provide detailed guidance for processing exchange and renewal lease applications, while Section IX covers other types of lease extensions.

First production on or affecting Indian oil and gas leases and drilling and production aspects concerning lease extensions and termination of Indian leases that are under BLM FO operations supervision also are addressed in this Handbook. Sections X and XI provide the FO fluid mineral operations with general guidance in processing first production memoranda and cessation of production reports on Indian oil and gas leases and making recommendations to the Bureau of Indian Affairs (BIA).

Keywords

I. Extension by Drilling on Federal Lands

A. General. Lease extension by drilling is only EXTENSION BY

authorized for actual drilling operations that were DRILLING

commenced prior to and are being diligently conducted

over the expiration date of the primary term of the lease.

Such an extension is not available for drilling over the

end of an extended term of any lease issued on or after

September 2, 1960, including any extended term of a lease

by reason of previous drilling extension, segregation of a

lease committed in part to a unit, elimination from a unit

or CA, and similar extensions. An approved suspension of

operations and/or production for any period beginning

before the end of the primary lease term shall serve to

extend the primary term by a period equal to the period of

the suspension. (See Manual Section 3103 and Handbook

3103-1.) A lease may still be eligible for a drilling

extension if drilling operations are conducted over the end

of the primary term even though this lease has previously

been granted an extension for any other reason. However,

a lease in this situation would be eligible for a drilling

extension from the date of the end of the primary term, not from the date of any extended term. (See Solicitor's Opinion of May 17, 1984, at Appendix 1.) For leases issued prior to September 2, 1960, diligent drilling extensions may be earned at the end of extended terms, provided the lease has not been previously extended by production. (See Ashland Oil, Inc., et al., 79 I.D. 532 (1972).)

Keywords

B. Determination of Actual Drilling Operations. The DETERMINATION following guidance is to be used in making the determination whether the activities of an operator constitute DRILLING actual diligent drilling operations on a lease: OPERATIONS

1. Serious Effort. An essential characteristic SERIOUS EFFORT of actual drilling operations is when such operations are TO DRILL conducted in a manner as to be a continuous effort (not necessarily the best effort, but a sincere effort) that an operator seriously looking for oil and gas could be expected to make in that particular area, given the existing knowledge of geologic and other factors normally considered when drilling for oil and gas. The well must be designed to test at least one potentially productive oil and gas formation, given the existing knowledge of geologic factors for the particular area. However, a lessee has the right under the terms of the lease to drill at any location on the leased lands that spacing and environmental factors in the area permit and to drill (or deepen) to any formation selected in search of oil or

gas. There is no obligation on the part of the authorized officer (AO) to gather, study, or evaluate the existing knowledge of geological and other factors, or to inform the operator of the Bureau's conclusions at the time approval is given to drill (or rework). Accordingly, the approval of the Application for Permit to Drill (APD) does not indicate any determination that the proposed formation to be tested will qualify the lease for an extension by drilling. However, in cases where the AO is aware that the proposed formation will not qualify as a potentially productive formation for purposes of a drilling extension, the AO should so advise the applicant. (See Standard Oil Company of Texas, A-30137, A-30221, 71 I.D. 257 (1964).

Drilling operations lacking the above characteristic cannot be deemed actual drilling operations. Actual drilling operations do not include such preparatory or preliminary work as grading roads and well sites, drilling the "rat" hole or moving equipment onto the lease. General guidelines may be set, but the official interpreting the facts in each case must use judgment within those guidelines. (See Solicitor's Opinion, M-36657, July 17, 1963, at Appendix 2, and Thelma M. Holbrook et al., A-30940, 75 I.D. 329 (1968).

Keywords

2. Verification of Drilling Operations.

Drilling operations do not have to be inspected precisely VERIFICATION on the expiration date of the lease. Drilling operations OF DRILLING

are to be inspected prior to the lease expiration date to OPERATIONS ensure that actual drilling has commenced. However, a signed statement from the operator, drilling contractor, or operator's onsite representative, if the drilling contractor has not personally witnessed the operations, certifying that drilling operations were commenced prior to the lease expiration date, along with supporting evidence documenting what operations took place on the last day of the primary term, can be accepted if it is not practical for the FO operations personnel to timely inspect the operations.

3. Justifiable Cause. Approved cessation of JUSTIFIABLE operations due to severe weather or other justifiable CAUSE FOR cause can be counted as diligent drilling for lease CESSATION OF extension if such drilling operations were commenced DRILLING before the lease expiration date and are timely resumed OPERATIONS (as determined by the AO) and continued diligently to completion.

Keywords

4. Completion Date, Testing, End of Drilling COMPLETION, Operations. In the absence of specific approval by the AO TESTING, AND to delay further work, if no physical or mechanical changes END OF have occurred in the well for over 60 days, the well DRILLING is to be considered completed, suspended, or temporarily OPERATIONS abandoned, and diligent operations shall be considered as having ceased on the date that last operations were conducted on the well. When drilling operations are in

progress on the last day of a lease's primary term (a lease expires at midnight on a specific date), the drilling operations must be in progress on that date and must continue thereafter until a potential target formation is penetrated. Generally, a well is considered completed after the first zone that establishes production is perforated and treated, or after such other completion methods as are standard in a field are performed and an initial production test is taken. Subsequent perforating, fracture acidizing, and testing are normally considered remedial or workover operations and are **not** considered as diligent drilling for purposes of lease extension. If drilling operations stopped a few hours before the moment of lease expiration, e.g., at 5:00 p.m. on May 31, 1994, and this conclusion time was not the end of the initial production test, with plugging of the hole occurring prior to the end of the 60-day period, the drilling operations on the last day of the lease's primary term would not serve to extend the lease. Extended periods of testing 60 days beyond the initial production test normally shall not qualify as diligent drilling operations. However, in a few cases, the formation depths and geologic characteristics of the area may warrant testing in excess of 60 days. Such extended periods of testing may qualify as diligent drilling operations for lease extension purposes if approved in advance by the AO. In cases of either a dry hole or nonproductive well where no production test is

performed, the well is considered completed after 60 days have elapsed in which no drilling, testing, completing, or equipping operations have occurred, effective the date that such operations were last conducted on the well. If the well is plugged prior to the end of the 60-day period, the effective completion date is the date operations were last conducted on the well.

Keywords

5. Down-hole Equipping. The regulations at DOWN-HOLE 43 CFR 3100.0-5(g) state that actual drilling operations EQUIPPING include "the testing, completing, or equipping of such well for production." The term equipping is interpreted to mean the equipping of the hole (casing, tubing, packers, pumps, etc.) so that it is capable of producing hydrocarbons to the surface.

Keywords

C. Guidance for Drilling a New Hole. In addition to GUIDANCE FOR the guidance under Section I.B, above, the use of a small DRILLING rig to spud and set conductor pipe or surface casing prior NEW HOLE to or across the lease expiration date can be considered as diligent drilling operations if the casing program and hole size are appropriate for the well objective, the setting of conductor pipe or surface casing is necessary for operations in the field or area, and such operations have been approved in the APD. However, a large or full sized rig must be moved in later (within 30 days, unless otherwise approved by the AO) and must continue diligent

drilling operations on the hole until a potential oil or gas formation is reached. Delays of more than 30 days must be due to reasons beyond the operator's control and must be justified to, and approved by, the AO. Preliminary activities such as grading of access roads and the drill site or moving equipment onto the lease commenced prior to the end of the primary term shall not by itself qualify as actual diligent drilling operations. (See Burton W. Hancock, 31 IBLA 18 (1977) and Michigan Oil Company, A-29828, 71 I.D. 263 (1964).)

Keywords

D. Guidance for Drilling in a Previously Drilled Well. In addition to guidance provided under Section I.B, DRILLING IN above, operations in an old well can only be considered as PREVIOUSLY actual drilling operations for purposes of lease extension DRILLED WELL if a drilling rig is on the hole and drilling the new hole over the lease expiration date. Operations in an old hole that are designed to attempt completion in a shallower zone, or that do not lead to deepening of the original hole, cannot be considered as actual drilling operations. (See Morton Oil Company, A-27392, 63 I.D. 392 (1956).)

Likewise, plugging operations to abandon a previously drilled well do not constitute diligent drilling operations. The hole that is being drilled over the lease expiration date must be continued with diligence until at least one new and deeper potential oil or gas formation is penetrated. However, when continued operations in the old

hole are impossible due to lost tools or other valid reasons, the skidding of the rig to a new location, in the same spacing unit, on the lease and the subsequent drilling of a new well to the objective zone or formation may be considered as diligent operations, if the new hole is diligently drilled to a potential oil or gas zone. The commencement of the subsequent drilling must normally be within 30 days of the discontinuance of operations in the old hole. Under this circumstance, the additional guidance under Section I.C, above, applies.

Keywords

E. Diligent Drilling in Communitization and Unit DILIGENT

Agreements. Diligent drilling of a well on a committed DRILLING IN tract within a federally approved CA or unit shall be CA OR UNIT considered as diligent drilling for each and every AGREEMENT committed Federal lease. However, to be considered diligent operations for such agreements and the leases committed thereto, the well must be diligently drilled to the formation covered by the CA or to a potentially productive formation covered by the unit agreement. If the well has penetrated a potential oil or gas formation that is not the communitized formation or the formation specified in the unit agreement, the lease drilling extension shall apply to the lease where the well is actually located, but not to any other leases committed to the CA or unit. Final determination of lease extension by drilling is not to be made until the public interest

requirement for the CA or unit has been met. However, a preliminary report is to be submitted to the SO fluid lease adjudication as soon as possible, so it becomes aware of possible lease extensions.

Keywords

F. Reports to SO Lease Adjudication. Where actual REPORTS TO drilling operations are in progress over the expiration SO FLUID date of any lease, the AO must submit either a preliminary LEASE or final report to SO fluid lease adjudication. If it ADJUDICATION appears the drilling operation is one that a person seriously looking for oil or gas in the area could be expected to make and operations have reached a legitimate depth, i.e., a horizon that is potentially productive, a final report of diligent drilling must be made (see Illustration 1).

If there is any question in the matter, or if a well within a communitized or unitized area has not yet reached a communitized or unitized formation or depth, the AO's report should be preliminary and indicate that PRELIMINARY/ operations have commenced that may result in a lease FINAL REPORT extension (see Illustration 2). After drilling operations OF DILIGENT have been completed, a final report is to be made to the DRILLING SO fluid lease adjudication. Where such drilling operations cause a suspension of operations and/or production to be lifted, the report must indicate the precise date the drilling commenced or resumed and the effect on the suspension. Reports indicating that

extension of a lease is warranted in accordance with 43 CFR 3107.1 need only state that actual drilling operations were conducted diligently over the expiration date of the lease. However, if a determination is made that operations were not sufficiently diligent to qualify for lease extension, the report must contain sufficient details to justify this conclusion (see Illustration 3).

This report is to include the following items:

1. The objective formation.
2. The date drilling commenced, and the total depth and casing run at the time of recommendation.
3. Statement that formations penetrated at that depth are not considered to be potentially productive of oil and/or gas.
4. Any other appropriate information that shows that the operation does not qualify for a drilling extension under 43 CFR 3107.1.

Keywords

G. Rental Requirements. The annual rental payment RENTAL PAYMENT must be paid on or before the lease anniversary date for REQUIRED FOR any lease anticipating an extension. (See 43 CFR 3107.1 DRILLING OVER and Oil Resources Inc., 28 IBLA 394 (1977).) Lessees PRIMARY should be urged to ensure that such rental payments are LEASE TERM timely made when drilling operations to extend a lease are planned, since the lease will automatically terminate by operation of law in accordance with 30 U.S.C. 188(b) in the absence of such timely annual rental payment. While the

possibility of lease reinstatement in such instances exists, the cost to the lessee shall be a considerably higher rental and royalty rate under the Class II reinstatement requirements. Reinstatement procedures are provided in Manual Section 3108 and Handbook 3108-1. If lease termination occurs, pending reinstatement of the lease, further lease development shall not be authorized, and production revenues, if any have been obtained, must be placed into an escrow account in their entirety (not just the potential royalty amount), since any drilling and production after the termination of the lease is unauthorized until reinstatement of the lease is approved.

H. Adjudicative Processing - Drilling Extension

Responsible

Official Step Action Keywords

APD 1. Notify SO lease adjudication whenever NOTIFICATION

Approving it is anticipated that drilling may be OF POSSIBLE

Officer in progress over the end of the primary EXTENSION

term of a lease. Notification to SO

lease adjudication by a copy of the APD

face sheet, either before or after

approval of the APD, or by some other

method, will ensure that the lease case

is processed properly and not treated

as a routine expiration.

2. Make the determinations necessary for

leases on or for which drilling

operations were progressing as soon as possible after the expiration date of a lease, following the guidance provided in the Sections I.B through I.G, above.

3. Send the appropriate report to SO lease adjudication (see Illustrations 1, 2, and 3).

4. If a determination is made that the operations were not diligent, see Step I.I.3, in the next section of this Handbook.

Adjudication 5. Receive evidence of payment of the 6th or 11th year rental from the Minerals Management Service (MMS), or other evidence that lease may be extended due to diligent drilling over the expiration date.

Docket 7. Charge lease case file to Adjudication.

Adjudication 8. Determine if sufficient rental is VERIFICATION received and if there is any indication OF POSSIBLE that the lease is eligible for an EXTENSION extension. If no notification from FO operations personnel has been received, request a report on diligent drilling performed on the lease or in the communitized area or unit to which the lease is committed.

Responsible

Official Step Action Keywords

Field Office 9. Report to SO lease adjudication any DILIGENCE

Operations drilling operations diligently REPORT -

performed that allow lease to be EXTENSION

extended. If drilling activities do GRANTED

not warrant lease extension, see Step

I.I.1, in the next section of this

Handbook.

Docket 10. Charge lease case file to Adjudication.

Adjudication 11. Issue decision to lessee extending term DECISION

of lease for 2 years. EXTENDING

LEASE TERM

11a. EXAMPLE: For a lease expiring

May 31, 1994, the 2-year extension

period begins June 1, 1994, and

ends at midnight May 31, 1996

(see Illustration 4).

12. Transmit copy of decision to MMS, Data

Management Division (DMD), to indicate

new lease expiration date.

12a. If for any reason, the lease has

been removed from the MMS-DMD

automated system, prepare an

accounting advice to reactivate

the lease in the Common Reference

Database (see Illustration 5).

ALMRS Entry 13. Update Case Recordation as follows: AUTOMATED

NOTATION

13a. Enter Action Date (MANDATORY

ACTION CODE): Date of decision

extending lease; DE 1775 Action

Code 258/DE 2910 Action Code 235;

Action Remarks: THRU MM/DD/YY;

DIL DRLG; and

13b. Enter Action Date (MANDATORY

ACTION CODE): Date extended

lease expires; DE 1775/2910

Action Code 763.

I. Adjudicative Processing - Determination of No Diligence

Responsible

Official Step Action Keywords

Adjudication 1. Receive report from FO operations that NONDILIGENCE

lease operations are not diligently REPORT/

pursued or report of other noncom- EXTENSION

pliance (see Daisy Hook, et al., DENIED

21 IBLA 147 (1975) and Illustration 3).

Docket 2. Charge lease case file to Adjudication.

Adjudication 3. Issue decision to lessee holding that

lease expired with 30-day right of

appeal (see Illustration 6).

ALMRS Entry 4. Update Case Recordation (if not already AUTOMATED

indicated through the BLM/MMS Automated NOTATION

Data Transfer process):

4a. Enter Action Date (MANDATORY

ACTION CODE): Date lease expired;

DE 1775 Action Code 762/DE 2910

Action Code 234; Action Remarks:

NO DIL DRLG.

Adjudication 5. After 30-day appeal period has expired, RENTAL

prepare accounting advice to authorize REFUND

refund of rental by the MMS-DMD (see

Illustration 7). If an appeal is filed,

see Handbook 3100-1, Chapter 1.

ALMRS Entry 6. Enter Action Date: Date refund AUTOMATED

authorized for 6th/11th year rental; NOTATION

DE 1775 Action Code 092/DE 2910 Action

Code 379; Action Remarks: Amount;

6TH/11TH RENT.

Adjudication 7. Route case file for records update and

competitive processing.

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Keywords

II. Production on Federal Lands

This section of the Handbook contains procedural EXTENSION BY

guidelines for leases and unit agreements and CA's that PRODUCTION

become producing, including the preparation of the first

production memorandum, and guidelines for leases and CA's

on which production has ceased.

A. First Production

1. Production in Paying Quantities. The term PRODUCTION

"production in paying quantities" refers to actual lease IN PAYING production or the capability of lease production of oil or QUANTITIES gas in sufficient value to exceed operation costs. In most Bureau offices, production figures of certain amounts (e.g., 75 thousand cubic feet (MCF) of natural gas or 10 barrels of oil daily) may be used to determine that a well is capable of producing in paying quantities without detailed analysis. Such standards are normally set locally based on historical economic experience for the location. Where such standards do not exist, or where the particular well location may make the application of such a standard inappropriate (e.g., a remote gas well many miles from any pipeline), or where the production tests show a potential daily production below the local standard, the AO must analyze the potential production to determine whether the well is capable of producing in paying quantities.

Appropriate costs are to be deducted from the gross production income to determine profitability. Whether a well is capable of production is to be determined from the following guidelines:

Keywords

a. Costs to be included are Government GUIDELINES FOR royalty or minimum royalty; production payments or DETERMINATION overriding royalties; administrative expenses, including OF PRODUCTION reasonable overhead charges (not to exceed 10 percent of IN PAYING total operating costs); labor and repairs; certain taxes QUANTITIES (such as State severance taxes, but excluding Federal

income taxes); and other routine, ordinary costs of maintaining the lease, producing the wells, and marketing the products, such as expected ordinary expenses for workovers and equipment replacement. Minimum royalty and other annual holding costs may be applied in 12 equal parts on a monthly basis, and workover or similar expenses may be prorated over the time between such operations. The cost of capital equipment for the well operation, such as holding tanks and lateral pipelines, may be prorated over the expected well life, considering similar wells in the same vicinity. (See Kerr-McGee Oil Industries, Inc., et al., A-30481, 73 I.D. 110 (1966).) Note that paying well determinations under a unit agreement must also include the capability of the well to recover drilling and completion costs.

b. Costs to be excluded are drilling and completion costs of the well (except under a unit agreement); depreciation on equipment; and extraordinary expenses for pipeline construction, workovers, or equipment replacement resulting from unforeseen consequences such as fire or landslides.

c. For a lease to be continued by production, it must contain a well capable of producing oil and/or gas in paying quantities. This is a well that is actually in condition to produce in paying quantities. With oil wells, this normally includes all the equipment required to produce the oil from the well. Essentially,

the well could produce by "throwing the switch on." The possibility that there is production in paying quantities behind the pipe for a zone that has not been completed and tested, or the possibility that further production could be obtained from the zone in which the well is completed, if that zone were treated or stimulated, are not in themselves sufficient reasons to consider the well capable of production in paying quantities. (See United Manufacturing Company et al., A-27608, 65 I.D. 106 at 111-115 (1958).)

Keywords

d. A lease is producing in paying PRUDENT quantities if, under all relevant circumstances, a prudent OPERATOR operator would continue to operate a well for the purpose TEST of making a profit and not merely to hold the lease for possible future use or for speculation. If the well operator begins producing the well immediately and sells the production to a refinery or a pipeline, the AO should infer that such production is in paying quantities. If the AO feels that the well is being produced solely to hold onto the lease for future use or speculation rather than to make money, a detailed analysis of the profitability is to be made before reporting the lease to be capable of production in a first production memorandum.

2. Date of First Production. The date a well DATE OF FIRST is first capable of production in paying quantities is PRODUCTION

critical to rental or royalty obligations and is of extreme importance, in some cases, for determining whether a given lease remains valid. If the capability to produce in paying quantities occurs subsequent to lease expiration, the lessee may lose the lease and the hope for eventual profitable return from the investment in drilling the well, as discussed below.

The need to establish producibility prior to an expiration FIRST PRODUCTION date becomes especially important whenever the lease FOR LEASES IN involved is beyond its primary term and is not eligible for EXTENDED TERM any further drilling extension. Two examples where the date of first production will be critical are: (1) the lease has previously been extended by drilling, but proved nonproductive at total depth, and the operator tries to complete the well at a shallower depth just before the end of the 2-year lease extension; and (2) a marginal well is completed in a producing unit on a lease that was eliminated from a unit by contraction and the operator must establish production before the end of the 2-year extension of the lease that resulted from the unit contraction.

Keywords

In such cases, the leaseholder is responsible to be aware of the need to establish production or the capability of production in paying quantities prior to lease expiration. In these situations, where the lease is beyond its primary term and is not eligible for any further extension, a well must be capable of production in paying quantities on or

before the day the lease would otherwise expire.

Therefore, when the AO is aware that an operator is conducting operations shortly before such a lease would otherwise expire, close monitoring of the well is appropriate to ensure that operations do not occur after the lease expiration date until the AO has determined that the well was capable of production in paying quantities prior to the expiration.

The date the well is capable of production (whether or not the well is put on line immediately for actual production) is to be indicated as the date of well completion in the first production memorandum. That date is the date used by SO fluid lease adjudication and the MMS as the effective date for conversion of the lease from a terminable (nonproducing) status to a nonterminable (producing/royalty or minimum royalty) status. For natural gas, this will ordinarily be the date that the initial production test was run, assuming the gas flows from the well naturally.

However, if additional equipment, such as a pumping unit, is required for the well to be physically capable to produce, the completion date will be the date such equipment is installed and is usable.

3. First Production Memorandum. The following FIRST guidelines apply to wells on Federal oil and gas leases or PRODUCTION communitized and unitized areas that include Federal MEMORANDUM leases or lands. PREPARATION

A first production memorandum (FPM) is used to identify

the completion of the first well on a lease considered to be capable of production in paying quantities where the productive zone is already known to produce hydrocarbons in paying quantities in the area (see Illustration 8). A FPM is also required upon completion of the initial well under a unit agreement or CA involving Federal lands, even if previous first production memoranda have been written for any of the individual leases committed to the agreement. The FPM is the method used to transfer leases (in whole or in part) from terminable (nonproducing) status to nonterminable (producing/royalty or minimum royalty) status.

Keywords

The AO is responsible for monitoring new well completions or recompletions on Federal and Indian lands leases, and on unitized/communitized areas involving Federal lands. (See Sections X and XI of this Handbook for Indian lands leases.)

A FPM must be prepared promptly in all cases where Federal lands are directly involved, i.e., where the well is located on the Federal leasehold or on nonfederal lands communitized or unitized with Federal lands. Accordingly, the AO must monitor all new well completions and recompletions on Federal oil and gas leases and on nonfederal lands within all unitized or communitized areas that include Federal lands. The FPM is to contain the operator's name, well identification and location,

pertinent geological data, the initial potential test data, and, if possible, a paying well determination. Within 10 days of receipt of the Well Completion or Recompletion Report and Log (Form 3160-4), prompt completion and transmittal of the FPM to the MMS-DMD is required (see Step II.A.3.e, below). The SO fluid lease adjudication also must receive a copy of the FPM to document the lease case file.

Entry of the appropriate action codes into Case Recordation AUTOMATED also is required within 5 working days of completion of the NOTATION FPM by the office that is delegated the responsibility within each BLM State. Appendix 3 provides the guidelines for entering all the production-related minimum mandatory action codes in ALMRS Case Recordation, e.g., DE 1775/2910 Action Code 643, PRODUCTION DETERMINATION; DE 1775 Action Code 644/DE 2910 Action Code 658, MEMO OF 1ST PROD-ACTUAL; DE 1775/2910 Action Code 650, HELD BY PROD-ACTUAL, etc.

a. Preliminary Determination of Paying PRELIMINARY

Quantities. If the AO cannot initially determine from DETERMINATION the initial potential test data and other available OF PAYING information that the well is capable of production in QUANTITIES paying quantities, a comment to this effect is required in the "Remarks" section of the FPM. When this occurs, a supplemental report must follow within 120 days of receipt of sufficient information to determine the capability of the well. If oil is produced during testing of a well on a lease that is determined not to be capable of production in

paying quantities, a notice must be sent to the MMS-DMD of the potential royalty obligation so that the MMS can set up a temporary account for such test oil or other products.

In this situation, the lease account is **not** transferred to a minimum royalty status.

Keywords

b. Reporting Initial Completion in Unit or INITIAL

Communitized Areas. A Federal oil and gas lease may COMPLETION be extended past its primary term by commitment to a IN UNIT OR federally approved unit or CA if a well is completed on CA AREA a committed tract that is capable of producing unitized/communitized substances in paying quantities prior to the expiration date of the lease. Production in such quantities on any committed tract within the agreement area is considered to be on or for the benefit of each committed lease. Accordingly, a FPM (see Illustration 8) must be prepared promptly after the completion of the first unit or communitized well capable of producing unitized or communitized substances in paying quantities. Even if the first production in the unit does not qualify as a well capable of producing unitized substances in paying quantities, a FPM must be prepared if the well is or may be capable of production in paying quantities on a **lease YATES DECISION** basis. This is required because the Interior Board of Land Appeals (IBLA) has concluded that a well capable of production in paying quantities on a lease basis, which is completed on a committed tract within a unit agreement will

extend the term of all expiring Federal leases committed to the unit agreement for the term of the agreement and/or for so long as the well is capable of production in paying quantities. (See Yates Petroleum Corp. et al., 67 IBLA 246 (1982).) For the ALMRS Entry, see Appendix 3, page 32.

c. Reporting Subsequent Completions in Unit SUBSEQUENT

Areas. A FPM must be prepared for any subsequent unit well COMPLETION completion that establishes production in paying quantities REPORT IN for the first time on a lease within a unit area. The FPM UNIT AREA will serve to set up a lease account for royalty purposes prior to establishment of a participating area (PA) and place the entire lease in minimum royalty status if the well is determined to be nonpaying on a unit basis, but capable of leasehold production in paying quantities. If a PA is established, the MMS would adjust the lease account so that only the acreage being allocated production would be in minimum royalty status.

Keywords

d. Distribution of FPM. Copies of all DISTRIBUTION

FPM's are distributed within both FO and SO fluid mineral OF FIRST operations and to SO fluid lease adjudication. The FO/SO PRODUCTION fluid mineral operations (as delegated the responsibility MEMORANDUM within each BLM State) also is responsible for notifying the MMS-DMD, as discussed below. Intra-FO operations (or intra-SO, where not delegated) notification of first production must include all affected organizational entities. If the well is located on a lease that is

located in more than one BLM District, a copy of the FPM

also must be sent to all other affected District Offices.

Copies of the FPM's also are distributed to other BLM

offices, as appropriate or as may be requested.

e. Coordination with MMS-DMD. At the time TRANSMITTAL

each lease or agreement (communitization or unitization) OF FIRST

becomes productive, the FO/SO fluid mineral operations (as PRODUCTION

delegated the responsibility within each BLM State) must MEMORANDUM

provide a copy of the FPM to the MMS-DMD (P.O. Box 5760, TO MMS-DMD

Mail Stop 3112). In accordance with the requirements of

the BIA/BLM/MMS Memorandum of Understanding, receipt by the

MMS-DMD must occur within 10 days of receipt of the Form

3160-4 by the FO/SO fluid mineral operations. The MMS-DMD

also must be provided a copy of the approval letter for

unit or communitization agreements upon approval of such

agreements by the AO as notification of a new approval.

In those instances where there is nonunitized production

within the boundaries of an agreement, the MMS-DMD must

be clearly advised of these circumstances. The MMS-DMD

also must be advised of any circumstances where unitized

lands are communitized with nonunit lands, i.e., with lands

within the unit area but not committed to the unit plan, or

with lands outside but adjacent to the unit area. Also,

the MMS-DMD must be provided information concerning any

overlapping or concurrent unit areas, communitized areas,

and unit PA's.

B. Adjudicative Processing (First Production - Federal Leases Only)

Responsible

Official Step Action Keywords

Field Office 1. Provide SO lease adjudication with FPM PRODUCTION

Operations as soon as determination is made that EVIDENCE

the initial well on the lease, or in a

communitized area or unit, is capable

of producing in paying quantities.

Unit 2. Provide SO lease adjudication with APPROVAL

Operations approval of any unit PA, showing the OF UNIT

Supervisor the effective date of the PA, and PARTICIPATING

whether it is the first initial unit AREA

PA. Approval of the first initial

unit PA will cause the accounts of all

the previously nonproducing leases

committed to the unit to be transferred

from terminable (nonproducing) status

to nonterminable (producing/royalty or

minimum royalty) status in the MMS-DMD

system. Any subsequent PA that has an

earlier effective date than the first

initial PA is to be highlighted, to

ensure that the automated records are

updated/corrected and that the MMS-DMD

is advised of the correct production

date.

Adjudication 3. Order appropriate case files from

Docket. The FPM's for CA's must

indicate what Federal leases are affected. For initial unit wells or initial PA's, this includes all committed unit leases. For subsequently approved PA's, only the case files of the leases with lands in the PA are required for processing.

Docket 4. Charge case files to Adjudication.

Adjudication 5. Review case file or abstract to EXTENSION

determine whether the lease has ever OF SEGREGATED

been subject to segregation by partial PORTIONS

assignment; if so, the leases embracing OF LEASE

the segregated portions of the original

lease are to be extended for 2 years

from the date of discovery.

Responsible

Official Step Action Keywords

6. Make sufficient copies of the FPM for

processing the other leases for

extension as indicated in Step V.A.2.b,

below.

7. Prepare notice to lessee of transfer NOTICE TO

of lease account from terminable LESSEE

(nonproducing) to nonterminable

(producing) status in MMS-DMD, as

appropriate (see Illustration 9).

8. For unitized leases, the following

guidelines apply:

8a. If an initial PA has been approved, the accounts for all committed leases in the entire unit area are transferred from terminable (nonproducing) to nonterminable (producing) status.

8b. If an initial unit well has been completed and determined to be producible but any PA determination is still pending, the account for the lease with the well, if Federal, is transferred from terminable (nonproducing) to nonterminable (producing) status.

The accounts for all other leases paying rental will remain in terminable status, with the case files suspended to ensure the leases are not terminated pending a final determination.

9. OPTIONAL: Stamp outside of case file "PRODUCING LEASE" to indicate that lease is held by actual or allocated production, or by location in a producing unit.

ALMRS Entry 10. Update ALMRS Case Recordation as AUTOMATED

follows, in accordance with the current NOTATION

data standards:

Responsible

Official Step Action Keywords

10a. Enter Action Date (MANDATORY

ACTION CODE): Date of production

determination (date FPM was

signed); DE 1775/2910 Action Code

643; Action Remarks: Numeric tie

to appropriate action code listed

below (see Appendix 3); and

10b. Enter Action Date (MANDATORY AUTOMATED

ACTION CODE): Date of first NOTATION

production on lease (see Appendix

3); DE 1775/2910 Action Code 650;

and

10c. Enter Action Date (MANDATORY

ACTION CODE): Date of first

production (actual) on lease from

FPM (see Appendix 3); DE 1775

Action Code 644/DE 2910 Action

Code 658; Action Remarks:

Numeric tie to Action Code 643,

and enter well number and, if

applicable, serial number of PA

or CA; OR

10d. Enter Action Date (MANDATORY AUTOMATED

ACTION CODE): Date of first NOTATION

production from off-lease well

(see Appendix 3); DE 1775/2910

Action Code 651; and

10e. Enter Action Date (MANDATORY

ACTION CODE): Date of first

production (allocated) from FPM

rendering lease as in producing

status (see Appendix 3); DE 1775

Action Code 645/DE 2910 Action

Code 660; Action Remarks:

Numeric tie with Action Code 643

and enter serial number of PA or

CA; OR

10f. Enter Action Date (MANDATORY AUTOMATED

ACTION CODE): Date lease is held NOTATION

by location in a producing unit

(lease is committed to unit but

does not have actual or allocated

production - see Appendix 3); DE

1775/2910 Action Code 653; and

Responsible

Official Step Action Keywords

10g. Enter Action Date (MANDATORY

ACTION CODE): Date lease is held

by location in a producing unit

(see Appendix 3); DE 1775 Action

Code 654/DE 2910 Action Code 659;

Action Remarks: Numeric tie with

Action Code 643 and enter unit

serial number; and

10h. Enter Action Date (MANDATORY AUTOMATED

ACTION CODE): Date lease account NOTATION

is transferred from terminable

(nonproducing) to nonterminable

(producing) status, i.e., date of

first production stated in FPM);

DE 1775 Action Code 057/DE 2910

Action Code 102.

NOTE: Only one of the three DE

1775/2910 Action Codes 650, 651,

or 653 is to be indicated on a

lease at any given time to

indicate the **current, primary**

status of production.

Docket 11. File case file with active cases.

Keywords

C. Cessation of Production

1. General. In order for any lease to be CESSATION OF

continued beyond its fixed term by production, it must be PRODUCTION

capable of producing oil and/or gas in paying quantities

or be committed to a CA or unit agreement that is capable

of production in paying quantities. Therefore, the AO is

responsible for monitoring monthly production reports for

this purpose. Close monitoring is especially important for leases passing out of a fixed term (at the end of either the original primary term or a definite extended term) into a status where the lease term continues only because of the lease's capability to produce oil and/or gas in paying quantities.

Equally important is close review of the status of leases REVIEW STATUS that have been committed to producing oil and/or gas OF LEASES WITH unit agreements for some time, but that are eliminated MARGINAL WELLS by a unit contraction and contain marginal wells. The WHEN LEASES capacity of such leases to produce, while not critical ARE CONTRACTED when the lease was located within the producing unit, OR ELIMINATED becomes critical upon elimination from the unit. Extended FROM UNITS delays in processing unit contractions, such as due to workload delays or extended suspensions of drilling or production requirements, causing the processing of a contraction long after its effective date, would justify close examination of all wells within a unit area prior to the elapse of a five-year period from the earliest effective date of any approved PA.

Leases that cannot be profitably produced due to a temporary lack of market or unusually low prices for a period of time may occasionally be shut in or granted a suspension of production to ensure their future availability. The cessation of production envisioned by the following discussion is the situation when a lease would **not** be capable of producing regardless of the

market/unusual price conditions that are occurring. For purposes of discussion, the word "lease" in this discussion also refers to unit agreements and CA's.

Lease production for communitized or unitized areas means production from the formation that is communitized or unitized.

Keywords

2. When Production Has Ceased. Whenever DETERMINATION production reports indicate that a lease that previously OF REASON had been producing quantities of oil and/or gas has ceased FOR CESSATION to produce, the AO must determine whether the apparent OF PRODUCTION cessation of production has been caused by the depletion of the reservoir, or whether the lease is still capable of production in paying quantities but is not producing for mechanical reasons, or is shut in for other reasons.

a. Determination That Lease is Capable of DETERMINATION Production. Unless the information available to the AO THAT LEASE IS clearly indicates that the cause of nonproduction is the CAPABLE OF depletion of the producible reserves (which would be the PRODUCTION case when production reports reveal a clear decline in IN PAYING production to a level where the potential revenue would QUANTITIES not exceed the operating costs), the AO is to infer that the lease is still capable of production, but has been shut in for valid reasons by the operator. However, if the AO believes there is no valid reason for the lease to be shut in, the operator shall be ordered to place at least one well on the lease in a producing status within 60 days

of receipt of such notification in accordance with 43 CFR

3107.2-3.

b. Determination That Lease is Not Capable DETERMINATION

of Production. If the AO concludes from the information THAT LEASE IS available that the lease may not be capable of production NOT CAPABLE OF in paying quantities, the operator shall be advised of PRODUCTION this conclusion and given the opportunity to show that the IN PAYING lease is capable of producing in paying quantities or to QUANTITIES commence reworking or drilling operations to restore production in paying quantities to the lease (see Illustrations 10, 11, and 12). (See Max Barash et al., 6 IBLA 179 (1972).)

The lease shall not terminate, however, if the operator REWORKING can demonstrate by well test or otherwise that the lease is OR DRILLING physically and mechanically capable of producing leasehold OPERATIONS substances in paying quantities. When an operator requires TO RESTORE more than 60 days to run the necessary tests or to restore PRODUCTION - production in paying quantities from the zone that REQUEST FOR previously produced, upon request, if the operator EXTENSION presents justifiable reasons for the extended time, the OF TIME AO may permit a longer time for "mechanical repair" and/or testing in the formation(s) from which production had been occurring.

Keywords

Operations to rework the well for production from another REWORKING zone or the commencement of drilling operations on another OR DRILLING well to restore production must be commenced within 60 days OPERATIONS

from the date of receipt of the letter (see Illustration FROM ANOTHER 10, 11, or 12), absent an approved suspension of operations ZONE OR WELL and/or production. To accomplish the demonstration or TO RESTORE showing that the well is capable of production in paying PRODUCTION quantities, the operator may be allowed mechanical repair work to reestablish or increase production for the well test. Although it is difficult to differentiate between "mechanical repair" and "reworking," the AO should allow any type of mechanical repair work necessary to physically reestablish or increase production from the existing productive interval during any extended period allowed for testing. Allowable mechanical repair work includes, but is not limited to, correction of any of the following: pump malfunctions, parted rods, casing leaks or collapse, and plugged screens or perforations.

In the absence of an acceptable showing that the lease is capable of producing in paying quantities or of reworking or drilling, the lease shall be considered terminated by operation of the law as of the date the operator receives the letter (Illustration 10, 11, or 12).

c. Unsuccessful Operations. If reworking UNSUCCESSFUL or drilling operations are timely commenced within the OPERATIONS 60-day period following cessation of production and are TO BRING subsequently unsuccessful in restoring the lease to WELL BACK INTO production in paying quantities, the lease shall terminate PRODUCTION on the date that such operations ceased. If this date cannot be specifically determined, the AO shall assume that

operations ceased on the last day of the month in which the last operations were conducted. If the operator takes no action in response to the 60-day letter, the date of last production is the date the operator received the letter.

Keywords

d. Operator's Notice to Abandon. If, as OPERATOR'S a result of receipt of a 60-day letter from the AO, an NOTICE TO operator files a Notice of Intent to Abandon (NIA) a well ABANDON - that is currently in a nonproducing status and is the WELL IN last producible well, the date of last production is to be NONPRODUCING considered the date the operator received the letter. In STATUS approving the NIA, the AO is to remind the operator of any remaining time to commence reworking or drilling operations, pursuant to 43 CFR 3107.2-2. If such operations are performed and are unsuccessful in restoring the lease to production in paying quantities, the lease shall terminate on the date such operations cease. If the date cannot be determined, the AO is to assume that operations ceased on the last day of the month in which the last operations occurred.

However, if an operator files a NIA for the last producible well on a lease before the AO informs the operator of a determination that the lease is probably not capable of producing in paying quantities, the AO shall inform the operator by certified mail that the lease will terminate as of the date of receipt of such notification unless appropriate reworking or drilling operations are commenced

within 60 days of receipt of the notification to restore production to the lease.

3. When Production Has Declined.

a. Review for Production in Paying DECLINE IN

Quantities. The FO operations personnel are to review all PRODUCTION - leases routinely, especially those in or entering an REVIEW FOR extended term due to production, so that such leases and PAYING agreements can be timely terminated as required. Illus- PRODUCTION tration 13 describes the method to be used in determining whether a lease remains capable of production in paying quantities. In the absence of information to the contrary, whenever an operator produces a lease on a regular or sustained basis (at least 15 days every month except when shut in for mechanical or adverse weather conditions), the AO may assume that such lease is capable of production in paying quantities. If this is the case, a detailed economic analysis normally will not be required. However, when production from a lease in its extended term by production declines to a level that clearly appears to be nonpaying, the AO shall send the operator a certified letter similar in format to that shown in Illustration 14, 15, or 16.

Keywords

b. Unsuccessful Operations. If, within UNSUCCESSFUL

the 60-day period following receipt of the letter (Illus- PRODUCTION tration 14, 15, or 16), the operator commences reworking OPERATIONS or drilling operations timely on a lease that is continued TO BRING WELL solely by production, but those operations are not BACK TO PAYING

diligently pursued or the operator is unsuccessful in QUANTITIES

restoring the lease to production in paying quantities,

the lease will terminate on the date that such operations

ceased. If this date cannot be determined, the AO shall

assume that the operations ceased on the last day of the

month in which the last operations were conducted.

c. Operator's Notice to Abandon. If, in OPERATOR'S

response to the letter (Illustration 14, 15, or 16), an NOTICE TO

operator files a NIA to abandon the last producible well ABANDON LAST

on the lease, the date of receipt of the letter by the PRODUCIBLE

operator is to be considered the date the lease was no WELL

longer capable of producing in paying quantities. The

lease is to be considered terminated as of such date,

unless reworking or drilling operations to restore

production on the lease are timely commenced and diligently

pursued (or unless the lease is extended as a result of the

termination of an agreement).

When an operator files a NIA for a well that is currently

producing and it is the last producible well on a Federal

lease, and the operator has **not** received a letter in the

format of Illustration 14, 15, or 16 for that well, the AO

must inform the operator by certified mail that the lease

shall terminate as of the date of receipt of such

notification unless appropriate reworking or drilling

operations are commenced within 60 days of receipt of the

notification to restore production to the lease.

Keywords

4. When Well is Shut In.

a. Shut-in Well. For the purposes of this SHUT-IN

Handbook, a shut-in lease is defined as a lease with a WELL nonproducing well that has been accepted by the AO as physically and mechanically capable of production in paying quantities, and is the only well or remaining well on the lease. Such a well may be shut in following its original completion (and the preparation of a FPM if it is the first completed producible well on the leasehold), such as when the well is located in an area remote from a marketing outlet. Or, a well may be shut in following a period of actual production in paying quantities of oil and/or gas, due to such factors as equipment failures, marketing rollbacks, or required balancing due to past overproduction. No lease shall be extended beyond its primary or fixed term by a shut-in well unless the AO is satisfied that the well remains capable of producing oil or gas in paying quantities based on a recent test of the well (see Illustration 13).

b. Annual Testing to Justify Continued ANNUAL TESTING

Shut-in Status. Operators of leases in their extended TO JUSTIFY term that are continued solely by reason of a shut-in well CONTINUED (or wells) shall be required to test at least one well on SHUT-IN STATUS the lease every year to confirm that the lease remains capable of production in paying quantities. Further, each operator shall be required to submit data annually to show that construction of the necessary marketing facilities or

marketing of the oil and/or gas is not economically feasible. At times, requiring annual one-point or four-point backpressure tests for gas wells with no pipeline connection could conflict with State orders against flaring. Under these circumstances, the AO may waive the annual test requirement where other available information indicates the well's producing capabilities. However, data must still be submitted annually to show that it is not economically feasible to construct the necessary marketing facilities. Any letter requiring the operator to perform the well test and/or to submit economic justification for continuing shut-in status shall advise that failure to perform the well test or provide sufficient economic justification will cause the BLM to assume that the lease is not capable of production in paying quantities (see Illustration 17). If the operator fails to perform the well test or does not provide economic justification, the AO shall send the operator a letter advising the operator of the 60-day reworking/drilling requirement (see 43 CFR 3107.2-2). (See Illustrations 10, 11, and 12.)

Keywords

c. Negative Well Test. Where the well **NEGATIVE** test fails to show that the lease contains a well that is **WELL TEST** capable of production in paying quantities (see Illustration 13), the AO shall send a certified letter to the operator providing notification of the AO's determination that the lease no longer contains a well capable of

production in paying quantities. The letter shall advise the operator of the right to rework or drill within 60 days of receipt of such notification, and shall indicate that failure to perform such operations shall result in lease termination, effective the date of receipt of the letter.

If reworking and drilling operations commenced within the 60-day period are unsuccessful in restoring the lease to production in paying quantities, the lease shall terminate on the date that such operations cease. If the specific date cannot be determined, the AO is to assume that operations ceased on the last day of the month in which the last operations were conducted.

d. Placing Lease on Production. Where the PLACING LEASE lease contains a well that has been shown by well test to ON PRODUCTION be capable of production in paying quantities, the operator may be required, as previously described, to submit data that justifies allowing the well to remain shut in. However, when the AO determines that the economics justify constructing appropriate sales facilities and there is no valid reason for the well being shut in, the AO will send the operator a 60-day notice by certified mail to commence the necessary actions to place the lease on production or provide BLM additional acceptable justification for not doing so. The subsequent decision letter to terminate the lease for failure to place the lease on production must contain a statement that the lessee has the right to appeal the decision.

e. Operator's Notice to Abandon. If, in OPERATOR'S response to the letter (Illustration 17), an operator NOTICE TO files a NIA to abandon the last shut-in producible well on ABANDON LAST the lease, the date of receipt of the letter is to be SHUT-IN considered the date the lease was no longer capable of PRODUCIBLE production in paying quantities. The lease is to be WELL considered terminated as of that date, unless reworking or drilling operations to restore production to the lease are timely commenced and diligently pursued (or unless the lease is extended as a result of the termination of an agreement).

Keywords

When an operator files a NIA for a well that is currently shut in and it is the last producible well on a Federal lease, and the operator has **not** received a letter from the AO for that well requiring tests or justification for not placing the well back into production (Illustration 17), the AO must inform the operator by certified mail that the lease will terminate as of the date of receipt of such notification unless appropriate reworking or drilling operations are commenced within 60 days of receipt of the notification to restore production to the lease.

5. Preparation of Last Production Memorandum. LAST

Whenever the procedures described above result in a PRODUCTION determination that the well is no longer capable of MEMORANDUM production in paying quantities, and no other production occurs on or is allocated to the lease or CA, the AO shall

timely prepare a Last Production Memorandum and forward it to the MMS-DMD (P.O. Box 5760, Mail Stop 3112) and to the SO fluid lease adjudication (see Illustration 18).

D. Adjudicative Processing (Last Production/Cessation of Production - Federal Leases Only)

Responsible

Official Step Action Keywords

Adjudication 1. Receive Last Production Memorandum EVIDENCE OF from the FO operations staff. CESSATION OF PRODUCTION

2. If the lease is not otherwise extended, LEASE and is not within its primary or other TERMINATION extended term, prepare decision to the DECISION lessee, with the right of appeal, holding that lease is terminated.

Advise in the decision that the bond is to remain in force and effect until all rents and royalties have been paid and final abandonment of all wells, including reclamation, has been approved (see Illustration 19).

3. Suspend case file appropriately for 30-day appeal period.

4. If the lease continues in force because it is still in its primary or an extended term, prepare an appropriate decision for the lessee (see Illustration 19).

tion 20).

5. If the lease will be extended by termination of a CA or unit, or contraction from a unit, because of cessation of production, see Handbook 3105-1, Section IV.B, for processing.

6. If the lease terminated, route case file for records update and competitive leasing following the appeal period.

ALMRS Entry 7. Update ALMRS Case Recordation using AUTOMATED

the current data standards: NOTATION

7a. Enter Action Date (MANDATORY

ACTION CODE): Date of last actual

production (see Appendix 3); DE

1775/2910 Action Code 646; Action

Remarks: Numeric tie to Action

Code 643, and enter well number

and, if applicable, serial number

of PA or CA; OR

Responsible

Official Step Action Keywords

NOTE: Remove DE 1775/2910 Action

Code 650.

7b. Enter Action Date (MANDATORY

ACTION CODE): Date of last

production allocated to lease (see

Appendix 3); DE 1775/2910 Action

Code 647; Action Remarks: Numeric

tie to Action Code 643, and enter

serial number of PA or CA; and

NOTE: Remove DE 1775/2910 Action

Code 651.

7c. Enter Action Date (MANDATORY AUTOMATED

ACTION CODE): Date memorandum of NOTATION

last production was signed; DE

1775/2910 Action Code 643; Action

Remarks: Numeric tie to

appropriate action code in

Step II.D.7a or 7b, above.

7d. Enter Action Date (MANDATORY AUTOMATED

ACTION CODE): Date lease NOTATION

production ceased/lease moves to

minimum royalty status (when

applicable; see Appendix 3); DE

1775/2910 Action Code 649; Action

Remarks: Minimum royalty rate

per acre; and

7e. Enter Action Date (MANDATORY

ACTION CODE): Date lease expires;

DE 1775/2910 Action Code 763; OR

7f. Enter Action Date (MANDATORY AUTOMATED

ACTION CODE): Date lease NOTATION

terminated (based on date cited in

last production memorandum); DE

1775 Action Code 790/DE 2910

Action Code 244; Action Remarks:

Optional; OR

Responsible

Official Step Action Keywords

7g. Enter Action Date (MANDATORY AUTOMATED

ACTION CODE): Effective date of NOTATION

lease extension (if lease is

extended; see Handbook 3105-1);

DE 1775 Action Code 258/DE 2910

Action Code 235; Action Remarks:

THRU MM/DD/YY; and

7h. Enter Action Date (MANDATORY

ACTION CODE): Date extended lease

expires; DE 1775/2910 Action Code

763; Action Remarks: Optional.

NOTE: Where cessation of production

results in the termination (or

contraction) of a CA or unit

agreement, the leases committed

to the (affected portion of the)

agreement are entitled to a

2-year extension. Processing of

such lease extensions and the

cessation of production under

such leases is discussed in

Handbook 3105-1.

III. Extension for Terms of Cooperative Agreement or Unit Plan

A. Segregation and Extension of Leases Committed in Part

Responsible

Official Step Action Keywords

See Handbook 3105-1, Section I. UNIT

SEGREGATION

LEASE

EXTENSION

Reverse Side Intentionally Blank

IV. Extension By Elimination

A. Extension for Termination of Unit/Communitization Agreements

and Unit Contractions

Responsible

Official Step Action Keywords

See Handbook 3105-1, Sections IV AND V. UNIT/CA

TERMINATION

LEASE

EXTENSION

UNIT

CONTRACTION

LEASE

EXTENSION

Reverse Side Intentionally Blank

Keywords

V. Extension of Lease Segregated By Assignment EXTENSION

OF LEASE

A. Discovery of Oil and Gas in Paying Quantities on SEGREGATED BY

Segregated Portions of Assigned Leases. Under 43 CFR ASSIGNMENT

3107.5-1, any lease segregated by partial assignment,

including the lease for the retained portion, shall DISCOVERY

continue in force for the primary term of the original IN PAYING

lease, but for not less than 2 years after the date of QUANTITIES ON

first discovery of oil or gas in paying quantities upon SEGREGATED

any other segregated portion of the original lease. This PORTION OF

means that the first discovery on any portion of a lease ASSIGNED LEASE

that has been subjected to a partial assignment acts to EXTENDS ALL

extend all other leases stemming from the original base OTHER PORTIONS

lease for a period of 2 years from the date of discovery. OF ORIGINAL

The discovery triggers the extension, not the segregation LEASE

alone. This extension applies regardless of whether the

discovery occurred prior to or after the effective date of

the assignment.

The requirement for lease extension under 43 CFR 3107.5-1

for any lease segregated by assignment is that a discovery

of oil or gas in paying quantities must be made within

2 years prior to the end of the primary term of the

original lease. This discovery may be on the retained

portion or on any segregated portion of the original

lease. All segregated portions of the lease, including

the retained portion, but excepting the portion containing

the drill site (that must be held by production in paying

quantities if so established), are eligible for the

extension by discovery.

Upon such discovery, each eligible segregated portion will

continue in effect for the remainder of the primary term of the original lease at the time of the discovery, or for 2 years after the date of such discovery, whichever is the longer period. That is, a discovery in the 9th year of a 10-year lease would provide a 2-year extension from the date of discovery to the 11th year, while a discovery in the 7th year of a 10-year lease would provide no extension to the lease. (See JSC Producers, 99 IBLA 164 (1987) and Fuel Resources Development Co., 100 IBLA 37 (1987).)

Keywords

1. Standards for Determining Discovery. If an operator establishes that a well is capable of producing in paying quantities to the extent that the AO must prepare a FPM, the date of well completion in the FPM will ordinarily be the discovery date. The IBLA has ruled, however, that extensions of segregated leases may be appropriate even in the absence of a well completion if the evidence is clear that the well will be capable of producing in paying quantities when completed. A situation where the date will be so critical is not likely to occur frequently, but is possible when the lease on which the discovery takes place has a longer term than the lease entitled to the extension. This could occur where an extension resulting from some unitization procedure (segregation, termination or contraction) or a suspension of operations and/or production has been applied to the discovery lease but not to the other segregated lease. In

any case where a lessee claims entitlement to an extension from a date earlier than the well completion date, the AO should consult Joseph I. O'Neill, Jr., et al., 1 IBLA 56, 77 I.D. 181 (1970).

2. Responsibilities.

a. Field Office Fluid Mineral Operations. FIELD OFFICE

Because the type of lease extensions discussed in this OPERATIONS portion of the Handbook is relatively infrequent, the FO ACTIONS operations staff processing the APD's and FPM's need not ordinarily be concerned with such lease extensions unless a specific situation has been brought to its attention. The possibility of such a lease extension can be detected when the Case Recordation Serial Register Page/Case Abstract is examined at the time the APD is being processed. The Serial Register Page/Case Abstract indicates whether the lease itself was created by or has been subjected to partial assignments. In such situations, the FO operations staff processing the APD's are to appropriately note the well file that other portions of the original lease may be eligible for a lease extension if a discovery is made. If the well does result in a FPM, the remarks section of the Serial Register Page/Case Abstract needs to indicate, at a minimum, that other segregated portions of the lease may be entitled to an extension for 2 years after discovery on a portion of the original lease.

Keywords

b. State Office Lease Adjudication. The STATE OFFICE

SO fluid lease adjudication is primarily responsible for ADJUDICATION determining which leases are to be extended pursuant to ACTIONS 43 CFR 3107.5-1. Receipt of any FPM on a Federal lease requires the SO lease adjudication to review and determine if the lease has been subject to a partial assignment (either been created by such an assignment or been reduced in size by a partial assignment out of the lease). (See Step II.B.5, above.) Upon such a determination, the SO lease adjudication is to identify all the leases entitled to an extension. Since some leases may have been subjected to several partial assignments, identification of all the affected leases may require considerable research of case files, abstracts, and the oil and gas plats. Once all DECISION affected leases have been identified, prepare appropriate EXTENDING decisions to send to the current lessees (see Illustration LEASE TERM DUE 21). Also prepare accounting advices for those leases in TO DISCOVERY terminable (rental) status in MMS-DMD (see Illustration 22).

ALMRS Entry in Case Recordation also must be updated for AUTOMATED each affected lease in the following manner: NOTATION

Enter Action Date (MANDATORY ACTION CODE): Date of discovery on the segregated portion of lease (in most cases, this will be the well completion date); DE 1775

Action Code 258/DE 2910 Action Code 235; Action

Remarks: THRU MM/DD/YY; BY ASGN; and

Enter Action Date (MANDATORY ACTION CODE): Date when extended lease expires); DE 1775/2910 Action Code 763.

c. Lessee. The lessee is responsible to be aware of any circumstances that may entitle the lease to an extension, and to make the annual rental payment timely to prevent the lease from automatically terminating by operation of law.

Keywords

B. Undeveloped Parts of Leases Issued Prior to UNDEVELOPED

September 2, 1960. When processing partial assignments of PARTS OF any lease issued prior to September 2, 1960, SO lease LEASES ISSUED adjudication needs to be aware that the assigned and/or PRIOR TO retained portion of the lease may be entitled to a 2-year SEPTEMBER 2, extension from the effective date of the assignment if the 1960 lands are undeveloped and the lease is in any extended term beyond the original term of the lease. The extension authorized under 43 CFR 3107.5-2 applies only to pre-September 2, 1960, leases. When such extensions are appropriate, the affected parties are to be advised by a decision, with a copy of the decision also provided to the MMS-DMD.

Also, ALMRS Entry is to be updated to reflect the AUTOMATED extension in the following manner: NOTATION

Enter Action Date (MANDATORY ACTION CODE): Effective date of approval of assignment; DE 1775 Action Code 258/DE 2910 Action Code 235; Action Remarks: THRU MM/DD/YY; BY ASGN; and

Enter Action Date (MANDATORY ACTION CODE): Date when extended lease expires (e.g., 3-31-96, if assignment

is effective 4-1-94); DE 1775/2910 Action Code 763.

C. Undeveloped Parts of Leases in Extended Term

Because of Production. Extensions under 43 CFR 3107.5-3

apply only to leases that are in their extended term by reason of production.

Responsible

Official Step Action Keywords

Adjudication 1. Receive partial assignment on a IDENTIFY producing lease that is beyond the end UNDEVELOPED of its primary term. If the case file LANDS does not clearly indicate developed lands, request a report from the FO operations for information on undeveloped lands in the lease (see Illustration 23).

2. If production is on both the assigned EXTENSIONS - and retained portions, an extension PARTIAL does not apply, since there are no ASSIGNMENT undeveloped portions of the lease involved. If the segregated lease has already benefited from an extension under 43 CFR 3107.5-2, an extension does not apply.

3. If either the assigned or retained DECISION - portion of the lease contains PARTIAL undeveloped lands, prepare a decision ASSIGNMENT - showing extension (see Illustration PRODUCING

24). If the assigned portion contains LEASE undeveloped lands, note on the face of the assignment: "43 CFR 3107.5-3 rules extend this lease through (Date)."

EXAMPLE: If the assignment is approved effective 5-1-94, the lease extension is through 4-30-96.

4. Provide a copy of the decision for the COPY OF lease being extended to the MMS-DMD. DECISION OF Since the lease account, prior to its PARTIAL segregation by the assignment, should ASSIGNMENT have been in a nonterminable status in AND LEASE the MMS Common Reference Database, EXTENSION all data needed by the MMS-DMD is to TO MMS-DMD be indicated in the decision so that the appropriate billing and rental accounting information for the segregated lease will occur in the MMS-DMD automated system.

Responsible

Official Step Action Keywords

ALMRS Entry 5. Update Case Recordation as follows: AUTOMATED NOTATION

5a. Enter Action Date (MANDATORY ACTION CODE): Effective date of assignment approval; DE 1775

Action Code 258/DE 2910 Action

Code 235; Action Remarks: THRU

MM/DD/YY; BY ASGN; and

5b. Enter Action Date (MANDATORY

ACTION CODE): Date extended lease

will expire (e.g., 3-31-96, if the

assignment is effective 4-1-94);

DE 1775/2910 Action Code 763.

Adjudication 6. Continue processing assignment under

the procedures described in Handbook

3106-1.

VI. Extension Of Reinstated Lease

Responsible

Official Step Action Keywords

See Manual Section 3107.6 and Handbook 3108-1. REINSTATED

LEASE

EXTENSION

Keywords

VII. Exchange Leases - 20-Year Term

A. General

Any lease that issued for a term of 20 years or any EXCHANGE

renewal thereof, or any lease that issued in exchange for LEASES

a 20-year lease issued prior to August 8, 1946, may be

exchanged for a new lease. Such an exchange lease shall

have a primary term of 5 years, and so long thereafter as

oil or gas is produced in paying quantities, and shall have

a royalty rate of not less than 12 percent. The annual

rental rate shall be \$2 per acre or fraction thereof. For

example, a renewal lease being held by a producing unit agreement that otherwise would terminate due to cessation of production from the unit, may be exchanged for a new lease with a term of 5 years so long as the application for the exchange lease is filed prior to the termination of the unit. (For a general overview of exchange leases, see Richfield Oil Corporation, 66 I.D. 292 (1959).) Process the exchange application as described in Section VII.B, below.

B. Processing Application for Exchange Lease

Responsible

Official Step Action Keywords

Receiving 1. Receive application for exchange lease. EXCHANGE LEASE

Official Route to Adjudication through Docket APPLICATION

and ALMRS Entry. RECEIVED

ALMRS Entry 2. Enter Action Date (MANDATORY ACTION AUTOMATED

CODE): Date application for exchange NOTATION

lease is received; DE 1775 Action Code

001/DE 2910 Action Code 124.

Adjudication 3. Examine application for compliance with EXCHANGE

the following: LEASE

REQUIREMENTS

3a. Three copies of application.

3b. Proper execution by record title

holder(s).

3c. Payment of \$75 filing fee.

3d. Showing as to full compliance with

terms of lease and applicable

regulations.

4. Transmit copy of application to the FO FIELD OFFICE

operations staff and ask for a report. OPERATIONS

REPORT

5. If lease is in producing status, obtain

lease account information from the

MMS-DMD automated system.

6. Upon receipt of favorable reports from TRANSMITTAL

FO operations and MMS, prepare decision OF LEASE

to applicant transmitting lease forms FORMS

for execution, in triplicate.

7. If a bond is required, request new bond BOND

or consent of surety to the extension REQUIREMENT

of the bond liability to cover the

terms of the exchange lease.

Responsible

Official Step Action Keywords

NOTE: Exchange lease is to be prepared LEASE FORM

on Form 3100-11. The words PREPARATION

"Exchange Lease" are entered

after "Other" at the bottom of

the lease form; "Sec. 17(a) of

the Act of August 8, 1946" is to

be inserted above Item 1 of the

form. Ensure that rental rate

is \$2 per acre (see 43 CFR RENTAL AND

3103.2-2(b)(3). The royalty ROYALTY RATES

rate for an exchange lease is

12 percent (see 43 CFR

3103.3-1(a)(1)). The term of an LEASE TERM

exchange lease is 5 years and so

long thereafter as oil or gas is

produced in paying quantities.

8. Examine lease forms returned by the

applicant for proper execution.

9. Date an exchange lease the first day of DATING OF

the month following the date it is LEASE

signed by the AO, except that upon

prior request of the lessee, the lease

may be dated the first day of the month

in which it is executed.

10. Complete accounting advice for MMS-DMD. ACCOUNTING

ADVICE -

EXCHANGE

LEASE

ALMRS Entry 11. Update Case Recordation in accordance AUTOMATED

with the current data standards (see NOTATION

Appendix 4 and Illustration 25).

11a. Enter Action Date (MANDATORY

ACTION CODE): Date lease signed

by AO; DE 1775 Action Code 176/DE

2910 Action Code 237.

11b. Enter Action Date (MANDATORY

ACTION CODE): Effective date of
exchange lease; DE 1775 Action
Code 225/DE 2910 Action Code 868.

Responsible

Official Step Action Keywords

11c. Enter Action Date (MANDATORY

ACTION CODE): Enter 12 percent
royalty rate; DE 1775 Action Code
102/DE 2910 Action Code 530.

11d. Enter Action Date (MANDATORY

ACTION CODE): Date lease expires
in 5 Years (e.g., if lease
effective date is 5/1/94,
expiration date of 4/30/99 is
entered); DE 1775/2910 Action
Code 763.

NOTE: If necessary, also correct the
lease case type to 310771 (O&G Exchange
Lease - PD) (DE 2961/2912).

Docket 12. File case file with active cases.

Keywords

VIII. Renewal Leases

A. General

Prior to an amendment to Section 31(g) of the Mineral RENEWAL
Leasing Act (MLA), enacted on November 15, 1990, a 20-year LEASES
lease or renewal thereof could be renewed for successive
periods of 10 years. Failure of the lessee to timely apply

for renewal of such a 20-year lease or renewal lease results in the expiration of the lease even though there is an existing producing well on the lease. Such a renewal lease was **not** held by production prior to the 1990 amendment to the MLA (see Peacock Oil Company, Inc., Twin Arrow Inc., 29 IBLA 74 (1977)).

Renewal leases are those leases that were issued under the MLA for 20 years with a right to renew for successive 10-year terms under such reasonable terms and conditions as prescribed by the Secretary of the Interior. The principal remaining renewal leases result from Section 14 of the MLA. However, 20-year leases also were created by Sections 18, 18a, and 19 of the MLA. With the enactment of the MLA amendment of August 21, 1935, the issuance of prospecting permits terminated. The issuance of Section 14 leases was limited to those who already held prospecting permits at the time of the 1935 amendment.

The 1990 amendment requires that any lease issued pursuant 1990 AMENDMENT to Section 14 of the MLA shall, upon its renewal on or TO MINERAL after November 15, 1990, continue for 20 years and so long LEASING ACT thereafter as oil or gas is produced in paying quantities. CHANGED RENEWAL Accordingly, any 20-year lease or renewal lease that has LEASE TERM an expiration date after November 15, 1990, is eligible for renewal only under the provisions of the new law, i.e., for 20 years and so long thereafter as oil and gas is produced in paying quantities. Thus, if a lease is renewed pursuant to the 1990 amendment and it is not producing oil or gas at

the end of its 20-year renewal term, it will terminate.

Prior to the 1990 MLA amendment, Section 14 renewal leases RENEWAL LEASES were not eligible for the Class II lease reinstatement ELIGIBLE FOR provisions of Title IV of the Federal Oil and Gas Royalty CLASS II LEASE Management Act of 1982. The 1990 MLA amendment allowed REINSTATEMENT Class II lease reinstatements for Section 14 leases (but not for any remaining Section 18 leases). When a Section 14 renewal lease is reinstated under either the Class I or Class II provisions, the lease term shall be for 20 years and so long thereafter as oil or gas is produced in paying quantities. (For lease reinstatement procedures, see Handbook 3108-1.)

Keywords

Although a renewal lease application should be filed at LATE RENEWAL least 90 days prior to expiration of the existing lease, APPLICATION a late application for renewal after the lease has expired ACCEPTABLE ordinarily should be processed, i.e., the requirement that such an application be timely filed not more than 6 months prior to expiration of the lease, but at least 90 days prior to lease expiration, is now permissive (see T & M Corp., Larry G. McLatchy, 70 IBLA 366 (1983)).

If the lands have not been withdrawn from leasing, the oil PREFERENCE and gas lessee has a preference right over other parties RIGHT TO A to receive a renewal lease. However, the existing lessee RENEWAL LEASE has no absolute or unconditional right to a renewal lease IS NOT AN because the Secretary of the Interior may exercise UNCONDITIONAL discretion in deciding whether to continue leasing the RIGHT TO A

lands involved. However, once a renewal lease application LEASE has been filed, the existing renewal lease with its terms and conditions is preserved, in accordance with Section 9 of the Administrative Procedure Act, until the authorized officer decides whether to issue a renewal lease or deny the application (see Solicitor's Opinion M-36943, 89 I.D. 173 (1982)).

At the time a renewal lease is issued, the Bureau shall RENEWAL revise the lease terms and conditions. Stipulations for LEASE existing laws, such as the Endangered Species Act and the WITH REVISED National Historic Preservation Act, do not need to be TERMS AND attached to the lease since such requirements are covered CONDITIONS by language in the lease Form 3100-11 that requires compliance with laws, regulations, and orders promulgated.

The renewal lease shall be issued promptly with a stipulation, if needed, making the lease subject to reasonable terms and conditions that may be established in the future pending completion of planning/NEPA documents.

This stipulation will reserve the right of the Federal Government to set additional stipulations, as long as the lessee expressly consents to this provision to be bound by those reasonable terms and conditions. (See Manual Section 3101.)

B. Processing Application for Renewal Lease

Responsible

Official Step Action Keywords

Receiving 1. Receive application for renewal. RENEWAL LEASE

Official APPLICATION

RECEIVED

ALMRS Entry 2. Enter Action Date (MANDATORY ACTION AUTOMATED

CODE): Date renewal lease application NOTATION

received; DE 1775 Action Code 622/DE

2910 Action Code 314.

Adjudication 3. Examine application for compliance with RENEWAL LEASE

the following to determine if lease is REQUIREMENTS

entitled to a renewal:

3a. Three copies of application.

3b. Timely filed and accompanied by

\$75 filing fee.

NOTE: Application should be filed at

least 90 days, but not more than

6 months prior to expiration of

lease term. The IBLA, however,

has determined that late renewal

lease applications ordinarily

should be processed. (See

T & M Corp., Larry G. McLatchy,

70 IBLA 366 (1983).)

3c. Proper execution by record title

holder. The operator may join or

consent to execution.

3d. Showing that all monies due have

been paid and whether operations

have been conducted in accordance

with the regulations.

3e. Submission, in triplicate, of overriding royalty or production payments not previously filed (see 43 CFR 3107.8-1(b)).

Responsible

Official Step Action Keywords

4. Check whether lease is committed to UNITIZED a unit agreement. RENEWAL LEASE

4a. If a lease is committed to a unit agreement at the time of expiration of its 20-year term or 10-year renewal term, it is **not** entitled to another renewal, but is continued in force and made coterminous with the unit. Upon termination of the unit agreement, the lease is eligible for a 2-year extension that supersedes the provision of the lease for successive 10-year renewals. (See Texaco Inc., 76 I.D. 196 (1969) and Anne Burnett Tandy et al., 33 IBLA 106 (1977).)

4b. When a 20-year lease committed to a unit prior to the end of the

lease's initial term and, thus, extended by the unit beyond the original lease term, is eliminated from the unit, the 20-year lease's term is automatically extended 2 years, and such lease is **not** eligible for further renewal.

(See Marathon Oil Company et al., 19 IBLA 1 (1975).)

4c. A 20-year lease, in a 10-year renewal term, committed to and then eliminated from a unit **prior** to expiration of the lease's term, so that the lease is **not** part of a unit at the end of the lease term, is entitled to another renewal.

(See Omaha National Bank, Yates Petroleum Corp., 11 IBLA 174 (1973).)

5. If a renewal lease is committed to a CA at the time of lease expiration, the lease is eligible for a 2-year extension upon termination of the CA, and is held by production if the production was established prior to the expiration of the 2-year lease extension period.

Responsible

Official Step Action Keywords

6. Transmit one copy of application (with a copy of each agreement providing for overriding royalties and payments out of production not previously filed) to the FO operations requesting a report and recommendations on renewal of lease.

7. If the lease is in a producing status, LEASE check the MMS Business Information ACCOUNT System (BIS) for any unpaid assessments STATUS for royalty or other monies due. If the account is delinquent, the lease shall not be renewed until the MMS reports to the BLM that the account deficiency has been rectified or the BIS screens indicate that the lease no longer has an arrearage in payments.

Field Office 8. Determine whether any operational Operations conditions on leasehold require correction prior to renewal. If correction is needed, notify operator what actions must be taken before lease renewal will be granted. Send a copy of any such notice to SO fluid lease adjudication.

9. Determine if any new stipulations REVIEW FOR are required on the renewal lease in ENVIRONMENTAL

accordance with latest approved STIPULATIONS

planning decisions. While the right of renewal of such a lease is nearly absolute, the operator may be required to conform operations to current requirements (for example, a revised land-use plan) as a condition of such lease renewal.

10. Determine if overriding royalties and EXCESSIVE payments out of production in excess OVERRIDING of 5 percent of gross production ROYALTY constitute a burden on lease operations that may lead to premature abandonment.

The renewal lease application should be suspended until any excess overriding royalties/payments out of production are reduced to be not more than 5 percent of the value of production.

Responsible

Official Step Action Keywords

NOTE: If a mutually fair and equitable agreement by the parties to suspend excessive overriding royalties cannot be entered into, any of the parties may request that a hearing be conducted by the AO, at which time all

interested parties may present statements (with written copies of such statements also provided). After the hearing, the AO shall issue a decision outlining the acceptable base conditions for a fair and reasonable adjustment. If, within a fixed period of time, proof is not submitted that such an adjustment has been effected, the application for lease renewal must be denied (see 43 CFR 3107.8-3(b)).

11. Transmit recommendations concerning FIELD OFFICE renewal of the lease to SO fluid lease OPERATIONS adjudication for notification to the REPORT lessee.

Adjudication 12. If the FO operations report is TRANSMITTAL favorable and the lease does not have OF LEASE any delinquent MMS payments owed, as FORMS indicated on the BIS screens, prepare a decision to the applicant transmitting, in triplicate, the lease forms and stipulations (see Section VIII.A, above), and require a bond or consent BOND of surety to the lease renewal, if REQUIREMENT

necessary (see Illustration 26). A consent of surety is not required if the bond contains a provision for coverage for the extension or continuation of the lease or if the lessee has an applicable statewide or nationwide bond (see Handbook 3104-1).

Responsible

Official Step Action Keywords

13. Use lease Form 3100-11 to issue lease. LEASE FORM

On leases receiving a second or PREPARATION

subsequent renewal, the effective date

will be the first day of the month

following the expiration of the prior

lease. On leases that have just

reached the end of their 20-year

primary term (due to very lengthy

suspensions of operation) and are

being renewed for the first time, e.g.,

a lease expiring 4-25-94, the effective

renewal lease date would be 4-1-94.

13a. Insert the words "Renewal Lease

(20 years and so long thereafter LEASE TERM

as producing oil or gas in paying

quantities)" at the bottom of the

lease form after "Other." Ensure

that the rental rate is \$2 per

acre (see 43 CFR 3103.2-2(b)(3)). RENTAL AND

The royalty rate for a renewal ROYALTY RATES

lease is 12 percent regardless

of the rate of the original lease

(see 43 CFR 3103.3-1(a)(1)).

14. If the effective date of the renewal DATING OF

lease is **prior** to the expiration date LEASE

of the original lease, the following

must be inserted on the reverse side

of the lease form under "Sec. 2.

Royalties," (or on an attachment to the

lease): "To and including (the

expiration date of the original lease),

the royalties to be paid hereunder

shall be computed on the basis of the

royalties prescribed in the original

lease."

15. Examine that all copies of the lease

forms returned by the applicant have

been properly executed.

16. If lease is not producing, complete ACCOUNTING

accounting advice (see Illustration ADVICE -

27). RENEWAL

LEASE

Responsible

Official Step Action Keywords

ALMRS Entry 17. Update Case Recordation using current AUTOMATED

data standards (see Illustration 28). NOTATION

17a. Enter Action Date (MANDATORY

ACTION CODE): Date lease signed

by AO; DE 1775 Action Code 176/DE

2910 Action Code 237; and

17b. Enter Action Date (MANDATORY

ACTION CODE): Date lease renewed;

DE 1775 Action Code 623/DE 2910

Action Code 242; Action Remarks:

THRU MM/DD/YY; and

17c. Enter Action Date (MANDATORY

ACTION CODE): Effective date of

renewal lease; DE 1775 Action

Code 225/DE 2910 Action Code 868;

and

17d. Enter Action Date (MANDATORY

ACTION CODE): Enter 12 percent

royalty rate; DE 1775 Action Code

102/DE 2910 Action Code 530; and

17e. Enter Action Date (MANDATORY

ACTION CODE): Date renewal lease

expires; DE 1775/2910 Action Code

763.

NOTE: If lease had been renewed

previously, remove prior Action

Code 763 entry before entering

updated renewal lease action

entries. Also, if necessary,

correct the case type to 310781,

O&G Renewal Lease - PD (DE

2961/2912).

Docket 18. File case file with active files.

IX. Other Types

A. Extension for Discontinuance of Compensatory Royalty Payments

Responsible

Official Step Action Keywords

Adjudication 1. Receive notification from MMS that DISCONTINUANCE

compensatory royalty payments on lease OF ASSESSMENTS

have been discontinued, or notification

from the FO operations that an

assessment has terminated.

Docket 2. Charge case file to Adjudication.

Adjudication 3. Prepare decision to lessee extending LEASE

term of lease for 1 year from date of EXTENSION

the discontinuance of compensatory

royalty payments (see Illustration 29).

Adjudication 4. Provide a copy of the decision to the

MMS-DMD.

ALMRS Entry 5. Update Case Recordation: AUTOMATED

NOTATION

5a. Enter Action Date (MANDATORY

ACTION CODE): Date lease is

extended (date of cessation of

compensatory royalty payment; DE

1775 Action Code 258/DE 2910

Action Code 235; Action Remarks:

THRU MM/DD/YY; BY CESS.COMP.RLTY.

5b. Enter Action Date (MANDATORY

ACTION CODE): Date extended lease

expires; DE 1775/2910 Action Code

763.

5c. If the lease account is returned

to terminable (nonproducing)

status from nonterminable

(producing) status - Enter Action

Date (MANDATORY ACTION CODE):

Date lease account changed from

nonterminable to terminable status;

DE 1775/2910 Action Code 058;

Action Remarks: Optional.

Docket 6. File case file with active cases.

B. Extension for Leases in Agreements for Subsurface Storage of

Oil and Gas

As provided by 43 CFR 3105.5-4, any lease used for the subsurface storage of oil or gas is extended for the period of storage under an approved agreement.

Responsible

Official Step Action Keywords

See Manual Section 3107.8, and Handbook 3105-1 for LEASE

processing leases affected by approval of such agreements. EXTENSIONS

FOR SUBSURFACE

STORAGE OF

OIL OR GAS

Keywords

X. Reporting First Production on or Affecting Indian FIRST

Lands PRODUCTION ON

INDIAN LEASES

The FPM's for Indian leases are prepared the same as for Federal leases with the addition of sending copies to the appropriate BIA office or offices (see Illustration 30).

Keywords

XI. Extension and Termination of Indian Leases

The BIA makes the final determination for extension and termination of Indian oil and gas leases. The following guidelines are to be used by the BLM in making these recommendations to the BIA. These guidelines are general since the terms of individual Indian oil and gas leases vary. In cases where the following provisions conflict with specific lease terms, the lease terms shall prevail.

A. Extension/Continuation. EXTENSION/

CONTINUATION

1. Individual Leases. Generally, Indian leases OF INDIAN are continued past their primary term only for as long as LEASES oil or gas **is actually produced** in paying quantities. This means that if production in paying quantities is commenced prior to the expiration of the primary term of the lease, the lease will continue in effect until such production ceases. However, some Indian leases contain provisions that require that all acreage and formations not actually

producing on a lease terminate at the expiration of the primary term of the lease. Unlike a Federal lease, an Indian lease normally shall not be extended/continued by reason of a shut-in well or by reworking or new drilling operations. Some Indian leases, however, provide that the lease will continue by drilling operations that are commenced during the primary term and are continued with diligence until the well is completed to production or is abandoned. The lessees also may request approval a suspension of production requirements during the period of nonproduction in order to conduct remedial workover operations, or approval to shut in wells for economic or marketing reasons. Since the statutory authority and BIA regulations currently do not provide for any suspension of production, the BLM AO needs to review the request to shut in the well or the request for a suspension of production and submit recommendations to the BIA for its determination whether to grant the request of the operator.

2. Leases Committed to Communitization Agreement.

Allocation of production under a CA is considered as production under the lease for extension purposes.

However, the well must meet the same conditions specified in the preceding paragraph for lease extension or continuation.

Keywords

B. Termination/Expiration. TERMINATION/
EXPIRATION OF

1. Cessation of Production on a Lease. When the INDIAN LEASES

BLM AO finds a cessation of production for a calendar month from an Indian lease that is in its extended term by reason of such production, the BLM AO needs to review the lease or contract terms to determine the requirements and/or penalties for nonproduction. If no requirements and/or penalties are specified, the operator is to be contacted to determine if the well is back on production, whether production is depleted, whether production has been suspended without approval for a calendar month or more, and/or whether a request for suspension of production requirements has been made to the BLM AO. If the cessation of production exceeds a calendar month and no application for suspension of production has been submitted to the BLM AO, the lease is considered to have expired the last day of production. If a request for a suspension of production has been approved by the BIA, based on recommendations made by the BLM AO, but the remedial workover operations have not been conducted with reasonable diligence, or the remedial workover operations under the approved suspension have been unsuccessful in restoring production to the lease, the lease is considered to have expired the last day in which the operations were conducted. In these cases, the BLM AO must notify the BIA of such a situation by memorandum (see Illustration 31). If the date of last production/operations cannot be determined, it will be considered to be the last day of the month in which the

well last produced/operated.

2. Termination of Communitization Agreement.

When production ceases from a communitized area involving Indian leases, the BLM AO is to send a memorandum, similar to that shown in Illustration 31, recommending to the BIA that the CA be terminated for nonproduction, and request the BIA to inform the BLM AO of BIA's action. The BIA/BLM/MMS Memorandum of Understanding indicates that the BIA will terminate the CA and inform the operator accordingly. When notification is received from the BIA that the CA has terminated, the BLM file is to be closed.

Glossary of Terms

- A -

actual drilling operations: the drilling of a well with drilling

equipment to a potentially productive oil or gas horizon starting with spudding. This definition does not include such preparatory or preliminary work as grading roads and the well site, moving or rigging up equipment, or drilling the "rat" hole. While the phrase "actual drilling operations" also includes the necessary testing, completing, or equipping of a well, it cannot be construed as having the same meaning as "reworking operations". Within the oil and gas industry, the common usage of the phrase "drilling operations" refers to the actual drilling and completion of a hole with a string of drill tools and could include swabbing, bailing, sand fracturing, etc., as operations.

- C -

continuation by production: the status of a lease after the primary or

any definite extended term has passed and during which the lease has a well capable of producing oil or gas in paying quantities. However, both in common usage and in case law, this period is also often referred to as an extension by production. In the case of a lease eliminated from a storage agreement, the continuation of the lease must be by production of oil or gas not previously produced.

cost of marketing the product: the normal or usual handling, treating,

measurement, and transportation costs that an operator could be expected to pay to handle the leasehold production to the point of sale. Such costs would not include abnormal or unreasonable charges, such as reconstruction of a pipeline destroyed by fire, or a landslide, or purchase of a truck.

- D -

date of completion: date the well is capable of production in paying

quantities and is equipped to produce hydrocarbons to the surface.

diligent operations to restore paying production: operations that are

conducted in such a manner as to be bona fide efforts which a prudent operator would be expected to make to restore paying production to the leasehold or communitized area. Generally, no more than 60 days can elapse between cessation of one operation and commencement of another in order to qualify as reasonable diligence.

- E -

expiration: the lapsing or end of a lease by nonoperational conditions,

such as the end of the primary or any extended term, or for failure to comply with a 60-day notice to produce from a lease which is capable of production. Both in common usage and in case law, the word "expiration" often is used interchangeably with the word "termination." (See "termination.")

extension: normally any period of a lease after the primary term during

which the lease continues for reasons other than capability of production in paying quantities. However, the continuation of a lease after the primary term by reason of production is often referred to as an extension by production, both in common usage and in case law. Extensions are normally for a specific period of time. Extensions are granted for operational reasons related to drilling and production conditions as described in this Handbook Section and Manual Section 3180, and for nonoperational conditions as described in Manual Sections 3103 and 3105.

- F -

first production memorandum: a memorandum prepared after a well is

completed for oil and/or gas production, which represents the first production, actual or allocated, from the respective lease, unit, or communitization agreement. The memorandum is to provide the full particulars concerning the well and, if possible, the date of first production resulting from a determination that the well is capable of producing leasehold substances in paying quantities. If such a determination is not possible, a preliminary memorandum must be issued having no date of first production and commenting that a final paying well determination is pending. Once the final determination is made, a subsequent memorandum indicating a date of first production or a negative paying well determination must be submitted. A memorandum does not have to be issued for a well determined not to be capable of producing leasehold substances in paying quantities unless royalties are due for test production. A memorandum issued for test production only contains comments to the effect that the well is not capable of production in paying quantities but that test royalties are due.

- G -

gross production income: all income received from the sale of leasehold

production, that is, total sales value.

- P -

primary term: as interpreted, the Mineral Leasing Act Revision of 1960

provides two definitions of the phrase "primary term."

1. The phrase "primary term" as used in Section 4(d) of the Mineral Leasing Act Revision of 1960 covers the entire period in the life of the lease prior to the period of extension because of production. This definition is applicable to all leases issued prior to September 2, 1960, and such leases may be extended numerous times by drilling pursuant to guidelines contained in this Handbook Section if there has been no extension because of production.

2. The phrase "primary term" as used in Section 17(e) of the Mineral Leasing Act Revision of 1960 means the initial 10-year term of a noncompetitive lease and the initial 5-year term of a competitive lease, no more and no less. This definition applies to all leases issued on or after September 2, 1960. Therefore, these leases are entitled to only one 2-year extension for drilling operations commenced prior to the end of the primary term, which would be the initial 5- or 10-year term of the lease, as appropriate.

production in paying quantities: production from a lease of oil and/or

gas of sufficient value to exceed direct operating costs and the cost of lease rentals or minimum royalty.

- S -

shut-in well: a well that is considered by the operator and the BLM

authorized officer to be physically and mechanically capable of producing oil and/or gas in paying quantities, but is not in production because of the lack of a market due to well's remoteness or as a result of problems that require remedial action.

- T -

temporarily abandoned well: a well that is no longer capable of producing oil and/or gas in paying quantities and awaits a decision to be plugged and abandoned, worked over (deepening or plugging back the well) to restore production in a new interval or to convert the well to service use, or to retain as possible useful should enhanced recovery operations be initiated.

termination: the end of a lease for failure to timely pay rentals on or

before the anniversary date when due. Use of this word also is appropriate for leases continued by production and where such production is deemed to have ceased because the lease is no longer capable of producing in paying quantities and reworking or redrilling operations are not timely commenced. Both in common usage and in case law, the word "termination" often is used interchangeably with the word "expiration". (See the definition for "expiration," above.)

-W-

well completion: a well after an initial production test is obtained.

In the case of either a dry hole or nonproductive well where no production test is performed, the well is considered completed when it is plugged or after 60 days have elapsed in which no drilling, testing, completing, or equipping operations have occurred. The last date that such operations were conducted on the well is the well completion date.

NOTE: See Handbook 3100-1 for a more extensive Glossary of Terms related to

fluid mineral operations requirements and definitions.

Memorandum

To: State Director, (Fluid Minerals Adjudication Code)

From: Fluid Minerals Field Office Operations

Subject: Extension of Lease(s) By Diligent Drilling

Diligent drilling operations were conducted over the expiration date of the following lease(s). This office recommends extension of the lease(s) under 43 CFR 3107.1:

Lease No. Date of Drilling Well No. & Location Comm/Unit Agreement

(if applicable)

Distribution:

3107 (Office Code)

Memorandum

To: State Director, (Fluid Minerals Adjudication Code)

From: Fluid Minerals Field Office Operations

Subject: Potential Extension of Lease(s) By Diligent Drilling

According to information available to this office, the following lease(s) may be entitled to extension of their term because of drilling pursuant to 43 CFR 3107.1. Operations, however, have not progressed to the point where diligence may be determined.

Lease No. Date of Drilling Well No. & Location Comm/Unit Agreement

(if applicable)

A final report will be submitted when a determination can be made.

Distribution:

3107 (Office Code)

Memorandum

To: State Director, (Fluid Minerals Adjudication Code)

From: Fluid Minerals Field Office Operations

Subject: Expiration of Lease(s) - Nondiligent Drilling

Pursuant to the information available, this office has determined that the following lease(s) expired at the end of the primary term and is/are not entitled to an extension for diligent drilling under 43 CFR 3107.1.

Expiration

Lease No. Date Comments/Rationale

Example: While Well No. 3-33, Lot 11, Sec. 33, T. 1 N., R. 88 W., 9th P.M. was spudded two days before the end of the primary term, no further operations were pursued within 30 days after the spudding rig moved off-site and no request for an extension of time was received by this office. We have advised the operator that no further operations, other than plugging and abandonment are permissible.

Example: Well No. 1-2, NW1/4, Sec. 1, T. 55 S., R. 3 E., 8th P.M., was completed as a dry hole in communitization agreement No. 20 days before the lease expired. While the lessee/operator had hoped to be testing over the expiration date, initial tests were negative and a notice of intent to abandon was submitted to this office before the lease expired. Please note that the diligent drilling of this well over the preceding month was reported to you last month for (Lease serial number), another Federal lease committed to the agreement. The lessee has requested that the lands in the lease within the communitized area be made available by competitive leasing as promptly as possible as it intends to drill another well in the area next summer.

Distribution:

3107 (Office Code)

Serial No.

DECISION

:

:

Lessee(s) and Address(es)

:

Oil and Gas

:

:

Lease Term Extended

The following oil and gas lease is entitled to a 2-year drilling extension, because of actual diligent drilling operations conducted over the expiration date (on the leasehold) OR (on the Communitization Agreement) OR (Unit Agreement) to which the lease(s) is committed).

Pursuant to 43 CFR 3107.1, the term of the lease is extended as indicated:

Lease No. Lease Date Comm/Unit Agreement Extended Through

(if appropriate)

Authorized Officer

Distribution:

Field Office Operations

MMS-DMD, Mail Stop 3110

SMA (if other than BLM)

3107 (Office Code)

Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

:

Lessee(s) and Address(es)

:

:

Oil and Gas

:

:

Drilling Extension Denied

Lease Expired

Oil and gas lease (Serial number) was issued effective (Date) for a (5/10)-year term ending (Date).

We have received the enclosed report from our (Name) District Office advising us that the lease is not eligible for extension beyond the primary term. The lease therefore expired (Date).

Standard appeal paragraph (see Handbook 3100-1, Chapter 1).

(Eleventh/sixth) year advance rental will be authorized for refund when all action is final.

Authorized Officer

Enclosures

Report

Form 1842-1

Distribution:

Field Office Operations

SMA (if other than BLM)

3107 (Office Code)

Serial No.

Memorandum

To: State Director (Fluid Minerals Adjudication Code)

From: Fluid Minerals Field Office Operations

Subject: First Production Lease No. (or CA or unit, if applicable)

Date of Completion: (See Section II.A.2.)

Date of First Production:

Field:

Operator/Well Name/Number:

Location:

Total Depth and Surface Elevation:

Producing Formation (Show name of formation and top and bottom

and Intervals: perforation, or top and bottom of producing

interval.)

Initial Daily (Report all production including water, gas

Production: from an oil well, distillate, or condensate from

a gas well.)

Well Capable of

Production in Paying

Quantities?

Current Status: (Producing, shut in, etc.)

Remarks: (Include additional information that may be pertinent to the State Office, other BLM offices, or MMS,

including the identification of other jurisdictional lands, leases, leases created by partial assignment that are entitled to a 2-year extension under 43 CFR 3107.5-1, and agreements that may be affected in any manner by the first production.

Distribution:

MMS-DMD, Mail Stop 3112

SO or DO Unit Section (if unit well)

Bordering District Offices (as appropriate)

SMA (if other than BLM)

3107 (Office Code)

Serial No.

NOTICE

:

:

Lessee(s) and Address(es)

:

Producing Oil and Gas Lease

:

:

Lease Account Transferred

The lease account for Federal oil and gas lease (Serial number) has been transferred in the Minerals Management Service (MMS) from terminable (nonproducing) status to nonterminable (producing) status. Questions concerning payments and reports, should be directed to the MMS, Data Management Division at the address indicated below. Any lease status questions should be directed to the Bureau of Land Management (BLM) at the address indicated in the above letterhead.

Minerals Management Service

Royalty Management Program

P.O. Box 5760

Denver, CO 80217

OPTIONAL:

Reason for transfer: EXAMPLE: Acreage committed to CA (Serial number)

effective (Date). Well No. 1-6 completed

(Date) on Lot 4, Sec. 6, T. 140 N., R. 100 W.,

Unnamed Field, (State), and is located on

patented lands.

Our BLM records indicate the last advance rental payment made to the MMS was for the lease year beginning (Date) through (Date). This is a courtesy notice only, to be retained for your files.

Authorized Officer

Distribution:

Field Office Operations

SMA (if other than BLM)

3107 (Office Code)

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

Dear : or Gentlemen:

Our records indicate that well number , located in

has been shut in since (Date) and is the last producing well on Federal oil and gas lease (Serial number).

We have determined that this lease is not capable of production in paying quantities. Under 43 CFR 3107.2-2, a lease which is in its extended term because of production in paying quantities shall not terminate upon cessation of production if, within 60 days thereafter, reworking or drilling operations are commenced on the leasehold and are conducted with reasonable diligence during the period of nonproduction. You are allowed 60 days from receipt of this letter within which to restore production in paying quantities to the leasehold.

If you believe the lease is capable of production in paying quantities to pay the day-to-day operating costs, including rental and/or minimum royalty on a sustained basis, you must submit justification within 60 days of receipt of this letter.

If justification that the well is capable of production in paying quantities is not submitted within 60 days from receipt of this letter, the lease shall automatically terminate. A Notice of Intent to Abandon (NIA) the well must be filed within 30 days, starting 60 days after receipt of this letter.

If you have any questions, contact (Name) at (Office address).

Sincerely,

Field Office Operations

Authorized Officer

Distribution:

All lessees

SO Fluid Lease Adjudication

3107 (Office Code)

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

Dear : or Gentlemen:

Communitization Agreement (CA) (Serial number), which includes lease(s) (Serial number(s)) became effective (Date) for a period of two years and so long thereafter as communitized substances are or can be produced in paying quantities from the communitized area.

Our records indicate that well number , located in

has been shut in since (Date) .

We have determined that this CA is not capable of production in paying quantities. Under 43 CFR 3107.2-2, the CA will not terminate upon cessation of production if, within 60 days thereafter, reworking or drilling operations are commenced and are conducted with reasonable diligence during the period of nonproduction. You are allowed 60 days from receipt of this letter within which to restore production in paying quantities from the communitized area.

If you believe the CA is capable of production in paying quantities to pay the day-to-day operating costs, including rental and/or minimum royalty on a sustained basis, you must submit justification within 60 days of receipt of this letter.

If justification that the well is capable of production in paying quantities is not submitted within 60 days from receipt of this letter, the CA will automatically terminate. A Notice of Intent to Abandon (NIA) the well must be filed within 30 days, starting 60 days after receipt of this letter. (NOTE: This sentence applies only when the well involved is Federal.) The leases committed to the CA may be eligible for extension in accordance with 43 CFR 3107.4.

If you have any questions, contact (Name) at (Office address) .

Sincerely,

Field Office Operations

Authorized Offices

Distribution:

All lessees

SO Fluid Lease Adjudication

3107 (Office Code)

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

Dear : Gentlemen:

The (Name) Unit Agreement which includes the (Name) Participating Area (PA) became effective (Date) and so long thereafter as unitized substances are or can be produced in paying quantities from the unitized area.

Our records indicate that well number , located in

has been shut in since (Date) and is the last well in the PA.

We have determined that this PA is not capable of production in paying quantities. Under 43 CFR 3107.2-2, the PA will not terminate upon cessation of production if, within 60 days thereafter, reworking or drilling operations are commenced with reasonable diligence during the period of nonproduction. You are allowed 60 days from receipt of this letter within which to restore production in paying quantities from the PA.

If you believe the PA is capable of production in paying quantities to pay the day-to-day operating costs, including rental and/or minimum royalty on a sustained basis, you must submit justification within 60 days of receipt of this letter.

If justification that the well is capable of production in paying quantities is not submitted within 60 days from receipt of this letter, the PA will automatically terminate. A Notice of Intent to Abandon (NIA) the well must be filed within 30 days, starting 60 days after receipt of this letter. (NOTE: This sentence applies only when the well involved is Federal.) The leases committed to the PA may be eligible for extension in accordance with 43 CFR 3107.4.

If you have any questions, contact (Name) at (Office address) .

Sincerely,

Field Office Operations

Authorized Officer

Distribution:

All lessees

SO Fluid Lease Adjudication

Method for Determining Production in Paying Quantities

for Leases Extended Beyond Their Primary Term

1. Compare the allowable operating costs to gross income on a monthly

basis.

a. If such comparison shows the lease is not profitable for a month, determine whether production is exhausted or

is temporarily shut in for mechanical repairs. If production is exhausted, i.e., the lease is no longer capable of production in paying quantities, then the lease terminated. If the shut in was for mechanical repairs, the lease will not terminate if operations are diligently commenced and continued until the well is returned to paying production.

b. If such comparison shows the lease is profitable, then no further action needs to be taken.

2. Compare total yearly cost (calendar year, lease year, or latest 12-month period) to total yearly income. This includes the cost of

rental/minimum royalty plus the prorated cost of routine workovers.

a. If such comparison shows the lease is still profitable, then no further action needs to be taken.

b. If such comparison shows the lease is not profitable, then paying production will be considered exhausted and the lease terminated, unless the lessee or operator diligently performs any necessary repair work in attempting to improve the well's producing capabilities.

The following example illustrates the above procedures:

Direct Operating Value

Month Cost (\$) Oil & Gas (\$) Net (\$)

Jan. 150 110 (40)

Feb. 150 175 25

Nov. 150 175 25

Dec. 150 110 (40)

Year Total \$1,800 \$1,970 \$170

Accordingly, if the total of any additional rental/minimum royalty obligations is less the \$170, the lease is capable of production in paying quantities.

3. The following leases are subject to analysis:

a. Any lease whose monthly operating costs appear to exceed monthly income for 2 consecutive months.

b. Any lease entering its extended term by production.

c. Any lease where the monthly report shows zero production.

3107 (Office Code)

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

Dear : or Gentlemen:

Our records indicate that production on Federal oil and gas lease (Serial number) has declined to the point that we have determined that this lease is not capable of production in paying quantities. Because the lease is currently in its extended term by reason of production, it will terminate unless the lease is capable of producing hydrocarbons in paying quantities.

Under 43 CFR 3107.2-2, you are allowed 60 days from receipt of this letter in which to begin reworking or drilling operations to restore production in paying quantities on the leasehold. The lease will not terminate so long as approved operations are commenced within the 60-day period and such operations are continued with reasonable diligence until paying production is restored.

If you believe the lease is capable of production in paying quantities to pay the day-to-day operating costs, including rental and/or minimum royalty on a sustained basis, you must submit justification within 60 days of receipt of this letter.

If a reworking/drilling operation proposal or justification that the well is capable of production in paying quantities is not submitted within 60 days from receipt of this letter, the lease will automatically terminate. A Notice of Intent to Abandon (NIA) the well must be filed within 30 days, starting 60 days after receipt of this letter.

If you have any questions, contact (Name) at (Office address).

Sincerely,

Field Office Operations

Authorized Officer

Distribution:

All lessees

SO Fluid Lease Adjudication

3107 (Office Code)

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

Dear : or Gentlemen:

Communitization Agreement (CA) (Serial number), which includes lease(s) (Serial number(s)) became effective (Date) for a period of two years and so long thereafter as communitized substances are or can be produced from the communitized area in paying quantities. Our records indicate that production from the CA has declined to the point that we have determined that this CA is not capable of production in paying quantities.

Under 43 CFR 3107.2-2, you are allowed 60 days from receipt of this letter in which to begin reworking or drilling operations on the CA to restore production in paying quantities. The CA will not terminate so long as approved operations are commenced within the 60-day period and such operations are continued with reasonable diligence until paying production is restored.

If you believe the CA is capable of production in paying quantities to pay the day-to-day operating costs, including rental and/or minimum royalty on a sustained basis, you must submit justification within 60 days of receipt of this

letter.

If a reworking/drilling operation proposal or justification that the well is capable of production in paying quantities is not submitted within 60 days from receipt of this letter, the CA will automatically terminate. A Notice of Intent to Abandon (NIA) the well must be filed within 30 days, starting 60 days after receipt of this letter. (**NOTE:** This sentence applies only when the well involved is Federal.) The leases committed to the CA may be eligible for extension in accordance with 43 CFR 3107.4.

If you have any questions, contact (Name) at (Office address).

Sincerely,

Field Office Operations

Authorized Officer

Distribution:

All lessees

SO Fluid Lease Adjudication

3107 (Office Code)

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

Dear : or Gentlemen:

The (Name) Unit Agreement which includes the (Name) Participating Area (PA) became effective (Date) and so long thereafter as unitized substances are or can be produced from the unitized area in paying quantities. Our records indicate that production from the last well in the PA has declined to the point that we have determined that this PA is not capable of production in paying quantities.

Under 43 CFR 3107.2-2, you are allowed 60 days from receipt of this letter in which to commence reworking or drilling operations on the PA to restore production in paying quantities. The PA will not terminate so long as approved operations are commenced with the 60-day period and such operations are continued with reasonable diligence until paying production is restored.

If you believe the PA is capable of production in paying quantities to pay the day-to-day operating costs, including rental and/or minimum royalty on a sustained basis, you must submit justification within 60 days of receipt of this letter.

If a reworking/drilling operation proposal or justification that the well is capable of production in paying quantities is not submitted within 60 days from receipt of this letter, the PA will automatically terminate. A Notice of Intent to Abandon (NIA) the well must be filed within 30 days, starting 60 days after receipt of this letter. (**NOTE:** This sentence applies only when the well involved is Federal.) The leases committed to the PA may be eligible for extension in accordance with 43 CFR 3107.4.

If you have any questions, contact (Name) at (Office address).

Sincerely,

Field Office Operations

Authorized Officer

Distribution:

All lessees

SO Fluid Lease Adjudication

3107 (Office Code)

Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

Dear : or Gentlemen:

Our records show that well number , Federal Lease (Serial number), (Communitization Agreement (Serial number), if appropriate), (Name)

County, (State), has been shut in since (Date; if precise date is unknown use the last day of the month for which production was reported). This well is the only well on the lease (communitization agreement) considered to be capable of producing oil or gas in paying quantities. In order for the lease (communitization agreement) to continue to be held by production, the well must remain capable of production in paying quantities. We have reviewed the data you submitted on your most recent well test and the (economic feasibility to construct and operate the necessary marketing facilities) (lack of market conditions to actually produce).

In order for us to continue to treat the well as an approved shut-in well, we require a current test of the well's capacity to produce oil or gas in paying quantities. The last test was conducted on (Date). Accordingly, you are requested to conduct appropriate test(s) of the well's capability to produce in paying quantities and submit the results to this office within 60 days of your receipt of this letter. The test(s) may be any appropriate tests, but are to include, as a minimum, the following: (Any specific directions from the authorized officer).

If you feel that such testing is unnecessary, please submit within 60 days of your receipt of this letter a justification for not performing the test(s) and continuing the well in a shut-in status.

Failure to meet the above requirement shall result in our conclusion that the well is no longer capable of producing in paying quantities.

Sincerely,

Field Office Operations

Authorized Officer

Distribution:

All lessees

SO Fluid Lease Adjudication

3107 (Office Code)

Memorandum

To: State Director, (Fluid Minerals Adjudication Code)

From: Fluid Minerals Field Office Operations

Subject: Last Oil or Gas Production, (Lease Serial Number ; Communitization Agreement Serial Number ; or (Serial Number) Unit Participating Area)

Last Production Date:

Field:

Operator/Well Name/Number:

Location:

Remarks: Include such items as the following:

Date the Notice of Intent to Abandon (NIA) the well was filed;

Whether last production will cause termination of the lease;

Date the communitization or unit agreement is considered terminated, if applicable;

Effect of the last production on any lease term, e.g., lease (Serial number) should be terminated as of the date of last production; no reworking or drilling operations were commenced within 60 days of the cessation of production; OR

Lease (Serial number) should be terminated as of (Date); the operator timely commenced new drilling/reworking operations within 60 days of the last production and such operations continued diligently until the date indicated, at which time the operator filed his Notice of Intent to Abandon the (new) well; OR

The following Federal leases were committed to communitization agreement (Serial number): XXX-12433, XXX-12434, XXX-12435. The communitization agreement terminated as of the date of cessation of the reworking operations, and each lease should be extended to (Date). Lease XXX-12433 is also committed to communitization agreement No. (Serial number), which still is considered producing. Our records indicated lease XXX-12434 has never had a well and will expire at the end of the 2-year extension absent any further extension. The communitization well was on lease XXX-12435 and our records show this lease has another producing well, the X-12, located in the SW1/4, Sec. 22, T. 9 N.,

R. 88 W., 9th P.M.

Distribution:

MMS-DMD, Mail Stop 3112

SO Fluid Lease Adjudication

3107 (Office Code)

Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

:

:

Lessee(s) and Address(es)

:

Oil and Gas

:

:

Lease Terminated by Cessation of Production

Oil and gas lease (Serial number) was issued effective (Date) for a (5/10)-year term ending (Date) and for so long thereafter as oil or gas is produced in paying quantities.

A determination has been made that this lease was no longer capable of producing oil or gas in paying quantities after (Date). (No approved operations to restore production were commenced within the 60 days allowed under 43 CFR 3107.2-2.) OR (Operations to restore production in paying quantities were unsuccessful and ceased on (Date).) Accordingly, the lease term is exhausted and the lease is hereby declared terminated by cessation of production effective (Date).

Settlement of royalties or rentals due or payable must be made to Minerals Management Service, Royalty Management Program, if not previously done. Bonds must remain in full force and effect until final abandonment of all wells on the lease has been approved, and the lease account is settled.

OPTIONAL: The following lands were embraced in this lease:

Standard appeal paragraph (see Handbook 3100-1, Chapter 1).

Authorized Officer

Enclosure

Form 1842-1

Distribution:

MMS-DMD, Mail Stop 3110

Field Office Operations

SMA (if other than BLM)

3107 (Office Code)

Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

:

Lessee(s) and Address(es)

:

:

Oil and Gas

:

:

Cessation of Production

Oil and gas lease (Serial number) was issued effective (Date) for a (5/10)-year term ending (Date) and for so long thereafter as oil or gas is produced in paying quantities. (Include when applicable: The lease term has been extended to (Date) pursuant to the decision of (Date).)

A determination has been made that this lease was no longer capable of producing oil or gas in paying quantities after (Date). In the absence of any further extension, or the establishment of production, the lease will expire at the end of its current term on (Date).

Settlement of royalties or rentals due or payable must be made to Minerals Management Service, Royalty Management Program, if not done previously. Bonds must remain in full force and effect until final abandonment of all wells on the lease has been approved, and the lease account is settled.

NOTE: If the lease account is changed from nonterminable (producing) status to terminable (nonproducing) status in the MMS-DMD (because the lease has never had a well of its own), an additional paragraph indicating

the changed lease status needs to be included here. Or, if the lease will remain on a minimum royalty basis until its expiration, that

fact should be indicated here.

Standard appeal paragraph (see Handbook 3100-1, Chapter 1).

Authorized Officer

Enclosure

Form 1842-1

Distribution:

Field Office Operations

SMA (if other than BLM)

3107 (Office Code)

Serial No.

DECISION

:

Lessee(s) and Address(es)

:

:

Oil and Gas

:

:

Lease Extended

A discovery of oil or gas has been made on oil and lease (Serial number) on (Date). Your oil and gas lease (Serial number) was segregated from the lease on which the discovery was made as a result of a partial assignment approved effective (Date).

Consequently, pursuant to 43 CFR 3107.5-1, the term of your lease is extended through (Date of discovery plus two years, e.g., if discovery is May 15, 1994, this date should be May 15, 1996), and so long thereafter as oil or gas is produced in paying quantities. If your lease is in a rental (terminable) status, continuation of the lease through the period of extension depends upon timely payment of annual rental for any lease year beginning after the extension.

Authorized Officer

Distribution:

Field Office Operations

MMS-DMD, Mail Stop 3110

SMA (if other than BLM)

3107 (Office Code)

Serial No.

Memorandum

To: Fluid Minerals Field Office Operations

From: State Director, (Fluid Minerals Adjudication Code)

Subject: Request for Information Concerning Undeveloped Lands in Lease (Serial Number)

We have recently received for processing the following proposed partial assignment:

From:

To:

RETAINED AREA: ASSIGNED AREA:

Please inform us which lands are undeveloped so that we will be able to make a determination whether the provisions of 43 CFR 3107.5-2 or 3107.5-3 apply, i.e., is there actual or allocated production on either the assigned portion or the retained portion of this lease.

Distribution:

3107 (Office Code)

Partial Assignment Serial No.

DECISION

Assignor(s)

:

:

:

Oil and Gas Lease

:

Partial Assignment

Assignee(s):

:

:

:

:

Oil and Gas Lease Partial Assignment Approved

Lease Term Extended

This office has approved the above captioned partial assignment, effective

(Date), affecting oil and gas lease (Base lease serial number) wherein the assignor transfers to the assignee 100 percent of the record title in part of the lands in the lease. The assignee's counterpart of the approved assignment is enclosed with the assignee's copy of this decision.

In accordance with 43 CFR 3106.7-5, the partial assignment has the effect of segregating the assigned lands into a new lease, which will retain the anniversary date and the terms and conditions of the original lease. The new lease has been assigned the serial number indicated above, and all future reference to this lease should refer to this new number.

Below is a description of lands remaining in the original (base) lease, and the description of lands in the new lease:

Base Lease New Lease

County: County:

Acres: Acres:

NOTE: Indicate other lease status items, as appropriate, e.g.,:

Committed to: Communitization Agreement (Serial number)

Bonding coverage for operations on this lease is maintained by the operator, (Name).

2

In accordance with 43 CFR 3107.5-3, the term of lease (Serial number of the nonproducing portion) is hereby extended for a period of 2 years, beginning

(Date), ending (Date), and for so long thereafter as oil or gas is produced in paying quantities from lands on this leasehold. Continuation of this lease will depend upon timely annual rental payments in order to prevent termination of the lease at its next anniversary date. Please place the appropriate lease serial number on checks for annual rental payments and mail to the following address:

Minerals Management Service (MMS)

Royalty Management Program

P.O. Box 5640

Denver, Colorado 80217

The records of this office indicate that the next rental payment for this lease should be in the amount of (\$) and is required to be received by the MMS by (Next anniversary date of the segregated lease). (NOTE: If the segregated lease contains no lands in a known geological structure, the rental rate on the segregated portion may be **lower** than the rental rate for the lease prior to the segregation. Any lower rental rate should be explained at this point as follows: As the lands in the (retained)/(segregated) lease are not classified as being within a known geologic structure, the rental rate for such lease reverts to \$_.per acre or fraction thereof.)

Authorized Officer

Enclosure

Copy of approved assignment form (with assignee's copy)

Distribution:

Assignee

Assignor

Any other lessees

Field Office Operations

SMA (if other than BLM)

MMS-DMD, Mail Stop 3110

NOTE: Annotate the MMS-DMD copy of the decision with any other pertinent information that is required to update the lease accounts in the MMS automated data system for the base lease and new lease, including information concerning the production status of each such lease, to ensure that the MMS-DMD records the leases with the correct dates, rental rates (noting any applicable rental rate reduction), royalty rates, etc.

3107 (Office Code)

Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee(s)

:

:

Oil and Gas

:

Renewal Lease

:

Renewal Lease Forms Transmitted for Execution

OPTIONAL: Consent of Surety Required

Your application for 10-year renewal of oil and gas lease (Serial number) has been received. The records show this lease was originally issued for a 20-year term, with preferential right of the lessee to renew the lease for successive 10-year periods with such reasonable terms and conditions as may be prescribed by the lessor, unless otherwise provided by law at the time of the expiration of such periods. In accordance with Mineral Leasing Act amendment of November 15, 1990, the term of this lease is renewed effective (Date) for a period of 20 years and so long thereafter as oil or gas are produced in paying quantities. The lease is not committed to a unit agreement.

Enclosed are an original and two copies of renewal lease forms with (Number) stipulations attached. The royalty rate for the new lease is 12 1/2 percent in accordance with 43 CFR 3103.3-1.

(IF APPROPRIATE: Prior to lease issuance, proper bond coverage must be provided.

(IF APPROPRIATE, also require rental payment for the first renewal year.)

A period of 30 days from your receipt of this decision is allowed in which to execute all copies of the lease, initial all changes made in the royalty schedule, return the lease forms with the stipulation attachments, and comply with any other requirements indicated above.

Failure to return the executed lease forms within the time allowed will result in rejection of your application without further notice. You have 30 days in which to appeal this decision after the expiration of the 30-day compliance period. An appeal during the compliance period is subject to dismissal as being premature.

Standard appeal paragraph (see Handbook 3100-1, Chapter 1).

Authorized Officer

Enclosures

Lease Forms (with stipulations attached)

Form 1842-1

Distribution:

3107 (Office Code)

Serial No.

DECISION

:

Lessee

:

:

Oil and Gas

:

:

Lease Term Extended

The Minerals Management Service has reported compensatory royalty assessment payments have been discontinued for oil and gas lease (Serial number).

In accordance with 43 CFR 3107.9-1, the lease term is hereby extended for

1 year from discontinuance of compensatory royalty payments, beginning

(Date) ending at midnight (Date).

Because this lease is in a nonproducing status, in accordance with 43 CFR 3103.2-2(c), the continuation of this lease will depend upon timely annual rental payments in order to prevent termination of the lease at its next anniversary date. Please place the appropriate lease serial number on checks for annual rental payments and mail to the following address:

Minerals Management Service (MMS)

Royalty Management Program

P.O. Box 5640

Denver, Colorado 80217

The records of this office indicate that the next rental payment for this lease should be in the amount of (\$) and is required to be received by the MMS by (Date).

Authorized Officer

Distribution:

Field Office Operations

SMA (if other than BLM)

MMS-DMD, Mail Stop 3110

3107 (Office Code)

Memorandum

To: Area Director, Bureau of Indian Affairs

From: Fluid Minerals Field Office Operations

Subject: First Production Lease No. (or CA or unit, if applicable)

Date of Completion:

Date of First Production:

Field:

Lessee or Operator/Well Name/Number:

Location:

Total Depth and Surface Elevation:

Producing Formation (Show name of formation and top and bottom
and Intervals: perforation, or top and bottom of producing
interval.)

Initial Daily Production: (Report all production, including water, gas
from an oil well, distillate, or condensate
from a gas well.)

Well Capable of Production

in Paying Quantities?

Remarks: (Include additional information that may be pertinent to the

State Office, other BLM offices, MMS, or BIA, including the identification of other jurisdictional lands, leases,
and agreements that may be affected in any manner by the first production.)

Distribution:

MMS-DMD, Mail Stop 3112

State Office Mineral Resources

Other BIA Offices (as appropriate)

Bordering District Offices (as appropriate)

3107 (Office Code)

Memorandum

To: Bureau of Indian Affairs (Appropriate Office)

From: BLM Fluid Minerals Field Office Operations

Subject: Cessation of Production, Lease No. (BIA Serial Number)

NOTE: Refer to specific lease terms before preparing this memorandum. If

the lease is a "standard" Indian lease, the following language

applies:

The subject lease, extended past its fixed term by production of oil (gas) in paying quantities, ceased production (on) (during) (Date). As of

(Date), the lease remains shut in. (This cessation of production exceeds a calendar month, and no request for approval of the shut-in well has been received.) OR (The remedial workover operations to be performed have not been conducted with reasonable diligence.) OR (The remedial workover operations performed have been unsuccessful in restoring production to the lease.)

Under Section 1 of the lease provisions, the subject lease will remain in effect only as long as ". . . oil and/or gas is produced in paying quantities . . ." Therefore, we recommend that this lease be considered to have expired effective (Date), the (last day) OR (last day of the month) in which the last (production operations) OR (operations) were conducted.

This memorandum is being furnished so that appropriate action may be taken by your office pursuant to the applicable lease terms and regulations.

Authorized Officer

Distribution:

State Office Mineral Resources Staff

NOTE: If unusual reasons exist for the shut in, the authorized officer may

add an additional paragraph stating: The reason for the shut in;

whether the well remains capable of paying production; and a

recommendation on whether lease termination would be in the best

interest of the tribe or allottee.

UNITED STATES DEPARTMENT OF THE INTERIOR

OFFICE OF THE SOLICITOR

WASHINGTON, D.C. 20240

May 17, 1984

BLM.ER.0318

Memorandum

To: Director, Bureau of Land Management

From: Associate Solicitor, Energy and Resources

Subject: Extension of Oil and Gas Leases

You have requested advice concerning the eligibility of certain oil and gas leases for extension by prosecution of diligent drilling operations at the end of the primary lease term under section 17(e) of the Mineral Leasing Act of 1920 (Act), 30 U.S.C. Sec. 226(e). This "drilling extension" question arose when a portion of a lease was committed to an unit agreement. The uncommitted portion was segregated into a new lease with less than two years remaining in its primary term. Under section 17(j) of the Act, the segregated (nonunitized) lease "shall continue in force and effect for the term thereof but for not less than two years from the date of such segregation and so long thereafter as oil or gas is produced in paying quantities." 30 U.S.C. Sec. 226(j). The segregated lease received the additional time under section 17(j) (only 17 days in the particular case) but the lessee has inquired whether the lease might also receive a drilling extension. We conclude the primary term, but not the extended term, of the lease may be extended by drilling under section 17(e).

Your question involves two parts: (1) may the lease be extended by drilling at the end of the 2-year segregation extension; and (2) may the lease be extended by drilling at the end of the primary term even though the actual lease term has already been extended under section 17(j). Drilling extensions under section 17(e) are clearly limited to the end of the primary term and are not applicable at any other time. Enfield v. Kleppe, 566 F.2d 1139 (10th Cir. 1977). The Board of Land Appeals has specifically ruled that a lease may not be extended by drilling at the end of a 2-year extension under section 17(j) which resulted from segregation, from elimination of the lease from a unit, or from termination of the unit. Texaco, Inc., 34 IBLA 127 (1978); Yates Petroleum Corp., 34 IBLA 7 (1978).

The second part of the question has no readily available answer. The Board implied that such a lease would qualify for a drilling extension when it stated:

if the lessee is to obtain an extension by drilling
over, he must be conducting actual drilling operations
at the conclusion of the 10-year primary term [for
noncompetitive leases], notwithstanding the fact that
the actual lease term might otherwise have been
extended beyond the end of the initial 10-year primary
term.

2

Texaco, Inc., *supra* at 130; Yates Petroleum Corp., *supra* at 11. Since this was not an issue in either case (neither lessee was drilling at the end of the primary term), this statement is not a conclusion of law by the Board. However, since the language of the Act provides no definitive guidance either way and since the Board's construction gives consistent meaning to both extension provisions, we see no reason why it may not be followed.

In conclusion, where a lease is subject to an extension under section 17(j) but is still within its primary term, it may receive a drilling extension under section 17(e) if the lessee is prosecuting diligent drilling operations at the end of the primary term. If such a lease is extended by drilling, the drilling extension operates in place of, and not in addition to, the section 17(j) extension. The drilling extension begins at the end of the primary term of the lease and supersedes the prior section 17(j) extension.

Lawrence J. Jensen

Associate Solicitor

Energy and Resources

UNITED STATES DEPARTMENT OF THE INTERIOR

OFFICE OF THE SOLICITOR

WASHINGTON 25, D. C.

M-36657 July 17, 1963

Memorandum

To: Chief, Division of Minerals, Bureau of Land Management

From: Associate Solicitor, Division of Public Lands

Subject: Oil and gas lease extensions pursuant to section 4(d) of the Mineral Leasing Act Revision of 1960

On July 5, 1963, the Assistant Solicitor, Branch of Minerals, of this Division, was informally asked by your office about the interpretation of section 4(d) of the Mineral Leasing Act Revision of 1960 (74 Stat. 781, 790; 30 U.S.C., sec. 226.1(d)). That subsection provides:

"(d) Any lease issued prior to the enactment of the Mineral Leasing Act Revision of 1960 which has been maintained in accordance with applicable statutory requirements and regulations and which pertains to land on which or for which under an approved cooperative or unit plan of development or operation, actual drilling operations were commenced prior to the end of its primary term and are being diligently prosecuted at that time shall be extended for two years and so long thereafter as oil or gas is produced in paying quantities."

The principal question asked was about the meaning of the term "actual drilling operations". We understand that certain lessees, in an endeavor to obtain 2-year extensions of their leases, have started drilling operations just before what would otherwise be the end of the primary term and, once that date has been passed, have terminated their drilling operations. Lessees have attempted to come within the technical requirements of actual drilling operations with drilling plans which have no reasonable prospect of success.

The legislative history of the Mineral Leasing Act Revision is not explicit on the meaning of this term, but it does reveal a significant fact. The original term employed was simply "drilling operations". Then it was amended to "actual drilling operations". It is obvious that the inclusion of the word "actual" was deemed of great importance by the Committee, and it should therefore, not be dismissed as mere verbiage. The word "actual" is opposed to the word "nominal", and thus the use of "actual" means that the drilling operations must be more than merely nominal. The purpose of drilling operations is to produce oil or gas. Therefore, an essential characteristic of actual drilling operations is that they be conducted in

such a manner as to be an effort (not necessarily the best effort, but a sincere effort) which a man seriously looking for oil or gas could be expected to make in that particular area, given existing knowledge of geologic and other factors normally considered when drilling for oil and gas. Drilling operations lacking this characteristic cannot be deemed actual drilling operations.

You have particularly mentioned to us two hypothetical cases. In one case the lessee has announced that he will drill to a depth of 50 feet. Geologic evidence in the area makes it abundantly clear that there is no oil above a depth of 5,000 feet. A man seriously looking for oil would not drill in good faith, under those circumstances to a depth of

only 50 feet. Therefore, unless the lessee can produce persuasive evidence that his particular 50-foot well was drilled in good faith with the intent of striking oil, his conduct of such drilling operations could not be deemed to meet the requirements of section 4(d) of the Mineral Leasing Act Revision.

The second hypothetical case would be more difficult to solve factually. This would be the case where the operator has announced an intention of drilling to 7,000 feet, i.e., to a depth where oil and gas may be expected. On its face his announcement of his intent to drill appears to be in good faith, and he commences drilling just before the primary period would terminate. However, on the day after what would have been the end of the primary term, having reached a depth of only 50 feet, he stops drilling. Is that lessee entitled to a 2-year extension? It is necessary to look at all the circumstances of the case, not only those evident at the moment which would, absent actual drilling operations, have marked the end of the primary period, but also those which become evident only thereafter. If, in light of all these circumstances, it is concluded that the drilling was not a sincere attempt to find oil but only an effort to obtain a 2-year extension, the drilling operations will not be deemed "actual drilling operations" or regarded as having been "diligently prosecuted" at the conclusion of the primary term. Therefore, no extension will have been earned.

In each case which may arise there will be questions of interpreting the facts of the particular situation to determine the sincerity of the lessee in commencing drilling operations. General guidelines may be laid down, but the official interpreting the facts in each case must use his own discretion within those general guidelines.

(sgd) Thomas J. Cavanaugh

Associate Solicitor

for Public Lands

Listing of ALMRS (Case Recordation) Data Element (DE) 1775 and 2910

Action Codes Applicable to Handbook 3107-1 for CaseTypes 310771, 310781, and Other Fluid Lease Case Types*

DE 1775 DE 2910

001 Apln Recd/Case Established@# 387 Case Established@#

057 Notice Sent-Prod Status# 102 Notice Sent-Prod Status#

058 Notice Sent-Nonprod Stat# 058 Notice Sent-Nonprod Stat#

092 Refund Authorized 379 Refund Authorized

094 Rental Received 111 Rental Received

102 Royalty Rate - 12 1/2 %# 530 Royalty Rate - 12 1/2 %#

176 Authorization Issued# 237 Lease Issued#

225 Effective Date# 868 Effective Date#

258 Extended# 235 Extended#

622 Renewal Application Filed@# 314 Renewal Application Filed@#
623 Renewed/Readjusted# 242 Lease Renewed#
643 Production Determination# 643 Production Determination#
644 Memo of First Prod-Actual# 658 Memo of First Prod-Actual#
645 Memo of First Prod-Alloc# 660 Memo of First Prod-Alloc#
646 Memo of Last Prod-Actual# 646 Memo of Last Prod-Actual#
647 Memo of Last Prod-Alloc# 647 Memo of Last Prod-Alloc#
648 Ext by Prod on Assoc Lease# 648 Ext by Prod on Assoc Lease#
649 Lease Paying Min Royalty# 649 Lease Paying Min Royalty#
650 Held by Production-Actual# 650 Held by Production-Actual#
651 Held by Production-Allocated# 651 Held by Production-Allocated#
653 Held by Location in Prod Unit# 653 Held by Location in Prod Unit# 654 Located in Producing Unit# 659
Located in Producing Unit#
657 Ext by Prod (Yates Decision)# 657 Ext by Prod (Yates Decision)#
762 Expired# 234 Expired#
763 Expires# 763 Expires#
790 Terminated# 244 Terminated#
970 Case Closed# 970 Case Closed#

* See official fluid leasing data standards for complete listing.

@ Pending Action Required.

Mandatory Use of Action Code Required.

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