STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

2008 JUN 13 P1 3 35

IN THE MATTER OF THE APPLICATION OF HARVEY E. YATES COMPANY FOR EXPANSION OF A UNIT AREA, OTERO COUNTY

***DE NOVO* CASE NO. 14000**

BRIEF SUMMARIZING APPLICABLE LAW & POLICY REGARDING THE ROLE OF THE OIL CONSERVATION DIVISION IN THE CREATION OF AND/OR REVISION OF FEDERAL EXPLORATORY UNITS

COMES NOW the Oil Conservation Division and submits this Brief Summarizing Applicable Law and Policy regarding the Role of the Oil Conservation Division in the creation of and/or the revision of Federal Exploratory Units for the review and consideration of the Commission, and provides as follows:

I. INTRODUCTION & BACKGROUND

In the oil and gas industry, there exists a mechanism under Federal law by which an operator or operators may seek unitization of a particular geographic area based upon geological and/or geophysical inference for the purpose of exploration for oil and gas. Such exploratory units are created through unit agreements, which typically encompass *all* oil and gas interests in *all* formations within the delineated unit area.

"Exploratory Units" or Units for "Unproven Areas" are created by virtue of and regulated by Title 43, Part 3180 [Subparts 3180.0-1 to 3186.4], of the Code of Federal Regulations ("the Code"), pursuant to the Mineral Leasing Act of

1920, *see* 30 U.S.C. § 226. Although The Federal Mineral Leasing Act specifically delegates to the Secretary of the Interior the exclusive authority to create, approve, alter, or modify federal exploratory unit areas, because such units frequently include non-Federal (e.g. State) lands, State regulatory agencies such as the Oil Conservation Division and the State Land Office have historically, routinely been involved in the process of approving the requests for the designation and/or revision of such units, and are called upon to give their blessing to the unit designations or revisions being sought by operators.

To date, there has been some question in New Mexico, based upon the apparent lack of State statute and/or regulation relating to the designation and/or revision of exploratory units, regarding what role the BLM expects the New Mexico Oil Conservation Division ("OCD") to play in these proceedings, and what burden is placed upon Operators as they present their requests relating to Federal exploratory units to the State Oil Conservation Division.

II. THE ROLE OF THE NEW MEXICO OIL CONSERVATION DIVISION IN THE DESIGNATION AND/OR MODIFICATION OF FEDERAL EXPLORATORY UNITS

In New Mexico, there is no readily apparent State statute or regulation that specifically identifies the role of the OCD in the designation and/or modification of Federal exploratory units. Rather, it is the Federal statutory and regulatory (43 CFR 3180 *et. seq.*) language, in conjunction with the language of the Unit Agreements themselves (usually mirroring that of the "model agreement" provided in the Federal Regulations at 43 CFR 3186) that triggers the

Division's involvement in these matters. Section 3181.4 of the Code addresses the inclusion of non-Federal lands in federal exploratory units, and provides that "[w]here State-owned land is to be unitized with Federal lands, **approval of the agreement by appropriate State officials must be obtained prior to its submission to the proper BLM office for final approval."** *Emphasis added.* Moreover, the language of the current version of Model Agreement (43 CFR Section 3186) provides that where State lands are included in the proposed unit area, a separate section is to be included in the agreement so as to add language from Section 3181.4 to address the additional requirements that exist when there are non-Federal lands included in the unit.[1]

Until recently, Federal law (statute and regulations) were the only real sources from which guidance could be derived regarding the intended role of agencies of the State of New Mexico in these Federal exploratory unit designations. However, expounding upon the information contained in the actual Federal bodies of law, the Bureau of Land Management ("BLM") has prepared a very informative *Draft Manual Section 3180, Unitization (Exploratory),* ("Manual"). As indicated by the title, the Manual is currently in draft stage. The Manual, however, has been posted on the BLM's Colorado website for viewing.[2]

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[1] Per Section 3181.1, the model agreement is appropriate for use unless special circumstances exist, in which case, such unique situations should be specifically identified, and "[a]ny proposed special provisions or other modifications of the model agreement should be submitted for preliminary consideration so that any necessary revision may be prescribed prior to execution by the interested parties." 43 CFR 3181.1.

[2] At this time, the Manual can be found at the website: http://www.blm.gov/co/st/en/BLM_Programs/oilandgas/Draft_BLM_Manual_Section_3180_Unitization.html

This Manual draft, although not yet finalized and officially adopted for use by the BLM as of yet, is instructive in terms of providing indications of how the BLM interprets and applies these regulations for exploratory unit creation and modification in actual practice. The Manual also provides some insight regarding what the BLM's expectations are for operators, as well as other non-Federal regulatory agencies, within the framework of that process. The Manual is attached as **Exhibit A** hereto for the Commission's review and consideration.

1. The Manual & the Model Unit Agreement Provide Clarification Regarding the Role of State Agencies & the Applicability of State Statutes & Rules in the Context of Federal Exploratory Units

The BLM reviews applications for exploratory units with an eye toward determining whether "the commitment of Federal lands to a unit agreement [is] in the interest of conserving the natural resources," and does so by making a determination of whether the creation of the unit is "necessary or advisable in the public interest." **Exhibit** A at p.1, Section I. Recognizing that these units seldom consist wholly of Federal lands, the Manual specifically addresses units that include non-Federal lands at Section II.C.11, and provides:

> Generally, if State, Indian and/or fee lands are involved, the unit agreement should be approved by the appropriate State and Indian agency before the agreement is submitted for approval by the authorized officer. However, where a majority of acreage within the proposed unit is Federal, and where sufficient acreage has been committed to assure effective control, the authorized officer may approve the agreement prior to it s approval by the appropriate State or Indian Agency. **In all cases, the State or Indian Agency should be notified of the proposed unitization and be given the opportunity to commit its land prior to authorized officer approval.**

Emphasis added. See **Exhibit A** at p.5, Section II.C.11.

The Manual also addresses the applicability of State law and regulations at Section II.G in its discussion regarding creation and revision of participating areas. The "Initial Participating Area" is described as consisting of "that land reasonably proven capable of producing unitized substances in paying quantities, or, if so provided in the unit agreement, that land necessary for unit operations...." The Manual specifies that, **where State spacing orders are "still applicable to lands in the unit area, spacing should be accepted in determining the participating area, unless the authorized officer determines it is not in the public interest."** *Emphasis added. See* **Exhibit A** at p. 12, Section II.G.1. Further, both in terms of the creation of and the revision of the participating area for a unit, the Manual provides that "**State spacing may be used as a guide** in determining the acreage to be included in participating areas, unless the authorized officer determines that such spacing is not in the public interest." *Id.* at Section II.G.2. Section II.I.1 of the Manual provides that submissions made to request revision or modification of a unit should essentially track those for the initial application process of designation of the original unit, including the submission of detailed geologic data to support the revision, as well as the provision of additional notice to State Agencies where State land is involved. *Id.* at p. 19.

State Agencies are specifically addressed at Section II.AE of the Manual, which provides in relevant part as follows:

> **The control of specific operations on State and fee lands is the general responsibility of the appropriate State regulatory agency.** Some earlier versions of the model form of unit agreement for unproven unit areas incorporate provisions which provide parallel authority to be exercised by State agencies, as appropriate. **Generally, any provisions which a State wishes to include in a unit agreement will be acceptable as long as they do not adversely affect Federal/Indian lands or the authorized officer's authority and responsibility**....
>
> If a proposed unit includes lands which are subject to existing State spacing orders covering unitized formations, the BLM may recommend to the unit proponent that a request be made to have the spacing order, as it applies to the unit area, rescinded. Some BLM offices have an agreement with the corresponding State agency whereby, whenever the BLM approves a unit agreement, the spacing order is automatically vacated as it applies to the unit area. This generally is the preferable situation. However, **it is recognized that in some circumstances it is necessary to retain State spacing within the unit area to provide a means for allocating production** (i.e., when the unit area contains prior unit wells that have been communitized or when non-committed tracts within the unit area would be eligible for production allocation under the spacing order). In these cases, spacing should be accepted in the unit area unless the authorized officer determines that such spacing is not in the public interest.

Emphasis added. Id. at Section II.AE.

The Manual also includes a series of "Illustrations" and "Guidelines" relating to the submission and approval process. One of the "Illustrations" included in the Manual provides an optional paragraph to be included in the "unit designation letter" issued by the BLM after receiving a unit designation request in cases where State lands are included to be in the unit. That additional language provides:

> In asmuch as this unit area contains State of_____ lands, we are sending a copy of this letter to the State (appropriate agency) at_____, and we hereby request that you contact the State promptly in connection with this letter before soliciting joinders.

Sincerely yours,
(Authorized Officer)

cc: Appropriate District or Resource Area Office
BIA (if appropriate)
State Agency (if appropriate)
Surface Management Agency (if appropriate)

Exhibit A at *Illustration 1-1, p.2* Section 2-49. In addition, a number of other form letters included in the Manual include a "carbon copy" or "blind carbon copy" line to "State Agency" or "State Oil and Gas Regulatory Agency." *See e.g.* **Exhibit A** at 2-63 Illustration 1-5A, Page 2 (regarding expansion and contraction of unit), 2-69 Illustration 1-6B, Page 2 (regarding unit expansion), and 2-67 Illustration 1-6A, Page 2.

While the Federal regulations themselves simply state that the Model Unit Agreement is appropriate for use for exploratory units, the Manual goes a step further, providing in its Guidelines that the use of the Model Agreement is encouraged, and stating that "[e]very deviation from the model form of agreement should be plainly marked on the proposed form of agreement and explained in the material submitted in support of the request for approval of the form of unit agreement." **Exhibit A** at Illustration 2, p.4, Section 2-92. The Model Unit Agreement (Section 3186) that the BLM expects operators to use (barring the existence of special or unique circumstances), reiterates that it is The Mineral Leasing Act of February 25, 1920, as amended, that allows for the creation of exploratory units, along with "all valid pertinent regulations including operating and unit plan regulations, heretofore issued thereunder or

valid, pertinent, and reasonable regulations hereafter issued thereunder" which are "accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, **not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located,** are hereby accepted and made a part of this agreement. *Emphasis added. Model Unit Agreement,* 43 CFR 3186, *attached as* **Exhibit B**, at part 1.

Essentially, then, it appears that the general approach is to recognize that these units frequently include State as well as Federal lands, and that when this is the case, the BLM and operators must be cognizant of the fact that, at times, there is overlapping or intersecting jurisdiction between State and Federal agencies and applicable State and Federal law. In order to properly address this situation, the BLM has incorporated requirements and guidelines into the process whereby State law is given certain weight or consideration, depending on unit-specific circumstances, and whereby State regulatory agencies are given notice and opportunity to participate in the approval and modification processes.

2. The Manual Provides Clarification Regarding the Obligations of Operators Pursuing Approval or Modification of Federal Exploratory Units

Section 3181.2 of the Code sets out the process for initiating an application for designation of a unit area, noting that the application should be submitted to

the appropriate BLM office and should include a map, geologic data and any other information "showing that unitization is necessary and advisable in the public interest." 43 CFR Section 3181.2. The Manual provides further detail regarding what the BLM expects operators to furnish as part of this application at Section II.A. Of particular note, the Manual specifies that the geologic report submitted should include:

> a. A map on the public land survey base showing the proposed unit boundary and a detailed geologic map illustrating the limiting mechanism for production of the objective formation, along with structural cross section(s) and other geologic data as they relate to the proposed unit area. The geologic map and the cross section(s) should show the strike and dip of all pertinent faults. The map must show the location of all wells drilled in the unit area and immediate vicinity thereof and should indicate the status and depth of each well and the lowest formation penetrated.
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> b. Appropriate cross-sections and stratigraphic columns, identifying prospectively productive formations and indicating expected depths.
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> c. Pertinent geophysical interpretations.
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> d. The geologic basis for selecting the proposed unit area boundary, such as closing structural or stratigraphic contour, fault, or pinch-out.

Exhibit A at Section II.A. Additionally, the Manual notes that "[e]ach application for designation submitted to the authorized officer for approval must be accompanied by a report demonstrating that the proposed unit outline is consistent with the geologic information submitted. Geologic information should show unitization is necessary and advisable in the public interest." *Id.* at Section II.A.5.

Section 3183.5 of the Code addresses applications to establish or revise participating areas, but does so only in very general terms. 43 CFR Section

3183.5. The Manual, however, provides much more detailed information at Section II.G.1, regarding establishing the initial participating area, and Section II.G.2 regarding the revision of the participating area. When considering a request for revision of a participating area, the same criteria that is used in the initial participating area determination is to be used, and "any doubts...should be resolved **against** participation...." *Emphasis added. Id.* Further, "[l]ands on which unit operations provide only an indirect benefit to the participating area such as those that contain water disposal wells, water supply wells or product treatment equipment, should not be included in participating areas." *Id.* When an operator feels it is necessary to seek revision of a participating area by seeking inclusion of additional acreage for unit operations, the operator must submit a detailed geologic and engineering report to justify the additional acreage being sought. *Id.*

Section II.I of the Manual addresses the "Procedures for Expansion or Contraction of Unitized Areas." Applicants are required to submit a detailed request, specifically outlining the contemplated boundary changes and the reasons therefore, along with a geologic report justifying the requested expansion or contraction. **Exhibit A** at Section II.1. The Operator must also again provide notice to "all involved parties," including any State agency whose interest is affected, advising that all parties have thirty (30) days within which to submit objections. *Id.* at Section II.I.2. Upon expiration of the thirty (30) day

period, the Operator then submits an application for approval to the authorized officer. *Id.* at Section II.I.3.

The body of Federal law provides little in the way of detail regarding what is expected from applicants participating in this process; however, the *Draft BLM Manual Section 3180* has provided significant additional information and clarification in this regard. Based on the details laboriously outlined by the BLM in the *Draft Manual,* it is apparent that applicants are expected to submit significant, detailed data and documentation to support their requests for establishment or modification of exploratory units. It is reasonable to expect that if State regulatory agencies are called upon to participate in this approval process when State lands are included in the subject unit, that applicants should be required to submit the same materials to the State agencies for review as is submitted to the BLM.

4. The Standard to be Applied by the OCD in its Consideration of these Applications

Although Federal law has directed State regulatory agencies to participate in this unit designation process, Federal law is silent with regard to specification of the standard that State agencies are to apply in their part of the application review and approval process. Clearly, the overriding, general standard being applied by the BLM is a determination of whether or not the unitization is "in the interest of conserving the natural resources" and is "necessary or advisable in the public interest." **Exhibit A** at p.1, Section I. Little guidance, however, is provided regarding what qualifies as meeting the "public interest" requirement

prior to there being an approved, executed agreement in place. Section 3183.4 of the Code provides the following with regard to the "public interest" requirement under an approved unit agreement for unproven areas:

> (a) A unit agreement shall be approved by the authorized officer upon a determination that such agreement is necessary or advisable in the public interest and is for the purpose of more properly conserving natural resources. Such approval shall be incorporated in a Certification-Determination document appended to the agreement (see Sec. 3186.1 of this part for an example), and the unit agreement shall not be deemed effective until the authorized officer has executed the Certification-Determination document. No such agreement shall be approved unless the parties signatory to the agreement hold sufficient interests in the unit area to provide reasonably effective control of operations.
>
> (b) The public interest requirement of an approved unit agreement for unproven areas shall be satisfied only if the unit operator commences actual drilling operations and thereafter diligently prosecutes such operations in accordance with the terms of said agreement. If an application is received for voluntary termination of a unit agreement for an unproven area during its fixed term or such an agreement automatically expires at the end of its fixed term without the public interest requirement having been satisfied, the approval of that agreement by the authorized officer and lease segregations and extensions under Sec. 3107.3-2 of this title shall be invalid, and no Federal lease shall be eligible for extensions under Sec. 3107.4 of this title.

However, not only is the "public interest" requirement not well defined, and largely tied to performance of obligations under the Unit Agreement, it is clearly a **Federal** requirement. Arguably, without further direction being provided by the Federal authorities, it would be both cumbersome and inappropriate for State regulatory agencies to attempt to define and apply this standard in their evaluation of these applications. Further, State regulatory agencies each have their own, specific, statutorily-defined mission that serves to guide that particular agency as it performs its duties.

In the case of the New Mexico OCD, pursuant to NMSA §70-2-6(A), "[t]he division shall have, and is hereby given, jurisdiction and authority over all matters relating to the conservation of oil and gas ...**in this state**. " *Emphasis added.* Further, "[t]he division is hereby empowered, and it is its duty, to prevent waste prohibited by this act and to protect correlative rights, as in this act provided. To that end, the division is empowered to make and enforce rules, regulations and orders, and to do whatever may be reasonably necessary to carry out the purpose of this act, **whether or not indicated or specified in any section hereof**." *Emphasis added.* NMSA §70-2-11 (A).

In keeping with the mandates of NMSA §70-2-11, the OCD has enacted Rules to carry out the Act. NMAC 2008, Rule 19.15.1.11 provides: "[t]he following rules of statewide application have been adopted by the commission to **conserve the natural resources of the state of New Mexico, to prevent waste, to protect correlative rights, to protect public health and the environment and to otherwise implement the Oil and Gas Act, NMSA 1978, Section 70-2-1 through 70-2-38.**" *Emphasis added.* As specifically articulated in the Rules, the Division is "charged with the obligation of enforcing all rules and statutes of the state of New Mexico relating to the conservation of oil and gas **including the protection of public health and the environment**." *Emphasis added.* NMAC 2008, Rule 19.15.1.12.

The duties of the OCD in terms of its "...authority over all matters relating to the conservation of oil and gas ...in this state..." have been very clearly

defined. Indeed, the core purpose of the OCD is to seek to conserve oil and gas, protect correlative rights and protect public health and the environment in the state of New Mexico. This, then, should be the lens through which the OCD evaluates any and all matters before it, including any applications for designation or revision of Federal exploratory units.

III. CONCLUSION

In summary, the New Mexico OCD is, and has historically been, involved in the designation and modification of Federal exploratory units that include State lands by virtue of the fact that Federal law recognizes that there is the potential for issues and conflicts of law due to the fact that a single unit contains both Federal and State lands. To preemptively address this, certain processes have been established by Federal regulation and guidelines that require the inclusion and participation of State regulatory agencies in the review and approval process, as well as require that the BLM give certain weight and consideration to certain existing State regulations (particularly with regard to spacing, etc.).

The OCD has been directed by Federal law to participate in the approval process for these units. In order to properly participate in this process, then, the OCD should have the opportunity to review the same array of application materials and supporting documentation as is submitted by the operators to the BLM whether at the time of initial application for unit establishiment or at the time of application for revision/modification. As noted above, the OCD should

be afforded the opportunity to fully evaluate the materials, and should do so by fulfilling its obligations to protect correlative rights, protect public health and the environment and conserve oil and gas in the state of New Mexico.

Respectfully submitted
this 12th day of June, 2008 by

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additional counterparts as may have been furnished for that purpose.

[48 FR 26766, June 10, 1983. Redesignated at 48 FR 36587, Aug. 12, 1983, and amended at 51 FR 34603, Sept. 30, 1986. Further redesignated at 53 FR 17365, May 16, 1988]

Subpart 3184 [Reserved]

Subpart 3185—Appeals

§ 3185.1 Appeals.

Any party adversely affected by an instruction, order, or decision issued under the regulations in this part may request an administrative review before the State Director under § 3165.3 of this title. Any party adversely affected by a decision of the State Director after State Director review may appeal that decision as provided in part 4 of this title.

[58 FR 58633, Nov. 2, 1993]

Subpart 3186—Model Forms

§ 3186.1 Model onshore unit agreement for unproven areas.

Introductory Section

1 Enabling Act and Regulations.
2 Unit Area.
3 Unitized Land and Unitized Substances.
4 Unit Operator.
5 Resignation or Removal of Unit Operator.
6 Successor Unit Operator.
7 Accounting Provisions and Unit Operating Agreement.
8 Rights and Obligations of Unit Operator.
9 Drilling to Discovery.
10 Plan of Further Development and Operation.
11 Participation After Discovery.
12 Allocation of Production.
13 Development or Operation of Nonparticipating Land or Formations.
14 Royalty Settlement.
15 Rental Settlement.
16 Conservation.
17 Drainage.
18 Leases and Contracts Conformed and Extended.
19 Convenants Run with Land.
20 Effective Date and Term.
21 Rate of Prospecting, Development, and Production.
22 Appearances.
23 Notices.
24 No Waiver of Certain Rights.
25 Unavoidable Delay.
26 Nondiscrimination.
27 Loss of Title.
28 Nonjoinder and Subsequent Joinder.
29 Counterparts.
30 Surrender.[1]
31 Taxes.[1]
32 No Partnership.[1]

Concluding Section IN WITNESS WHEREOF.

General Guidelines.

Certification—Determination.

UNIT AGREEMENT FOR THE DEVELOPMENT AND OPERATION OF THE

Unit area _____
County of _____
State of _____
No. _____

This agreement, entered into as of the _____ day of _____, 19___ by and between the parties subscribing, ratifying, or consenting hereto, and herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty, or other oil and gas interests in the unit area subject to this agreement; and

WHEREAS, the Mineral Leasing Act of February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. Sec. 181 *et seq.*, authorizes Federal lessees and their representatives to unite with each other, or jointly or separately with others, in collectively adopting and operating under a unit plan of development or operations of any oil and gas pool, field, or like area, or any part thereof for the purpose of more properly conserving the natural resources thereof whenever determined and certified by the Secretary of the Interior to be necessary or advisable in the public interest; and

WHEREAS, the parties hereto hold sufficient interests in the _____ Unit Area covering the land hereinafter described to give reasonably effective control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste, and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions, and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the

[1] Optional sections (in addition the penultimate paragraph of Section 9 is to be included only when more than one obligation well is required and paragraph (h) of section 18 is to be used only when applicable).

Exhibit B to OGD Brief

below-defined unit area, and agree severally among themselves as follows:

1. ENABLING ACT AND REGULATIONS. The Mineral Leasing Act of February 25, 1920, as amended, supra, and all valid pertinent regulations including operating and unit plan regulations, heretofore issued thereunder or valid, pertinent, and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Federal lands, provided such regulations are not inconsistent with the terms of this agreement; and as to non-Federal lands, the oil and gas operating regulations in effect as of the effective date hereof governing drilling and producing operations, not inconsistent with the terms hereof or the laws of the State in which the non-Federal land is located, are hereby accepted and made a part of this agreement.

2. UNIT AREA. The area specified on the map attached hereto marked Exhibit A is hereby designated and recognized as constituting the unit area, containing _____ acres, more or less.

Exhibit A shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit B attached hereto is a schedule showing to the extent known to the Unit Operator, the acreage, percentage, and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in Exhibits A or B shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown in the Exhibits as owned by such party. Exhibits A and B shall be revised by the Unit Operator whenever changes in the unit area or in the ownership interests in the individual tracts render such revision necessary, or when requested by the Authorized Officer, hereinafter referred to as AO and not less than four copies of the revised Exhibits shall be filed with the proper BLM office.

The above-described unit area shall when practicable be expanded to include therein any additional lands or shall be contracted to exclude lands whenever such expansion or contraction is deemed to be necessary or advisable to conform with the purposes of this agreement. Such expansion or contraction shall be effected in the following manner:

(a) Unit Operator, on its own motion (after preliminary concurrence by the AO), or on demand of the AO, shall prepare a notice of proposed expansion or contraction describing the contemplated changes in the boundaries of the unit area, the reasons therefor, any plans for additional drilling, and the proposed effective date of the expansion or contraction, preferably the first day of a month subsequent to the date of notice.

(b) Said notice shall be delivered to the proper BLM office, and copies thereof mailed to the last known address of each working interest owner, lessee and lessor whose interests are affected, advising that 30 days will be allowed for submission to the Unit Operator of any objections.

(c) Upon expiration of the 30-day period provided in the preceding item (b) hereof, Unit Operator shall file with the AO evidence of mailing of the notice of expansion or contraction and a copy of any objections thereto which have been filed with Unit Operator, together with an application in triplicate, for approval of such expansion or contraction and with appropriate joinders.

(d) After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the AO, become effective as of the date prescribed in the notice thereof or such other appropriate date.

(e) All legal subdivisions of lands (i.e., 40 acres by Government survey or its nearest lot or tract equivalent; in instances of irregular surveys, unusually large lots or tracts shall be considered in multiples of 40 acres or the nearest aliquot equivalent thereof), no parts of which are in or entitled to be in a participating area on or before the fifth anniversary of the effective date of the first initial participating area established under this unit agreement, shall be eliminated automatically from this agreement, effective as of said fifth anniversary, and such lands shall no longer be a part of the unit area and shall no longer be subject to this agreement, unless diligent drilling operations are in progress on unitized lands not entitled to participation on said fifth anniversary, in which event all such lands shall remain subject hereto for so long as such drilling operations are continued diligently, with not more than 90-days time elapsing between the completion of one such well and the commencement of the next such well. All legal subdivisions of lands not entitled to be in a participating area within 10 years after the effective date of the first initial participating area approved under this agreement shall be automatically eliminated from this agreement as of said tenth anniversary. The Unit Operator shall, within 90 days after the effective date of any elimination hereunder, describe the area so eliminated to the satisfaction of the AO and promptly notify all parties in interest. All lands reasonably proved productive of unitized substances in paying quantities by diligent drilling operations after the aforesaid 5-year period shall become participating in the same manner as during said first 5-year period. However, when such diligent drilling operations cease, all nonparticipating lands not then entitled to be in a participating area shall be automatically eliminated effective as the 91st day thereafter.

Any expansion of the unit area pursuant to this section which embraces lands theretofore eliminated pursuant to this subsection

2(e) shall not be considered automatic commitment or recommitment of such lands. If conditions warrant extension of the 10-year period specified in this subsection, a single extension of not to exceed 2 years may be accomplished by consent of the owners of 90 percent of the working interest in the current nonparticipating unitized lands and the owners of 60 percent of the basic royalty interests (exclusive of the basic royalty interests of the United States) in nonparticipating unitized lands with approval of the AO, provided such extension application is submitted not later than 60 days prior to the expiration of said 10-year period.

3. UNITIZED LAND AND UNITIZED SUBSTANCES. All land now or hereafter committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement." All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances."

4. UNIT OPERATOR. _____ is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development, and production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest only when such an interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR. Unit Operator shall have the right to resign at any time prior to the establishment of a participating area or areas hereunder, but such resignation shall not become effective so as to release Unit Operator from the duties and obligations of Unit Operator and terminate Unit Operator's rights as such for a period of 6 months after notice of intention to resign has been served by Unit Operator on all working interest owners and the AO and until all wells then drilled hereunder are placed in a satisfactory condition for suspension or abandonment, whichever is required by the AO, unless a new Unit Operator shall have been selected and approved and shall have taken over and assumed the duties and obligations of Unit Operator prior to the expiration of said period.

Unit Operator shall have the right to resign in like manner and subject to like limitations as above provided at any time after a participating area established hereunder is in existence, but in all instances of resignation or removal, until a successor Unit Operator is selected and approved as hereinafter provided, the working interest owners shall be jointly responsible for performance of the duties of Unit Operator, and shall not later than 30 days before such resignation or removal becomes effective appoint a common agent to represent them in any action to be taken hereunder.

The resignation of Unit Operator shall not release Unit Operator from any liability for any default by it hereunder occurring prior to the effective date of its resignation.

The Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests as herein provided for the selection of a new Unit Operator. Such removal shall be effective upon notice thereof to the AO.

The resignation or removal of Unit Operator under this agreement shall not terminate its right, title, or interest as the owner of working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all wells, equipment, materials, and appurtenances used in conducting the unit operations to the new duly qualified successor Unit Operator or to the common agent, if no such new Unit Operator is selected to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any material, equipment, or appurtenances needed for the preservation of any wells.

6. SUCCESSOR UNIT OPERATOR. Whenever the Unit Operator shall tender his or its resignation as Unit Operator or shall be removed as hereinabove provided, or a change of Unit Operator is negotiated by the working interest owners, the owners of the working interests according to their respective acreage interests in all unitized land shall, pursuant to the Approval of the Parties requirements of the unit operating agreement, select a successor Unit Operator. Such selection shall not become effective until:

(a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and

(b) the selection shall have been approved by the AO.

If no successor Unit Operator is selected and qualified as herein provided, the AO at his election may declare this unit agreement terminated.

7. ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT. If the Unit Operator is not the sole owner of working interests, costs and expenses incurred by Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements

entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "unit operating agreement." Such unit operating agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases, or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such unit operating agreement shall be deemed either to modify any of the terms and conditions of this unit agreement or to relieve the Unit Operator of any right or obligation established under this unit agreement, and in case of any inconsistency or conflict between this agreement and the unit operating agreement, this agreement shall govern. Two copies of any unit operating agreement executed pursuant to this section shall be filed in the proper BLM office prior to approval of this unit agreement.

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR. Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

9. DRILLING TO DISCOVERY. Within 6 months after the effective date hereof, the Unit Operator shall commence to drill an adequate test well at a location approved by the AO, unless on such effective date a well is being drilled in conformity with the terms hereof, and thereafter continue such drilling diligently until the _____ formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the AO that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of ___ feet. Until the discovery of unitized substances capable of being produced in paying quantities, the Unit Operator shall continue drilling one well at a time, allowing not more than 6 months between the completion of one well and the commencement of drilling operations for the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the AO or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign as provided in Section 5, hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section.

The AO may modify any of the drilling requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted.

[2] 9a. Multiple well requirements. Notwithstanding anything in this unit agreement to the contrary, except Section 25, UNAVOIDABLE DELAY, ___ wells shall be drilled with not more than 6-months time elapsing between the completion of the first well and commencement of drilling operations for the second well and with not more than 6-months time elapsing between completion of the second well and the commencement of drilling operations for the third well, . . . regardless of whether a discovery has been made in any well drilled under this provision. Both the initial well and the second well must be drilled in compliance with the above specified formation or depth requirements in order to meet the dictates of this section; and the second well must be located a minimum of ___ miles from the initial well in order to be accepted by the AO as the second unit test well, within the meaning of this section. The third test well shall be diligently drilled, at a location approved by the AO, to test the _____ formation or to a depth of ___ feet, whichever is the lesser, and must be located a minimum of ___ miles from both the initial and the second test wells. Nevertheless, in the event of the discovery of unitized substances in paying quantities by any well, this unit agreement shall not terminate for failure to complete the _____ well program, but the unit area shall be contracted automatically, effective the first day of the month following the default, to eliminate by subdivisions (as defined in Section

2(e) hereof) all lands not then entitled to be in a participating area.[2]

Until the establishment of a participating area, the failure to commence a well subsequent to the drilling of the initial obligation well, or in the case of multiple well requirements, if specified, subsequent to the drilling of those multiple wells, as provided for in this (these) section(s), within the time allowed including any extension of time granted by the AO, shall cause this agreement to terminate automatically. Upon failure to continue drilling diligently any well other than the obligation well(s) commenced hereunder, the AO may, after 15 days notice to the Unit Operator, declare this unit agreement terminated. Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid *ab initio* by the AO. In the case of multiple well requirements, failure to commence drilling the required multiple wells beyond the first well, and to drill them diligently, may result in the unit agreement approval being declared invalid *ab initio* by the AO;

10. PLAN OF FURTHER DEVELOPMENT AND OPERATION. Within 6 months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the AO an acceptable plan of development and operation for the unitized land which, when approved by the authorized officier, shall constitute the further drilling and development obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the AO a plan for an additional specified period for the development and operation of the unitized land. Subsequent plans should normally be filed on a calender year basis not later than March 1 each year. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan.

Any plan submitted pursuant to this section shall provide for the timely exploration of the unitized area, and for the diligent drilling necessary for determination of the area or areas capable of producing unitized substances in paying quantities in each and every productive formation. This plan shall be as complete and adequate as the AO may determine to be necessary for timely development and proper conservation of the oil and gas resources in the unitized area and shall:

(a) Specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and

(b) Provide a summary of operations and production for the previous year.

Plans shall be modified or supplemented when necessary to meet changed conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligations of the approved plan of development and operation. The AO is authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development and operation where such action is justified because of unusual conditions or circumstances.

After completion of a well capable of producing unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the AO, shall be drilled except in accordance with an approved plan of development and operation.

11. PARTICIPATION AFTER DISCOVERY. Upon completion of a well capable of producing unitized substances in paying quantities, or as soon thereafter as required by the AO, the Unit Operator shall submit for approval by the AO, a schedule, based on subdivisions of the public-land survey or aliquot parts thereof, of all land then regarded as reasonably proved to be productive of unitized substances in paying quantities. These lands shall constitute a participating area on approval of the AO, effective as of the date of completion of such well or the effective date of this unit agreement, whichever is later. The acreages of both Federal and non-Federal lands shall be based upon appropriate computations from the courses and distances shown on the last approved public-land survey as of the effective date of each initial participating area. The schedule shall also set forth the percentage of unitized substances to be allocated, as provided in Section 12, to each committed tract in the participating area so established, and shall govern the allocation of production commencing with the effective date of the participating area. A different participating area shall be established for each separate pool or deposit of unitized substances or for any group thereof which is produced as a single pool or zone, and any two or more participating areas so established may be combined into one, on approval of the AO. When production from two or more participating areas is subsequently found to be from a common pool or deposit, the participating areas shall be combined into one, effective as of such appropriate date as may be approved or prescribed by the AO. The participating area or areas so established shall be revised from time to time, subject to the approval of the AO, to include additional lands then regarded as reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations,

[2] Provisions to be included only when a multiple well obligation is required.

or to exclude lands then regarded as reasonably proved not to be productive of unitized substances in paying quantities, and the schedule of allocation percentages shall be revised accordingly. The effective date of any revision shall be the first of the month in which the knowledge or information is obtained on which such revision is predicated; provided, however, that a more appropriate effective date may be used if justified by Unit Operator and approved by the AO. No land shall be excluded from a participating area on account of depletion of its unitized substances, except that any participating area established under the provisions of this unit agreement shall terminate automatically whenever all completions in the formation on which the participating area is based are abandoned.

It is the intent of this section that a participating area shall represent the area known or reasonably proved to be productive of unitized substances in paying quantities or which are necessary for unit operations; but, regardless of any revision of the participating area, nothing herein contained shall be construed as requiring any retroactive adjustment for production obtained prior to the effective date of the revision of the participating area.

In the absence of agreement at any time between the Unit Operator and the AO as to the proper definition or redefinition of a participating area, or until a participating area has, or areas have, been established, the portion of all payments affected thereby shall, except royalty due the United States, be impounded in a manner mutually acceptable to the owners of committed working interests. Royalties due the United States shall be determined by the AO and the amount thereof shall be deposited, as directed by the AO, until a participating area is finally approved and then adjusted in accordance with a determination of the sum due as Federal royalty on the basis of such approved participating area.

Whenever it is determined, subject to the approval of the AO, that a well drilled under this agreement is not capable of production of unitized substances in paying quantities and inclusion in a participating area of the land on which it is situated is unwarranted, production from such well shall, for the purposes of settlement among all parties other than working interest owners, be allocated to the land on which the well is located, unless such land is already within the participating area established for the pool or deposit from which such production is obtained. Settlement for working interest benefits from such a nonpaying unit well shall be made as provided in the unit operating agreement.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from a participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, or for repressuring or recycling in accordance with a plan of development and operations that has been approved by the AO, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land and unleased Federal land, if any, included in the participating area established for such production. Each such tract shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land and unleased Federal land, if any, included in said participating area. There shall be allocated to the working interest owner(s) of each tract of unitized land in said participating area, in addition, such percentage of the production attributable to the unleased Federal land within the participating area as the number of acres of such unitized tract included in said participating area bears to the total acres of unitized land in said participating area, for the payment of the compensatory royalty specified in section 17 of this agreement. Allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners, including compensatory royalty obligations under section 17, shall be prescribed as set forth in the unit operating agreement or as otherwise mutually agreed by the affected parties. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein, regardless or whether any wells are drilled on any particular part or tract of the participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from the latter participating area for sale during the life of this agreement shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time that such transferred gas was finally produced and sold.

13. DEVELOPMENT OR OPERATION OF NONPARTICIPATING LAND OR FORMATIONS. Any operator may with the approval of the AO, at such party's sole risk, costs, and expense, drill a well on the unitized land to test any formation provided the well is outside any participating area established for that formation, unless within 90 days of receipt of notice from said party of his intention to drill the well, the Unit Operator elects and commences to drill the well in a

like manner as other wells are drilled by the Unit Operator under this agreement.

If any well drilled under this section by a non-unit operator results in production of unitized substances in paying quantities such that the land upon which it is situated may properly be included in a participating area, such participating area shall be established or enlarged as provided in this agreement and the well shall thereafter be operated by the Unit Operator in accordance with the terms of this agreement and the unit operating agreement.

If any well drilled under this section by a non-unit operator that obtains production in quantities insufficient to justify the inclusion of the land upon which such well is situated in a participating area, such well may be operated and produced by the party drilling the same, subject to the conservation requirements of this agreement. The royalties in amount or value of production from any such well shall be paid as specified in the underlying lease and agreements affected.

14. ROYALTY SETTLEMENT. The United States and any State and any royalty owner who is entitled to take in kind a share of the substances now unitized hereunder shall be hereafter be entitled to the right to take in kind its share of the unitized substances, and Unit Operator, or the non-unit operator in the case of the operation of a well by a non-unit operator as herein provided for in special cases, shall make deliveries of such royalty share taken in kind in conformity with the applicable contracts, laws, and regulations. Settlement for royalty interest not taken in kind shall be made by an operator responsible therefor under existing contracts, laws and regulations, or by the Unit Operator on or before the last day of each month for unitized substances produced during the preceding calendar month; provided, however, that nothing in this section shall operate to relieve the responsible parties of any land from their respective lease obligations for the payment of any royalties due under their leases.

If gas obtained from lands not subject to this agreement is introduced into any participating area hereunder, for use in repressuring, stimulation of production, or increasing ultimate recovery, in conformity with a plan of development and operation approved by the AO, a like amount of gas, after settlement as herein provided for any gas transferred from any other participating area and with appropriate deduction for loss from any cause, may be withdrawn from the formation into which the gas is introduced, royalty free as to dry gas, but not as to any products which may be extracted therefrom; provided that such withdrawal shall be at such time as may be provided in the approved plan of development and operation or as may otherwise be consented to by the AO as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this unit agreement.

Royalty due the United States shall be computed as provided in 30 CFR Group 200 and paid in value or delivered in kind as to all unitized substances on the basis of the amounts thereof allocated to unitized Federal land as provided in Section 12 at the rates specified in the respective Federal leases, or at such other rate or rates as may be authorized by law or regulation and approved by the AO; provided, that for leases on which the royalty rate depends on the daily average production per well, said average production shall be determined in accordance with the operating regulations as though each participating area were a single consolidated lease.

15. RENTAL SETTLEMENT. Rental or minimum royalties due on leases committed hereto shall be paid by the appropriate parties under existing contracts, laws, and regulations, provided that nothing herein contained shall operate to relieve the responsible parties of the land from their respective obligations for the payment of any rental or minimum royalty due under their leases. Rental or minimum royalty for lands of the United States subject to this agreement shall be paid at the rate specified in the respective leases from the United States unless such rental or minimum royalty is waived, suspended, or reduced by law or by approval of the Secretary or his duly authorized representative.

With respect to any lease on non-Federal land containing provisions which would terminate such lease unless drilling operations are commenced upon the land covered thereby within the time therein specified or rentals are paid for the privilege of deferring such drilling operations, the rentals required thereby shall, notwithstanding any other provision of this agreement, be deemed to accure and become payable during the term thereof as extended by this agreement and until the required drilling operations are commenced upon the land covered thereby, or until some portion of such land is included within a participating area.

16. CONSERVATION. Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal law or regulation.

17. DRAINAGE. (a) The Unit Operator shall take such measures as the AO deems appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of a fair and reasonable compensatory royalty, as determined by the AO.

(b) Whenever a participating area approved under section 11 of this agreement contains unleased Federal lands, the value of 12½ percent of the production that would be allocated to such Federal lands under section 12 of this agreement, if such lands were leased, committed, and entitled to participation, shall be payable as compensatory royalties to the Federal Government. Parties to this agreement holding working interests in committed leases within the applicable participating area shall be responsible for such compensatory royalty payment on the volume of production reallocated from the unleased Federal lands to their unitized tracts under section 12. The value of such production subject to the payment of said royalties shall be determined pursuant to 30 CFR part 206. Payment of compensatory royalties on the production reallocated from unleased Federal land to the committed tracts within the participating area shall fulfill the Federal royalty obligation for such production, and said production shall be subject to no further royalty assessment under section 14 of this agreement. Payment of compensatory royalties as provided herein shall accrue from the date the committed tracts in the participating area that includes unleased Federal lands receive a production allocation, and shall be due and payable monthly by the last day of the calendar month next following the calendar month of actual production. If leased Federal lands receiving a production allocation from the participating area become unleased, compensatory royalties shall accrue from the date the Federal lands become unleased. Payment due under this provision shall end when the unleased Federal tract is leased or when production of unitized substances ceases within the participating area and the participating area is terminated, whichever occurs first.

18. LEASES AND CONTRACTS CONFORMED AND EXTENDED. The terms, conditions, and provisions of all leases, subleases, and other contracts relating to exploration, drilling, development or operation for oil or gas on lands committed to this agreement are hereby expressly modified and amended to the extent necessary to make the same conform to the provisions hereof, but otherwise to remain in full force and effect; and the parties hereto hereby consent that the Secretary shall and by his approval hereof, or by the approval hereof by his duly authorized representative, does hereby establish, alter, change, or revoke the drilling, producing, rental, minimum royalty, and royalty requirements of Federal leases committed hereto and the regulations in respect thereto to conform said requirements to the provisions of this agreement, and, without limiting the generality of the foregoing, all leases, subleases, and contracts are particularly modified in accordance with the following:

(a) The development and operation of lands subject to this agreement under the terms hereof shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to this agreement, regardless of whether there is any development of any particular tract of this unit area.

(b) Drilling and producing operations performed hereunder upon any tract of unitized lands will be accepted and deemed to be performed upon and for the benefit of each and every tract of unitized land, and no lease shall be deemed to expire by reason of failure to drill or produce wells situated on the land therein embraced.

(c) Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the AO shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. A suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

(d) Each lease, sublease, or contract relating to the exploration, drilling, development, or operation for oil or gas of lands other than those of the United States committed to this agreement which, by its terms might expire prior to the termination of this agreement, is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of this agreement.

(e) Any Federal lease committed hereto shall continue in force beyond the term so provided therein or by law as to the land committed so long as such lease remains subject hereto, provided that production of unitized substances in paying quantities is established under this unit agreement prior to the expiration date of the term of such lease, or in the event actual drilling operations are commenced on unitized land, in accordance with provisions of this agreement, prior to the end of the primary term of such lease and are being diligently prosecuted at that time, such lease shall be extended for 2 years, and so long thereafter as oil or gas is produced in paying quantities in accordance with the provisions of the Mineral Leasing Act, as amended.

(f) Each sublease or contract relating to the operation and development of unitized substances from lands of the United States committed to this agreement, which by its terms would expire prior to the time at which the underlying lease, as extended by the immediately preceding paragraph, will expire is hereby extended beyond any such term so provided therein so that it shall be continued in full force and effect for and during the term of the underlying lease as such term is herein extended.

(g) The segregation of any Federal lease committed to this agreement is governed by the following provision in the fourth paragraph of sec. 17(m) of the Mineral Leasing Act, as amended by the Act of September 2, 1960 (74 Stat. 781–784) (30 U.S.C. 226(m)):

"Any [Federal] lease heretofore or hereafter committed to any such [unit] plan embracing lands that are in part within and in part outside of the area covered by any such plan shall be segregated into separate leases as to the lands committed and the lands not committed as of the effective date of unitization: *Provided, however,* That any such lease as to the nonunitized portion 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."

If the public interest requirement is not satisfied, the segregation of a lease and/or extension of a lease pursuant to 43 CFR 3107.3–2 and 43 CFR 3107.4, respectively, shall not be effective.

[3] (h) Any lease, other than a Federal lease, having only a portion of its lands committed hereto shall be segregated as to the portion committed and the portion not committed, and the provisions of such lease shall apply separately to such segregated portions commencing as of the effective date hereof. In the event any such lease provides for a lumpsum rental payment, such payment shall be prorated between the portions so segregated in proportion to the acreage of the respective tracts.

19. CONVENANTS RUN WITH LAND. The covenants herein shall be construed to be covenants running with the land with respect to the interests of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

20. EFFECTIVE DATE AND TERM. This agreement shall become effective upon approval by the AO and shall automatically terminate 5 years from said effective date unless:

(a) Upon application by the Unit Operator such date of expiration is extended by the AO, or

(b) It is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder, and after notice of intention to terminate this agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, this agreement is terminated with the approval of the AO, or

(c) A valuable discovery of unitized substances in paying quantities has been made or accepted on unitized land during said initial term or any extension thereof, in which event this agreement shall remain in effect for such term and so long thereafter as unitized substances can be produced in quantities sufficient to pay for the cost of producing same from wells on unitized land within any participating area established hereunder. Should production cease and diligent drilling or reworking operations to restore production or new production are not in progress within 60 days and production is not restored or should new production not be obtained in paying quantities on committed lands within this unit area, this agreement will automatically terminate effective the last day of the month in which the last unitized production occurred, or

(d) It is voluntarily terminated as provided in this agreement. Except as noted herein, this agreement may be terminated at any time prior to the discovery of unitized substances which can be produced in paying quantities by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval of the AO. The Unit Operator shall give notice of any such approval to all parties herto. If the public interest requirement is not satisfied, the approval of this unit by the AO shall be invalid.

21. RATE OF PROSPECTING, DEVELOPMENT, AND PRODUCTION. The AO is hereby vested with authority to alter or modify from time to time, in his discretion, the quantity and rate of production under this agreement when such quantity and rate are not fixed pursuant to Federal or State law, or do not conform to any Statewide voluntary conservation or allocation program which is established, recognized, and generally adhered to by the majority of operators in such State. The above authority is hereby limited to alteration or modifications which are in the public interest. The public interest to be served and the purpose thereof, must be stated in the order of alteration or modification. Without regard to the foregoing, the AO is also hereby vested with authority to alter or modify from time to time, in his discretion, the rate of prospecting and development and the quantity and rate of production under this agreement when such alteration or modification is in the interest

[3] Optional paragraph to be used only when applicable.

of attaining the conservation objectives stated in this agreement and is not in violation of any applicable Federal or State law.

Powers is the section vested in the AO shall only be exercised after notice to Unit Operator and opportunity for hearing to be held not less than 15 days from notice.

22. APPEARANCES. The Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Department of the Interior and to appeal from orders issued under the regulations of said Department, or to apply for relief from any of said regulations, or in any proceedings relative to operations before the Department, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at its own expense to be heard in any such proceeding.

23. NOTICES. All notices, demands, or statements required hereunder to be given or rendered to the parties hereto shall be in writing and shall be personally delivered to the party or parties, or sent by postpaid registered or certified mail, to the last-known address of the party or parties.

24. NO WAIVER OF CERTAIN RIGHTS. Nothing contained in this agreement shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State where the unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

25. UNAVOIDABLE DELAY. All obligations under this agreement requiring the Unit Operator to commence or continue drilling, or to operate on, or produce unitized substances from any of the lands covered by this agreement, shall be suspended while the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by strikes, acts of God, Federal, State, or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in the open market, or other matters beyond the reasonable control of the Unit Operator, whether similar to matters herein enumerated or not.

26. NONDISCRIMINATION. In connection with the performance of work under this agreement, the Unit Operator agrees to comply with all the provisions of section 202 (1) to (7) inclusive, of Executive Order 11246 (30 FR 12319), as amended, which are hereby incorporated by reference in this agreement.

27. LOSS OF TITLE. In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this unit agreement, such tract shall be automatically regarded as not committed hereto, and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any royalty, working interest, or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that, as to Federal lands or leases, no payments of funds due the United States shall be withheld, but such funds shall be deposited as directed by the AO, to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

28. NONJOINDER AND SUBSEQUENT JOINDER. If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw the tract from this agreement by written notice delivered to the proper BLM office and the Unit Operator prior to the approval of this agreement by the AO. Any oil or gas interests in lands within the unit area not committed hereto prior to final approval may thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the unit operating agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approval(s), if any, pertaining to such joinder, as may be provided for in the unit operating agreement. After final approval hereof, joinder by a nonworking interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such nonworking interest. A nonworking interest may not be committed to this unit agreement unless the corresponding working interest is committed hereto. Joinder to the unit agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the unit operating agreement, in order for the interest to be regarded as committed to this agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the date of the filing with the AO of duly executed counterparts of all or any papers necessary to establish effective commitment of any interest and/or tract to this agreement.

29. COUNTERPARTS. This agreement may be executed in any number of counterparts,

no one of which needs to be executed by all parties, or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document, and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above-described unit area.

[4]30. SURRENDER. Nothing in this agreement shall prohibit the exercise by any working interest owner of the right to surrender vested in such party by any lease, sublease, or operating agreement as to all or any part of the lands covered thereby, provided that each party who will or might acquire such working interest by such surrender or by forfeiture as hereafter set forth, is bound by the terms of this agreement.

If as a result of any such surrender, the working interest rights as to such lands become vested in any party other than the fee owner of the unitized substances, said party may forfeit such rights and further benefits from operations hereunder as to said land to the party next in the chain of title who shall be and become the owner of such working interest.

If as the result of any such surrender or forfeiture working interest rights become vested in the fee owner of the unitized substances, such owner may:

(a) Accept those working interest rights subject to this agreement and the unit operating agreement; or

(b) Lease the portion of such land as is included in a participating area established hereunder subject to this agreement and the unit operating agreement; or

(c) Provide for the independent operation of any part of such land that is not then included within a participating area established hereunder.

If the fee owner of the unitized substances does not accept the working interest rights subject to this agreement and the unit operating agreement or lease such lands as above provided within 6 months after the surrendered or forfeited, working interest rights become vested in the fee owner; the benefits and obligations of operations accruing to such lands under this agreement and the unit operating agreement shall be shared by the remaining owners of unitized working interests in accordance with their respective working interest ownerships, and such owners of working interests shall compensate the fee owner of unitized substances in such lands by paying sums equal to the rentals, minimum royalties, and royalties applicable to such lands under the lease in effect when the lands were unitized.

An appropriate accounting and settlement shall be made for all benefits accruing to or payments and expenditures made or incurred on behalf of such surrendered or forfeited working interests subsequent to the date of surrender or forfeiture, and payment of any moneys found to be owing by such an accounting shall be made as between the parties within 30 days.

The exercise of any right vested in a working interest owner to reassign such working interest to the party from whom obtained shall be subject to the same conditions as set forth in this section in regard to the exercise of a right to surrender.

[4]31. TAXES. The working interest owners shall render and pay for their account and the account of the royalty owners all valid taxes on or measured by the unitized substances in and under or that may be produced, gathered and sold from the land covered by this agreement after its effective date, or upon the proceeds derived therefrom. The working interest owners on each tract shall and may charge the proper proportion of said taxes to royalty owners having interests in said-tract, and may currently retain and deduct a sufficient amount of the unitized substances or derivative products, or net proceeds thereof, from the allocated share of each royalty owner to secure reimbursement for the taxes so paid. No such taxes shall be charged to the United States or the State of ___ or to any lessor who has a contract with his lessee which requires the lessee to pay such taxes.

[4]32. NO PARTNERSHIP. It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing contained in this agreement, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the parties hereto or any of them.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

Unit Operator

Working Interest Owners

Other Interest Owners

General Guidelines

1. Executed agreement to be legally complete.

2. Agreement submitted for approval must contain Exhibit A and B in accordance with

[4]Optional sections and subsection. (Agreements submitted for final approval should not identify section or provision as "optional.")

models shown in §§3186.1-1 and 3186.1-2 of this title.

3. Consents should be identified (in pencil) by tract numbers as listed in Exhibit B and assembled in that order as far as practical. Unit agreements submitted for approval shall include a list of the overriding royalty interest owners who have executed ratifications of the unit agreement. Subsequent joinders by overriding royalty interest owners shall be submitted in the same manner, except each must include or be accompanied by a statement that the corresponding working interest owner has consented in writing to such joinder. Original ratifications of overriding royalty owners will be kept on file by the Unit Operator or his designated agent.

4. All leases held by option should be noted on Exhibit B with an explanation as to the type of option, i.e., whether for operating rights only, for full leasehold record title, or for certain interests to be earned by performance. In all instances, optionee committing such interests is expected to exercise option promptly.

5. All owners of oil and gas interests must be invited to join the unit agreement, and statement to that effect must accompany executed agreement, together with summary of results of such invitations. A written reason for all interest owners who have not joined shall be furnished by the unit operator.

6. In the event fish and wildlife lands are included, add the following as a separate section:

"Wildlife Stipulation. Nothing in this unit agreement shall modify the special Federal lease stipulations applicable to lands under the jurisdiction of the United States Fish and Wildlife Service."

7. In the event National Forest System lands are included within the unit area, add the following as a separate section:

"Forest Land Stipulation. Notwithstanding any other terms and conditions contained in this agreement, all of the stipulations and conditions of the individual leases between the United States and its lessees or their successors or assigns embracing lands within the unit area included for the protection of lands or functions under the jurisdiction of the Secretary of Agriculture shall remain in full force and effect the same as though this agreement had not been entered into, and no modification thereof is authorized except with the prior consent in writing of the Regional Forester, United States Forest Service, _____,

."

8. In the event National Forest System lands within the Jackson Hole Area of Wyoming are included within the unit area, additional "special" stipulations may be required to be included in the unit agreement by the U.S. Forest Service, including the Jackson Hole Special Stipulation.

9. In the event reclamation lands are included, add the following as a new separate section:

"Reclamation Lands. Nothing in this agreement shall modify the special, Federal lease stipulations applicable to lands under the jurisdiction of the Bureau of Reclamation."

10. In the event a powersite is embraced in the proposed unit area, the following section should be added:

"Powersite. Nothing in this agreement shall modify the special, Federal lease stipulations applicable to lands under the jurisdiction of the Federal Energy Regulatory Commission."

11. In the event special surface stipulations have been attached to any of the Federal oil and gas leases to be included, add the following as a separate section:

"Special surface stipulations. Nothing in this agreement shall modify the special Federal lease stipulations attached to the individual Federal oil leases."

12. In the event State lands are included in the proposed unit area, add the appropriate State Lands Section as separate section. (See §3181.4(a) of this title).

13. In the event restricted Indian lands are involved, consult the AO regarding appropriate requirements under §3181.4(b) of this title.

CERTIFICATION—DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, under the Act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. sec. 181, *et seq.*, and delegated to (the appropriate Name and Title of the authorized officer, BLM) under the authority of 43 CFR part 3180, I do hereby:

A. Approve the attached agreement for the development and operation of the ___, Unit Area, State of _____. This approval shall be invalid *ab initio* if the public interest requirement under §3183.4(b) of this title is not met.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of all Federal leases committed to said agreement are hereby established altered, changed, or revoked to conform with the terms and conditions of this agreement.

Dated _____.

_____

(Name and Title of authorized officer of the Bureau of Land Management)

[48 FR 26766, June 10, 1983. Redesignated and amended at 48 FR 36587, 36588, Aug. 12, 1983; 53 FR 17365, May 16, 1988; 53 FR 31867, 31959, Aug. 22, 1988; 58 FR 58633, Nov. 2, 1993; 59 FR 16999, Apr. 11, 1994]

Draft BLM Manual Section 3180 - Unitization (Exploratory)

BLM HANDBOOK H-3180-1 - UNITIZATION (EXPLORATORY)
NOTE TO USERS: The attached DRAFT BLM Handbook H-3180-1 is being issued as INTERIM GUIDANCE for those involved in administration of the oil and gas units program.

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H-3180-1 - UNITIZATION (EXPLORATORY)
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2-2□
H-3180-1 - UNITIZATION (EXPLORATORY)
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Exhibit A to OCD Brief

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I. Introduction.

The objective of unitization is to proceed with a program that will adequately and timely explore and develop all committed lands within the unit area without regard to internal ownership boundaries. Exploratory units normally embrace a prospective area that has been delineated on the basis of geological and/or geophysical inference. Exploratory unit agreements normally encompass all oil and gas interests in all formations within the unit area and provide for the allocation of unitized production to the committed lands reasonably proven to be productive of unitized substances in paying quantities on the basis of the surface acreage included within the controlling participating area. By effectively eliminating internal property boundaries within the unit area, unitization permits the most efficient and cost-effective means of developing the underlying oil and gas resources.

The BLM will approve the commitment of Federal lands to a unit agreement in the interest of conserving the natural resources, when it is determined to be necessary or advisable in the public interest. When such a determination is made and Federal lands are committed to the unit, the authorized officer has a responsibility to ensure that unit development proceeds in a way that continues to serve the public interest, regardless of whether the Federal lands comprise only a small fraction or a major part of the unit area.

The guidelines and procedures discussed in this Handbook apply generally to all unit agreements involving Federally-supervised leases, but specifically to those agreements that adopt the text of the form of agreement contained in 43 CFR 3186.1. While reference is made throughout this Handbook to specific sections of the Federal form of unit agreement (43 CFR 3186.1), any such reference should be understood as applying also to the equivalent provision in a non-Federal form of agreement, if appropriate.

Section II of this Handbook discusses the general procedures to be followed in administering oil and gas exploratory unit agreements. As an aid to BLM personnel involved in units administration, the Handbook also provides, in Illustration 1, a recommended format for the various notices and approvals that are required during the life of a unit. Illustration 2 of the Handbook provides general guidance and suggested formats for submissions required from the unit operator. Further illustrations are included that provide supplemental guidance for managing units information, for treating communitized areas within units and for including special provisions in the

unit agreement.

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II. Guidelines and Procedures.

A. Procedures for Designation of Unit Area; Depth of Test Well.

When requesting designation of an area as logically subject to development under a unit plan, an applicant must submit all required information in duplicate to the authorized officer. An application for designation of unit area should consist of an application letter accompanied by a geologic report and land ownership map, as follows.

1. Application letter. In its request for designation, the applicant must:

a. Accurately define the proposed unit area either by reference to the accompanying map or by including a legal description of all lands in the proposed unit area. The description should show lots and tracts, if any, and the exact acreage thereof, including the total acreage in each section and the entire unit area.

b. List in sequence (grouped by Land Office identities) the serial numbers of all Federal leases and pending lease applications, Indian leases, and the expiration date of each lease.

c. If geological and geophysical data and discussions are to be confidential, the applicant should so state and clearly mark each page of such documents as CONFIDENTIAL INFORMATION. The geologic report should be a separate report supporting the application for designation of a unit area.

d. Cite the deepest formation that the proponent plans to test, the projected depth that the initial test well(s) must reach to adequately test that formation, and the number of initial wells to be required.

2. Geologic Report. The geologic report should include:

a. A map on the public land survey base showing the proposed unit boundary and a detailed geologic map illustrating the limiting mechanism for production of the objective formation, along with structural cross section(s) and other geologic data as they relate to the proposed unit area. The geologic map and the cross section(s) should show the strike and dip of all pertinent faults. The map must show the location of all wells drilled in the unit area and immediate vicinity thereof and should indicate the status and depth of each well and the lowest formation penetrated.

b. Appropriate cross-sections and stratigraphic columns, identifying prospectively productive formations and indicating expected depths.

c. Pertinent geophysical interpretations.

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d. The geologic basis for selecting the proposed unit area boundary, such as closing structural or stratigraphic contour, fault, or pinch-out.

e. A brief discussion of the unit area, including (1) the location of the prospect geographically and physiographically; (2) pertinent geologic factors, including structure and stratigraphy, as they relate to the proposed unit area; and (3) the location of existing wells with emphasis as to why the prospect has not been evaluated by these tests.

f. The location of the initial test well, its proposed total depth, projected formations to be tested, and a brief discussion of the rationale for drilling the initial test well at the chosen location.

3. Land Ownership Map. The land ownership map, on a scale not less than 1 inch to 1 mile, shall show:

a. The specified outline of the proposed unit area based on the official public land survey, including the acreage and official number of each lot, tract, and section, and total acreage of the unit area.

b. The boundary of each lease and unleased tract of land. Insofar as possible, the lands should be identified with the same tract numbers that will be used later in Exhibit B of the unit agreement.

c. By use of distinctive colors or symbols, the different types of land, such as Federal, Indian, State, railroad, and other fee lands. Also indicate different types of Federal lands, such as Forest Service, Fish and Wildlife Service, and Indian allotted or tribal lands.

d. Working interest owners and lease numbers of Federal and Indian leases and lease expiration dates.

4. Special Unit Provisions. Use of the model form of unit agreement (43 CFR 3186.1) is encouraged. However, certain types of lands require the inclusion in the unit agreement of special provisions, which must be approved in advance unless recited in the designation letter. If any other deviations from such form are deemed advisable, the proposed form, with Exhibits A and B, or equivalents, attached to each copy and with all deviations from the model form plainly marked and explained, must be submitted for approval by the authorized officer.

5. Review of the Application. To ensure the adequacy of the application, the authorized officer reviews the application for correctness and acceptability as to format, unit area, initial well requirement(s), and information presented in the geologic report. Individual Federal and Indian leases are checked for expiration dates and for any special land stipulations that should be included in the agreement. For unit agreements that contain unleased right-of-way or other lands, additional steps should be taken to have these lands leased prior to final approval of the unit.

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The proposed form of unit agreement is reviewed to determine if the agreement language meets the needs of the specific case. The proposed location of the initial unit well(s) should be reviewed and, if the location is near the edge of the proposed area and it is not justified geologically, the operator should be requested to select a more appropriate well site or to consider revising the unit boundary.

Each application for designation submitted to the authorized officer for approval must be accompanied by a report demonstrating that the proposed unit outline is consistent with the geologic information submitted. Geologic information should show that unitization is necessary and advisable in the public interest.

Illustration 1-1 is a form letter recommended for use by the authorized officer in notifying the applicant that the land identified in his application has been designated a logical unit area.

B. Unit Area and Well Obligation

The general intent of unitization is to pool mineral interest ownership in an entire geologic structure or area in order to provide for adequate control of operations so that exploration, development, and production can proceed in the most efficient and economical manner. It follows that a unit area should encompass only those lands considered necessary for the proper development of the unitized resources. An actual unit boundary may be established by honoring structural, stratigraphic, or other limiting geologic parameters. Administrative boundaries should not be used except in rare circumstatunces such as an adjoining unit boundary. A unit area may extend into designated Wilderness, Park System, Wildlife Refuge, or other protected area. In that instance, the unit proponent should be made aware that operations (surface or sub-surface) may be conducted within the protected area only on lands that are leased and only if such operations are not precluded by law, regulation, or by surface use restrictions imposed by the surface management agency (SMA).

Historically, the ratio of one well per 25,000 acres has been used. However, the authorized officer shall require the unit proponent to drill sufficient number of wells to adequately test the trap or series of traps identified in the geologic report and supporting maps. Contributing factors would include the nature, extent and depth of the potential reservoir(s), and pertinent information from any wells which have already been drilled in the general area. If the unit agreement requires more than one obligation well, then all obligation wells must be drilled to the formation/depth requirements specified in the unit agreement in order to fulfill the public interest requirement (43 CFR 3183.4[b]), unless the authorized officer determines that the public interest requirement has been satisfied with the drilling of less than the full multiple well commitment. Section 9(a) of the model form of exploratory unit agreement (43 CFR 3186.1) contains substitute language that should be used in agreements that incorporate a multiple well obligation.

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C. Approval of an Executed Unit Agreement.

When an executed unit agreement is received for approval, it is processed as follows.

1. The application is reviewed for proper format, including the filing of a sufficient number of copies. Unless specified otherwise in the designation letter, a minimum of four signed counterparts are required.

2. The text of the executed agreement must be identical to that approved in the designation letter. Any exceptions are noted and, if significant, the application is returned unapproved for correction by the applicant.

3. All tracts listed on Exhibit B (43 CFR 3186.1) are reviewed as to proper arrangement, land description, and acreage. Lease numbers, expiration dates, royalty rates, and lessees of record for all Federal and Indian leases are verified from BLM and Bureau of Indian Affairs records. The subtotal of acreage for each type of land and its percentage of the total unit area should be shown.

4. The ratification and joinders submitted with the agreement are checked against the lessees of record, basic royalty owners, and working interest owners to determine the commitment status of each tract (see paragraph II-U.) All lessees of record and working interest owners for each Federal/Indian tract must submit a ratification and joinder before the tract is considered fully committed. Since the basic royalty, lessee of record, and working interest ownership in State and fee lands cannot be verified, joinders by parties purported to own such interests are to be accepted as correct.

5. All signatures should be either witnessed or acknowledged before a notary. Execution by a corporate officer should show that person's title and carry proper attestation and the corporate seal. The commitment of overriding royalty and production payment interests can be accomplished either by the unit operator submitting a list of such owners which indicates those who have executed the unit agreement, or by the filing of appropriate joinders. When specific interests are held by different individuals or companies, each such entity holding an interest should execute the agreement even where one company may be wholly owned by another signatory party.

6. To assure effective control over unit operations, generally at least 85 percent, on an acreage basis, of the lands within the unit area must be fully, effectively, or partially committed to the unit agreement. Approval may be granted with a lesser commitment when all or a substantial portion of the noncommitted land is "fringe acreage", i.e., is located adjacent to the outer boundary of the unit area or otherwise far removed from the site of the initial unit well.

7. Every owner of an interest in the unit must be invited to join the unit agreement. If any owner fails or refuses to join, evidence of reasonable effort to obtain joinder should be submitted by the unit proponent, together with a copy of each refusal giving the reasons for nonjoinder.

8. Two true copies of any unit operating agreement should accompany the executed unit agreement.

9. Any lands in the unit area that are subject to an option agreement should be identified in Exhibit B (43 CFR 3186.1), and the basic provisions of the option should be described. In all cases, the person committing such interest should exercise the option promptly after approval of the unit agreement.

10. Fully and effectively committed Federal leases are subject to segregation pursuant to 30 U.S.C. 226(m) and, where segregation is appropriate, the lease is so noted on Exhibit B (43 CFR 3186.1). Horizontal segregation is discouraged and should be avoided whenever possible. Horizontal segregation normally can be averted if a statement is submitted by the unit operator advising that it is not the intent of the signatory parties to the unit agreement that horizontal segregation occur as a result of the unitization (see Solicitor's Opinion M-36776, May 7, 1969.)

11. A Certification-Determination page (see Illustrations 1-2A and 1-2B for recommended format) and approval letter (Illustration 1-2C) are *prepared and signed by the authorized officer. Generally, if State, Indian,* and/or fee lands are involved, the unit agreement should be approved by the appropriate State and Indian agency before the agreement is submitted for approval by the authorized officer. However, where a majority of acreage within the proposed unit is Federal, and where sufficient acreage has been committed to assure effective control, the authorized officer may approve the agreement prior to its approval by the appropriate State or Indian Agency. In all cases, the State or Indian Agency should be notified of the proposed unitization and be given the opportunity to commit its lands prior to authorized officer approval. Unit agreements that contain only Indian lands are not approved by the authorized officer. For such units, a memorandum giving the reviewing officer's recommendations, with the unit instruments filed for review, are transmitted to the appropriate BIA office for final approval.

12. Upon approval, the unit is assigned a Case Recordation System (CRS) number (see Illustration 3) and entered into the CRS.

13. One complete copy of the unit agreement, unit operating agreement, designation, approval, and associated papers is retained in the office of record. Where the authorized officer is a State Office official, one copy of such documents is transmitted to the appropriate District Office.

14. The effective date of a unit is not negotiable, and a retroactive date may not be used even if justification is submitted by the proponent. A unit agreement will be effective as of the date of the authorized officer's approval signature. However, for non-Federal form units that are not designated by the authorized officer, the effective date will be that date specified in the agreement.

15. While it is desirable to have the owners of Federal overriding royalty interest (ORRI) join in the unit, approval will not be denied if they do not join. Private basic royalty owners must execute joinders to the unit agreement unless the lease specifically authorizes the lessee to commit their basic royalty interest to a unit agreement.

D. Operating Rights

Certain unit approvals (e.g., final unit agreement approval, successor operators, subsequent joinders, etc.) depend on the consent of a sufficient percentage of working interest owners. Since BLM does not verify present working interest ownership, the most current Exhibit "B" must be accepted as the unit operator's self-certification of ownership. If the actual working interest ownership does not correspond with necessary consent or executed instruments submitted with the approval request, then an updated Exhibit B must be submitted by the unit operator. Any approval letter related to working interest ownership, such as for the approvals noted above, must contain the following, or similar, disclaimer:

> "In accepting/approving this (unit agreement, designation, etc.) the authorized officer neither warrants nor certifies that the (unit operator, designated party, etc.) has obtained all required approvals that would entitle it to conduct operations or otherwise exercise its rights under terms of the _____ Unit Agreement."

E. Exploratory Drilling Operations.

Section 9 of the model form of unit agreement for unproven areas (43 CFR 3186.1) contains the initial test well requirements for the unit. Generally, this section requires the unit operator to commence an adequate test well within 6 months of the effective date of the unit agreement and to diligently drill such well to completion; to continue drilling one well at a time, allowing not more than 6 months between the completion of one such well and the commencement of the next such well; and to pursue such operations until a well capable of producing unitized substances in paying quantities is completed. Production in paying quantities is defined in the model agreement as "quantities sufficient to repay the costs of drilling, completing, and producing operations with a reasonable profit . . . ." A well that is commenced prior to the effective date of the unit agreement may satisfy the initial test well requirements if it is being drilled conformably with the terms of the agreement on the effective date, i.e., the well can not have penetrated the objective horizon specified in Section 9 (43 CFR 3186.1) prior to the effective date of unitization (also, see paragraph R.)

1. Drilling to Discovery - Initial Test Well. In order for a well to be considered as fulfilling the initial test well requirements under the unit agreement, the well must be drilled diligently and meet one of the following criteria:

a. Test the formation specified in Section 9 (43 CFR 3186.1).

b. Reach the depth requirement specified in Section 9.

c. Discover unitized substances which can be produced in paying quantities at a lesser depth than the formation or depth requirement specified in Section 9.

d. Establish to the satisfaction of the authorized officer that further drilling of the well would be unwarranted or impracticable.

When a well satisfies the requirements of Section 9 (i.e., satisfies the PIR under 43 CFR 3183.4[b]), then all committed unit leases would qualify for extension by drilling. If a well fails to satisfy the Section 9 requirement, yet was drilled diligently, then only the lease on which the well was drilled would qualify for extension by drilling. The standard for diligent drilling operations is that set out in 43 CFR 3107.1.

2. Further Drilling and Development. The initial participating area under an exploratory unit agreement is established by the completion of the first unit well capable of producing unitized substances in paying quantities (as defined in 43 CFR 3186.1, Section 9). After such discovery, further drilling or development is to take place under an approved plan of development (see paragraph II-H), except as may be necessary to protect the unit area from drainage. The drilling to discovery provisions in Section 9 of the model form permit the authorized officer to modify the drilling requirements by granting reasonable extensions of time when, in his opinion, such action is warranted (see paragraph II-K).

3. Multiple Test Well. When the unit agreement incorporates a multiple well requirement, the operator is obligated to drill all required wells. Failure to commence drilling all required wells beyond the first obligation well, and to drill them diligently, may result in the unit agreement approval being declared invalid ab initio by the authorized officer.

4. Producible Wells Prior to Unitization. Where producible wells exist in the unit area prior to unitization, Section 11 (Participation After Discovery) of the model form of unit agreement should be modified to provide that wells completed prior to the effective date of the unit agreement will not be recognized as unit wells until after an initial participating area is established based on the completion of a unit well capable of producing unitized substances in paying quantities as defined in Section 9 of the model unit agreement (see also paragraph II-R).

F. Determining Production of Unitized Substances in Paying Quantities.

The term "paying quantities" is defined in the model form of unit agreement as "quantities sufficient to repay the costs of drilling, completing, and producing operations with a reasonable profit . . ." The cost of producing operations is defined as "the cost of maintaining the lease and producing the wells, including the cost of marketing the products." The phrase "cost of marketing the products" is further defined as "the normal or usual handling, treating, measurement, and transportation costs which a responsible lessee could be expected to pay to market his leasehold production. Such costs would not include abnormal or extraordinary charges, such as construction of a lengthy pipeline." This definition of the cost of producing operations, with the criteria applied to such definition, is also applicable to unit operations. However, the definition of paying quantities for unit purposes also includes the burden of return of drilling and completing costs. Generally, the drilling and completion costs to be considered will be the actual costs involved; however, consideration should also be given to those reasonable costs which a responsible operator could be expected to incur while drilling and completing the well in question.

Extraordinary costs, such as drill string failure, extensive coring and testing programs, loss of well control, etc., normally should not be allowed.

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Generally, no more than 12 months of well production data should be required to conduct a paying well analysis. On rare occasions, if additional well production data beyond 12 months is necessary to conduct a paying well analysis, a letter to the unit operator should be sent outlining the reason(s). However, the requirement that additional wells be drilled with no more than 6 months between wells shall continue in effect during any such test period unless extensions are granted by the authorized officer.

1. Paying Well Evaluations. To evaluate a "paying well" determination (PWD), a reserve-economic analysis showing a well's discounted pay-out and the estimated ultimate recovery to be realized usually is required. To retain quality and consistency in performing a paying well analysis, the use and application of various economic input parameters should be uniform. At the time of the paying well determination, the current market or contract price should be used as the current product price. If the well has produced for a period of time prior to the paying well determination, then the actual product price should be used for that period of time. If no contract price for gas is available, then the highest current gas price being paid for a majority of like quality gas in the area or field should be used.

Since product prices and field operating costs will likely not remain constant with time, reasonable projections of these economic variables should be used in unit PWDs. For consistency in these analyses, a reliable and readily available source of forecasting data is desirable. The Energy Information Administration (EIA) in the U.S. Department of Energy is such a source for oil and gas price forecasting, and publishes periodic reports, such as their Annual Energy Outlook and Short-Term Energy Outlook, which contain this information. These oil and gas price forecasts are normally developed for a range of market assumptions. The product price forecasts developed by EIA for the medium or base case scenario should be used in unit PWDs. Price forecasts should be used for all future years to be analyzed. However, since these forecasts are generally not reported for all future years, interpolating price inputs for intervening years may be necessary. In addition, since oil price forecasts are generally made for the world oil price, it may be necessary to make price adjustments that reflect quality and market differences between the forecasted product and the resource being analyzed. A reasonable estimate of future operating costs can be deduced from the Producer Price Index, published monthly by the Bureau of Labor Statistics, U.S. Department of Labor.

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Additional consistency in unit paying well determinations is achieved through adoption of a standard discount factor for use in the economic analysis. Normally, in evaluating the economics of a proposal through discounted cash flow (DCF) analysis, a certain level of risk is assumed. This degree of presumed risk is reflected in the discount rate selected for use in the analysis. Since the well being evaluated in a PWD has already been drilled and been shown to be producible, the risk of failure has been reduced considerably. For consistency, the risk component of the discount rate used in BLM's paying well determinations is assumed to be zero. Under that assumption, an acceptable proxy for the discount rate used in a unit PWD would be the yield on United States Government intermediate-term (10-year) bonds, an essentially risk free investment that captures both inflation expectations and the time value of money. The average yield (rounded up to the next whole percent) on intermediate-term Government bonds, as reported in national financial publications and many major newspapers, should be used as the discount factor in the economic evaluation for a unit PWD. The discount rate would continue unchanged for the life of the estimated ultimate recoverable reserve projection. The use of a conservative discount rate favors the operator's well in qualifying as a unit paying well and ultimately furthers the resource conservation objectives of unitization.

The DCF analysis starts at the time the well is completed using actual or projected production. There is no set limit on the number of years for a well to payout. However, if payout is longer than 10 years, the economic assumptions used in the paying well analysis should be reexamined. The use of the windfall profits tax (repealed in 1988) should not be considered in the paying well analysis. If such a tax is enacted in the future, however, it would then be utilized in the analysis.

State Offices are responsible for assuring that adequate source information for product price/operating cost forecasting and Government Bond yields is available to offices responsible for conducting unit PWDs.

2. Non-Paying Well/Recompletion Evaluations. The drilling and completion costs to be used in the economic analysis for a paying well determination for a recompleted or reentered well should be the typical cost of drilling and/or completing the same well at the time of recompletion or reentry. The economic factors and the total remaining reserves at the time of recompletion or reentry should be utilized. Each producing horizon in a completed well should be evaluated separately. If a workover is performed in the current horizon (e.g. additional perforations, frac job, etc.) then the

following guidelines for a non-paying well reevaluation would apply.

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Wells initially determined to be non-paying normally should not be considered for reevaluation. However, if there is a significant change in conditions (such as a sustained increase in product price or significant increase of monthly production) a non-paying well may be considered for reevaluation. A non-paying well may be reconsidered upon request by the unit operator, or may be initiated by the authorized officer if it is believed it would serve the public interest. When reevaluating a well previously determined to be a non-paying well, the following economic factors should be applied, as of the effective date the well potentially becomes paying: (1) typical cost of drilling and/or completing the same well, (2) remaining reserves, and (3) the applicable economic parameters. The historical data prior to the effective date should not be considered in the reevaluation. The effective date of any revision of a participating area caused by the reevaluation of a non-paying well should be the first of the month on which the changing condition occurred regardless of when the request for reevaluation is received from the unit operator or when initiated by the authorized officer. For wells completed before a unit was formed, the same economic factors would apply. Illustration 1-3 may be used in notifying the operator that a unit well has been determined to be a non-paying well, as defined in Section 9 of the unit agreement.

G. Establishment or Revision of Participating Areas.

After the first unit well capable of producing unitized substances in paying quantities is completed, a participating area is established in accordance with Section 11, "Participation After Discovery", of the unit agreement (43 CFR 3186.1).

1. Initial Participating Area. The land that is to be included in a participating area is that land reasonably proven capable of producing unitized substances in paying quantities or, if so provided in the unit agreement, that land necessary for unit operations (most older units, i.e., prior to 1968, do not provide for such additional lands). In the event that State spacing orders are still applicable to lands in the unit area, spacing should be accepted in determining the participating area, unless the authorized officer determines that it is not in the public interest. Accordingly, participating areas should include the acreage within the spacing unit established for every well that is included in the participating area. Additional acreage is also included where the available information indicates that such lands reasonably are proven to be capable of producing unitized substances in paying quantities. The establishment of the initial participating area causes the unit to convert to a producing status, and all subsequent unit wells and operations are to be conducted under an approved plan of operations. The effective date of the initial participating area usually is the date the "discovery" well was completed, i.e., the date the well was determined to be physically capable of producing unitized substances in paying quantities. Illustration 2-2 presents a suggested format for use by the unit operator in requesting approval of an initial participating area. Illustration 1-4A is a form letter advising the unit operator that the initial participating area has been approved.

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If an application to establish an initial participating area has not been filed within 3 months after completion of a unit well, the authorized officer should contact the unit operator and follow up, as needed, until the necessary actions are completed.

An application for the authorized officer's concurrence that a well is not capable of producing unitized substances in paying quantities should be submitted for every nonpaying unit well by the unit operator. Every unit well completed for production should either be included in a participating area or determined to be a non-paying well as soon as possible after completion.

A recommended method for establishing the initial participating area for an exploratory unit should incorporate basic engineering and geologic principles. The following equation can be used as a basis for determining the size of the participating area:

$$Np = N \times Er$$

Where Np is recoverable reserves, N is the original hydrocarbons in place and Er is the recovery factor.

Recoverable reserves can be calculated by using decline curve analysis based on the available production history. If gas reserves are involved, a graph of P/Z versus cumulative production can be used where there is available pressure and temperature data. An economic limit or cut-off point will also need to be established when determining recoverable reserves. A substantial amount of the calculation was probably accomplished while making the paying well determination. If available, modeling can be used to determine recoverable reserves.

A recovery factor can be determined by empirical correlation or through field experience given a specific reservoir. The reservoir drive mechanism(s) may have to be determined and used in estimating the recovery factor.

Once the recovery factor and recoverable reserves are determined, the original hydrocarbons in place can be calculated. Using the volumetric

equation for oil or gas, the area necessary for the participating area can be determined. Values for porosity, net pay thickness, water saturation, and formation volume factor can and should be obtained from independent log and reservoir analysis. If the area calculated compares favorably with what the *unit operator files for approval and the configuration is reasonable, the* application can be approved.

The actual configuration of the participating area should be consistent with available geologic data. Since this configuration logically may be something other than circular, detailed geologic mapping may be necessary if adequate data exists. Radial drainage should be assumed when insufficient data exists and when not contradicted by available information. Since participating areas are based on subdivisions of the public land survey or aliquot parts thereof, any subdivision cut 50 percent or more by the outer boundary of the participating area configuration should be included in the participating area.

The following table based on participating area size can be used as a guideline to determine what subdivision should be considered for inclusion in the participating area.

Participating Area Size-Acres	Subdivision Acres
Greater than or equal to 320	40
Less than 320	10

Smaller divisions of less than 10 acres can be considered when sizing participating areas as well as cases involving metes and bound surveys. These situations should be evaluated on a case-by-case basis.

The above method may not be appropriate in all circumstances and the *authorized officer should use discretion in determining the configuration of* the participating area.

2. Revision of Participating Area. A participating area will be revised in accordance with Section 11 of the unit agreement (43 CFR 3186.1), when additional paying wells are completed in the formation for which the participating area has been established. When a revision brings in additional lands, such lands will be contiguous to the existing participating area. Although the additional geologic and engineering information obtained from the completion of each new paying well is used, the amount of acreage that is brought into the participating area by a revision is dependent on the same criteria used in determining the initial participating area. Similarly, land previously included in a participating area that is proven by the subsequent completion of a dry hole to be incapable of producing unitized substances in paying quantities should be eliminated from the participating area. The completion of a well not capable of producing unitized substances in paying quantities also may be grounds for eliminating acreage if there is no reason to believe that drainage of the lands in question has occurred from other unit wells. Since it is virtually impossible to delineate the exact limits of production in paying quantities, any doubts as to whether or not a tract should be placed in a participating area should be resolved against participation, since a participating area can be enlarged more easily than it can be reduced.

A request for the authorized officer's approval for the establishment or revision of a participating area should be accompanied by comprehensive engineering and geologic data that support and justify the unit operator's *proposed definition or redefinition of lands entitled to be in the* participating area. This information should include the status of all wells, current rates of production, and cumulative volumes of oil and gas production. Illustrations 2-3 and 1-4B are suggested formats for the application for and approval of a revision to a participating area.

Separate participating areas should be established for each separate productive reservoir, pool, formation, or zone covered by a unit agreement. Separate participating areas should be established for the same producing horizon when there is uncertainty as to whether the production is continuous between the two areas. However, separate participating areas should be combined into one contiguous participating area if subsequent information shows them to be producing from a common reservoir. Lands may not be eliminated from a participating area because of the depletion of unitized substances. However, such lands may be eliminated when reasonable proven to be nonproductive of unitized substances in paying quantities.

Lands not reasonably proven to be productive of unitized substances, but which are shown to be necessary for unit operations, may be taken into a participating area if such inclusion is provided for under terms of the unit *agreement. The phrase, "lands necessary for unit operations" is construed to* mean that the operations thereon would result in improved recovery of unitized substances (see Champlin Petroleum Co., 100 IBLA 157, decided December 3, 1987.) Lands on which unit operations provide only an indirect benefit to the

participating area such as those that contain water disposal wells, water supply wells, or product treatment equipment, should not be included in the participating area. Any request for the inclusion of nonproductive lands considered necessary for unit operations into a participating area shall present a rational basis for such inclusion.

When it becomes necessary to revise a participating area by inclusion of acreage to be determined necessary for unit operations, a detailed geologic and engineering report will be necessary for justification of additional acreage. The probability exists that nonproductive acreage will be included in the participating area; hence, a rational basis should be used when adding additional acreage. This may include a negotiated agreement between working interest owners, and the unit operators with the acceptance of the authorized officer on what acreage should be included. Another consideration would be to analyze the reservoir area affected receiving the benefit of injection. In an exploratory unit surface acreage will be used for expanding the participating area.

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The effective date for revision of a participating area is normally the first of the month in which the information upon which the revision is based is obtained, but a more appropriate date may be used when justified (older units may specify a different effective date). After a discovery has been made, the authorized office shall not approve an application for permit to drill or to perform other operations (except routine operations such as stimulation, well repair, etc.) under a unit unless the proposed operations were included in the currently approved plan of development (see paragraph H below), except where protective drilling is required.

State spacing may be used as a guide in determining the acreage to be included in participating areas, unless the authorized officer determines that such spacing is not in the public interest. Accordingly, participating areas should include the drilling and spacing unit established for every well included in the participating area. Additional acreage may also be included if the lands meet the requirements of Section 11 of the model unit agreement.

3. MMS Notification of Participating Area Approvals. All BLM approvals of Federal/Indian initial or revised participating areas will contain the following notice from MMS notifying the unit operator to inform payers to make adjustments to royalty payments within 90 days after a participating area has been approved:

> IMPORTANT NOTICE FROM THE MINERALS MANAGEMENT SERVICE
> If this well(s) is producing, this approval requires the submission of a Payor Information Form MMS-4025 to the Minerals Management Service (MMS) within 30 days (30 CFR 210.51). Please notify the designated payor or payors (purchasers, working interest owners, or others) as soon as possible regarding this requirement. Any production royalties that are due must be reported and paid within 90 days of the Bureau of Land Management's approval date or the payors will be assessed interest for late payment under the Federal Oil and Gas Royalty Management Act of 1982 (See 30 CFR 218.54.) If you need assistance or clarification, please contact the Minerals Management Service at 1-800-525-9167 or 303-231-3504.

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H. Plan of Further Development and Operation.

1. Purpose. The main purpose of a plan of development and operation is to provide for the progressive exploration and development of the unit area in an orderly and timely manner until such time as the productive limits of each participating area have been defined as fully as practicable. Generally, plans of development and operation should be designed to ensure that the exploration and development drilling needed to delineate the unitized land capable of producing unitized substance in paying quantities will be accomplished as early as 5 years from the effective date of the initial participating area, and certainly within 10 years from such date. Until the limits of paying production in each participating area have been determined, the number of proposed exploratory wells should approximate the number of proposed development wells. However, the authorized officer should exercise reasonable judgment in determining this ratio.

2. Plan of Development. Section 10 of the model form of unit agreement (43 CFR 3186.1) requires that a plan of development and operation be filed for approval within 6 months after the effective date of the initial participating area (see paragraph II-G1.) This plan should describe all anticipated unit operations for the next 6 to 12 months, including the drilling, completing, conversion, and producing of unit wells, and other surface disturbing operations, and may be supplemented as necessary. Prior to the expiration of the initial or any subsequent plan of development and operation, a new plan

covering the next period (the following calendar year) should be submitted on a calendar year basis not later than March 1 of each year, for the authorized officer's approval. Any proposed modification or addition to the existing plan should be filed as a supplement to the plan. Plans of development and operation should be approved with a notation that the authorized officer's approval of specific operations must be obtained prior to commencement of such operations.

A plan of development should describe the exploratory and development drilling operations and other related operations proposed to be performed within the unit during the coming year and should be revised or supplemented as necessary. Generally, all work that would change a well's producing formation or status, or operations that would require the prior approval of the authorized officer (such as drill deeper, plug back, abandonment, or conversion to an injection well), should be included in the plan of development. Routine stimulation and workover operations need not be covered by a plan of development as long as the resulting producing interval of the well remains within the productive limits of the participating area for the well. Each annual plan must provide for additional exploration and/or development drilling necessary to fully delineate the productive limits within the unit area, or must fully justify the lack of such drilling during the period covered by the plan. Since all proposed wells must be included under an approved plan of development once the initial participating area is established, subsequent unit operations should not be approved by the authorized officer if these operations were not included in the latest approved plan, unless drilling is necessary to protect the unit from drainage.

When the annual plan of development and operation is reviewed, the authorized officer shall determine whether the exploration and development of the unit, in accordance with good oil field practice, requires the drilling and/or producing of additional wells or the commencement of pressure maintenance or enhanced recovery operations. If further exploration of unit lands outside the participating area(s) is believed necessary, the authorized officer may approve the plan of development, subject to the condition that additional exploratory drilling operations will be required and that a supplemental plan covering such operations must be submitted for approval. The operator may also be requested to submit a new plan which provides for such additional exploratory drilling operations.

Upon approval, one approved copy of the plan of development will be returned to the unit operator; the original will be retained by the approving office; and, if the authorized officer is a State Office official, one copy will be sent to the appropriate District Office.

3. Summary of Operations. Section 10 of the model form of unit agreement (43 CFR 3186.1) requires that a summary of operations be included with the annual plan of development. Such summary should include complete up-to-date maps showing the latest structural and geologic interpretations; all participating area boundaries; a field map showing all wells, flow-lines, and roads; status of all wells; and a summary of all operations conducted during the past year. Any proprietary geologic information should be submitted as a separate report and should be clearly marked by the unit operator on each page as CONFIDENTIAL INFORMATION. Performance graphs covering the productive life of each horizon or reservoir for which a participating area has been established should also be included. The operations summary should be reviewed by the authorized officer to determine that all well completion and production data agree with the data contained in the authorized officer's records.

When additional unit drilling operations are no longer necessary because the area has been fully developed, the authorized officer may require an annual summary of operations to be submitted in lieu of the annual plan of further development and operations. All annual plans and/or summaries should be submitted in triplicate. A plan of development or summary of operations may be requested but not required for a non-Federal form of unit agreement, since BLM supervision is maintained only over Federal and Indian leases in such units.

I. Procedures for Expansion or Contraction of Unitized Areas.

Applications for the expansion or contraction of a unit area should be filed with the authorized officer in accordance with the following procedures.

1. Filing of the Request. The unit operator shall file two copies of the request with the authorized officer. The request should describe the contemplated changes in the boundary of the unit area, the reasons therefor, and the proposed effective date. Any geologic report justifying the proposed expansion or contraction should be similar to the one that accompanied the application for designation of unit area as logically subject to unitization.

2. Notification of Involved Parties. After the authorized officer has given preliminary concurrence to the request, the unit operator should send out notices of the proposed change of unit area to each working interest owner, lessee, lessor, and State or Federal agency whose interests are affected, advising that 30 days will be allowed for submission to the unit operator of any objections. A copy of the notice should be submitted to the

authorized officer. The date on which the expansion or contraction is to be effective should be specified in the notice. Normally, the effective date should be either the first of the month following approval by the authorized officer, or the first of the month following expiration of the 30-day period. A plat clearly showing the current area and the area to be added and/or deleted should be included with the notice.

3. Request for Approval. After the expiration of the required 30 days, an application should be filed in quadruplicate with the authorized officer requesting final approval of the proposed action. The application should include a statement that all principals were provided proper notice, with a copy of any objections that were received by the unit operator. The application should also contain a copy of the notice indicating the proposed effective date.

4. Effective Date of Expansion or Contraction. After due consideration of all pertinent information, the expansion or contraction shall, upon approval by the authorized officer, become effective as of the date prescribed in the notice. The authorized officer should notify the personnel responsible for realty actions of the contraction or expansion so that appropriate action can be taken.

5. Submission of Exhibits and Joinders. Revised Exhibits A and B (43 CFR 3186.1) should be submitted concurrently with or shortly after approval for contractions, but always concurrently for expansions so that the commitment status of new unit tracts can be established. Tract numbers of the new tracts included in the unit area by an expansion should follow the original tract numbers on Exhibits A and B in proper sequence. Tracts that existed prior to the expansion should not be renumbered. For effective commitment of new tracts, in the case of expansions, current signatory parties to the unit agreement who also own interests in the expanded area, and new parties, must submit joinders to the unit agreement and, if a working interest owner, a joinder to the unit operating agreement.

Section 2(e) of the model form of unit agreement provides for the automatic elimination of lands not entitled to be in a participating area at the end of the initial or extended unit term, if diligent drilling operations are not underway on such nonparticipating lands. Within 90 days of any such automatic elimination of lands, the unit operator must describe to the satisfaction of the authorized officer, all eliminated lands and must also promptly notify all parties in interest. Illustration 1-5A is a suggested format for the authorized officer to request a description of lands automatically eliminated under Section 2(e); while Illustration 1-5B may be used for authorized officer concurrence in the operator's land description.

Illustrations 1-6A and 1-6B are suggested formats for the authorized officer's preliminary and final approval for a unit expansion.

J. Suspensions.

1. Unavoidable Delay. There are three general circumstances that may qualify as unavoidable delay. The three are: (1) when actions by the BLM (or other surface management agency) taken in the interest of conservation prohibit the unit operator from beneficially using the unit area; (2) when events beyond the control of the operator prevent operations in the unit area (force majeure); and (3) when there is a lack of product market due to remote location or, in certain cases, a lack of sufficient demand.

Under Section 25 of the model unit agreement (43 CFR 3186.1), a suspension of the unit operator's drilling obligations for the initial obligation well, multiple obligation wells, and wells required to be drilled under Section 2(e) of the model agreement must be granted when events beyond the operator's reasonable control result in unavoidable delays that prevent the operator from complying with such obligations. Subsequent test well requirements under Section 9 (Drilling to Discovery) may also be suspended for unavoidable delay under Section 25; however, more commonly, the operator will request an extension of time under Section 9 if additional time is required to commence drilling the well. If obligatory drilling has not commenced, temporary relief of drilling obligations may be granted for a period generally not to exceed 6 months, upon receipt of a statement from the unit operator that it has been unable to obtain the necessary rig, casing, or associated equipment, or that adverse weather or other conditions beyond its control prevent commencement or continuance of operations. No unit obligation that is suspended under this section shall become due less than 30 days after such suspension is terminated.

Where a product market is available but the operator wants more for the oil and gas than a purchaser will offer, a suspension should not be granted unless the AO determines that the price offered is significantly less than what that purchaser and other purchasers are offering for like quality oil and gas in the area. Compelling the operator to sell at such an artificially depressed price would not be in the public interest since the royalty value to the Government would be similarly depressed.

Suspensions under Section 25 apply only to unit requirements and will not serve to extend leases that otherwise would expire. However, if actual drilling operations had commenced and were being diligently conducted when the

above referenced problem arose, similar relief could be granted that would serve to hold expiring leases until operations resume or the relief period otherwise is terminated.

2. Suspension of Lease Terms. Pursuant to 43 CFR 3103.4-2(f), the authorized officer may grant a suspension of operations and/or production for any or all leases effectively or fully committed to the unit agreement due to existing circumstances that prohibit the unit operator from drilling and/or producing on unitized land. If suspension of the terms of the Federal leases is desired, the unit operator, on behalf of the lessees, must submit an application requesting such suspension of operations and/or production and indicating whether the suspension is being requested for all or only some of the committed leases. Circumstances that warrant suspension approval must be deemed to be beyond the control of the unit operator, despite the operator's exercise of due diligence.

If a suspension of production and/or operations is granted for a lease in a unit and the unit is subsequently declared invalid, the suspension is valid for the period prior to the unit being declared invalid. This would be true even if the application for suspension was executed only by the unit operator and not by the working interest owners. When a unit that is benefitting from a suspension of production and/or operations is declared invalid, working interest owners must be notified that the suspension will be terminated as of the date the unit is declared invalid, unless sufficient justification for continuation of the suspension is provided. The working interest owners should be given a reasonable period of time to submit this justification.

Manual 3160-10, Suspension of Operations and/or Production, provides additional guidance on the various types of lease suspensions.

3. Suspension of Automatic Elimination Provisions of the Unit Agreement. A suspension of the automatic elimination provisions of Section 2(e) may be granted, if justified, due to unavoidable delay. In order to receive this relief, the unit operator must obtain consent from the owners of 90 percent of the working interest and 60 percent of the basic royalty interest (exclusive of the basic royalty interests of the United States) in the current nonparticipating lands.

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A request for this type of suspension may be submitted at any time after the establishment of an initial participating area, but prior to the effective date of the automatic elimination of lands not entitled to participation. If the suspension is approved, it would be effective the first of the month in which the request is received. This type of suspension is normally granted for not more than a two-year period, but may be extended thereafter, subject to an annual review as to whether continuation is warranted. The authorized officer may terminate the suspension at any time it is decided that circumstances warranting the suspension have been resolved. The operator should be provided notice of termination and granted a minimum of sixty days in which to resume unit operations, in order to forestall automatic elimination.

A suspension of the automatic elimination provision serves to extend the initial or second five-year development term for the period of time covered by the suspension. Note that if suspension of the automatic elimination provision is granted during the initial five-year development term of the unit, the operator will likely have additional time to resume drilling to forestall automatic elimination. This time period would be equivalent to the amount of time remaining in the first five-year term at the time the suspension was granted. Of course, if diligent drilling operations are commenced timely in accordance with Section 2(e) after a suspension is terminated, then the automatic elimination date would be further extended by the terms of the unit agreement.

Suspension of the Section 2(e) automatic contraction provision would not serve to suspend the operating and producing requirements of any leases committed to the unit agreement, and committed Federal lessees would need to continue making minimum royalty and advanced rental payments during the term of suspension. However, suspension of the automatic contraction date would serve to extend the life of a committed lease since such leases are held by unit production during the period of the suspension.

K. Extensions of Time.

There are certain provisions in the model unit agreement (43 CFR 3186.1) under which the automatic elimination date (Section 2(e)), the time within which to fulfill certain drilling requirements (Section 9), and the fixed term of the unit agreement (Section 20) may be extended.

Under Section 2(e) of the model agreement, the automatic exclusion of nonparticipating acreage at the end of the initial five-year unit term may be postponed and an additional five years in the unit term may be obtained if diligent drilling is occurring and pursued on nonparticipating unitized lands within the timeframes stated in the agreement. Section 2(e) allows the authorized officer to approve a further, two-year waiver of the automatic elimination provision, upon consent of the owners of 90 percent of the working interests and 60 percent of the basic royalty interests (exclusive of the basic royalty interests of the United States) in the nonparticipating unitized lands.

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Section 9 of the model unit agreement details the unit operator's drilling requirements and provides for automatic termination of the agreement if these requirements are not satisfied. Except for unit obligation wells, this section of the agreement gives the authorized officer the authority and discretion to grant reasonable extensions of time to meet these requirements. Such an extension (if approved prior to expiration of the initial term of the unit) is granted for a period normally not to exceed 6 months, unless a longer period is deemed justifiable by the authorized officer.

Section 20 of the model agreement provides for extension of the initial five-year unit term upon request of the unit operator and approval of the authorized officer, or upon the discovery of unitized substances in paying quantities on unitized lands. Such a discovery serves to extend the effective term of the unit agreement for so long as unitized substances can be produced in quantities sufficient to pay production costs.

Extensions granted for meeting unit drilling requirements do not toll the running of lease terms. Thus, depending upon the circumstances, a suspension of operations and/or production pursuant to 43 CFR 3103.4-2 and 43 CFR 3165.1 *may also be needed to preserve any committed lease that would* otherwise expire.

L. Effect of Unit Agreement on Committed Lease Terms, Lease Segregations and Lease Extensions.

When only a portion of a Federal lease is made subject to an approved unit agreement, the lease is segregated into two separate leases, one containing the committed land within the unit, and the other containing the (uncommitted lands) [land outside the unit]. The segregated lease covering the nonunitized portion continues for the term of the base lease or for 2 years, whichever is greater, pursuant to 43 CFR 3107.3-2.

The effect of lease segregation on the term of the resultant unitized and nonunitized leases will depend on whether or not the original lease was in extended term by reason of production. A producing Federal lease in its primary term, upon segregation, results in two leases that are separate and distinct. Production on one will not extend the term of the other. Conversely, the segregation of a producing Federal lease in its extended term by production, creates a situation where the production on either lease will serve to extend the term of the other (See Anadarko Production Co., 92 IBLA 212, June 16, 1986, and Celsius Energy Co., Southland Royalty Co., 99 IBLA 53, *September 8, 1987.)*

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If the unit agreement does not provide for unitization of all formations, Federal leases may be subject to horizontal as well as vertical segregation. Horizontal segregation should be avoided whenever possible and can be averted if a statement advising that it is not the intent of the parties to the agreement that horizontal segregation occur as a result of unitization is submitted by the unit operator with its application for final approval. Upon final approval, the authorized officer should advise the appropriate BLM office that horizontal segregation is not desired.

Once a discovery of unitized substances is made that can be produced in paying quantities (as defined under Section 9 of the model form of unit agreement, 43 CFR 3186.1), a committed Federal lease will continue in force for as long as it remains subject to a unit agreement. In accordance with an Interior Board of Land Appeals (IBLA) decision (67 IBLA 246) dated September 24, 1982 (Yates Petroleum Corp., et al.), a committed Federal lease can be extended by production if a unit well on any lease committed to a unit agreement is capable of production in paying quantities on a lease basis i.e., *production in quantities sufficient to cover the cost of production and* marketing, but not drilling. This would serve to extend leases committed to a unit plan only for the initial 5-year fixed term of the agreement so long as production in paying quantities on a lease basis is maintained and the unit is still in effect (i.e., all unit obligations are continued throughout the five-year term of the unit.)

Upon the authorized officer's approval of the initial participating area, the unit plan assumes a producing status as defined under Section 11 of the model unit agreement. Once a unit plan is in this status, any Federal lease committed to the plan will remain in effect for as long as it remains subject thereto. However, if production of unitized substances in paying quantities ceases prior to the end of the initial five-year unit term, and operations are not in progress to restore production or to establish new *production within 60 days, any individual lease that is in its extended term* at that point, solely by reason of its commitment to a producing unit plan, would expire.

Federal leases committed to a unit agreement also are eligible for a 2-year extension pursuant to 43 CFR 3107.1, if drilling operations are commenced on unitized land and are being diligently prosecuted across the end of the primary term of the lease. (See also paragraph II-E1 of this Handbook.)

Any Federal lease issued for a fixed term of 20 years, or any renewal thereof (or any portion of such lease) that is committed to a unit plan, will continue beyond its term for as long as it remains committed to the plan

(43 CFR 3107.3-3).

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Indian leases are not subject automatically to the Section 18 (Leases and Contracts Conformed and Extended) provisions of the model Federal unit agreement. Accordingly, BIA may insert appropriate language in Section 18 that modifies the terms and conditions which apply to committed Indian leases, with approval of the involved tribe and/or allottees. For this reason, the text of the specific unit agreement must always be consulted to determine the effect of unitization on committed Indian leases.

M. Unleased Federal Lands

On January 29, 1990, BLM field offices were instructed to include in all new Federally-approved oil and gas exploratory unit agreements, a provision requiring the payment of drainage compensation to the Government whenever a unit participating area contains unleased Federal lands. Illustration 4 provides the modified text of sections 12 and 17 that should be used in new agreements.

At the time of designation of a unit area, every effort should be made to identify and, if possible, lease any unleased Federal lands within the designated area. When a unit with unleased Federal lands is approved, an increased effort should be made to lease the Federal acreage, with a requirement for joinder to the unit and unit operating agreements prior to lease issuance (see 43 CFR 3101.3-1.)

If after discovery of unitized substances in paying quantities, the established participating area includes unleased Federal lands, the following steps should be taken. If not already underway, initiate actions to lease the unleased tracts with a stipulation requiring joinder to the unit and unit operating agreements. Advise potential lease applicants that negotiations with the unit operator will be necessary.

Once a successful applicant has been chosen to acquire the lease and evidence of an acceptable joinder has been received, the lease can be issued. In some cases, an acceptable joinder to the unit will not be obtained (e.g., if the unit operator and successful lease applicant can not come to terms on monetary settlements). In such cases, the applicant must provide a statement *giving reasons for non joinder that are acceptable to the authorized officer* before the lease can be issued. Upon lease issuance without joinder, the lessee must be advised that protection of the Federal lease from drainage will be required. Protection of the Federal lease can be accomplished by drilling an offset well, paying compensatory royalty, entering into a communitization agreement or obtaining a pooling order through the appropriate State agency.

N. Termination.

Most unit agreements contain provisions for automatic or voluntary termination. However, each agreement must be reviewed to determine the circumstances under which such terminations may occur.

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1. Automatic Termination. A Federal exploratory unit agreement will normally terminate 5 years after its effective date unless production of unitized substances in paying quantities, as defined in Section 9 of the unit agreement, has been established, or the term is otherwise extended pursuant to Section 20(a) of the unit agreement. If production of unitized substances in paying quantities is established, the agreement remains in effect for as long as unitized substances can be produced in quantities sufficient to pay for the cost of operation or for the initial 5-year term, whichever is longer. Should production cease beyond the initial 5-year term, the unit agreement will terminate automatically unless diligent operations are in progress within 60 days for the restoration of production or discovery of new production (see Section 20(c) of the model agreement at 43 CFR 3186.1.)

Section 9 of the model unit agreement provides for the drilling of an initial test well within 6 months after unit approval. If the initial well fails to discover unitized substances in paying quantities, the unit operator is required to commence and continue drilling additional wells, allowing not more than 6 months between the completion of one such well and the beginning of the next such well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the authorized officer.

General conditions for satisfying the public interest requirement under an approved unit agreement for unproven areas can be found at 43 CFR 3183.4(b). Failure to commence drilling the initial obligation well, or the first of multiple obligation wells, on time and to drill it diligently shall result in the unit agreement approval being declared invalid ab initio by the AO. In the case of a multiple well requirement, failure to commence drilling the required wells beyond the first well, and to drill them diligently, may also result in the unit agreement approval being declared invalid ab initio by the AO. Failure to timely commence any well required under Section 9 subsequent to the drilling of the initial obligation well or wells (in the case of a multiple well requirement) will result in automatic termination of the unit agreement.

Automatic termination for failure to perform certain required unit actions requires no formal advance notice by the authorized officer or operator. However, the authorized officer must concur in all determinations

of automatic termination made by the unit operator. The unit operator should then notify all other interested parties. All terminations by the authorized officer shall be in writing to the unit operator. Illustration 1-7A is an acceptable format for use by the authorized officer in notifying the unit operator of automatic unit termination for failure to meet the production requirements of the unit agreement, while the format shown in Illustration 1-7B may be used in notification of automatic unit termination for failure to meet the drilling requirements of Section 9 of the agreement. Where required by the unit agreement, prior approval by appropriate State officials should be obtained before the authorized officer approves the termination.

2. Voluntary Termination. Section 20(d) of the model unit agreement states that the parties to the unit agreement may initiate a request for voluntary termination of the agreement at any time prior to the discovery of unitized substances which can be produced in paying quantities, provided the public interest requirement has been satisfied. If the public interest requirement is not met, the approval of the unit by the authorized officer would be invalid. In cases where voluntary termination is requested, the application should be reviewed to ensure that the requisite percentage of working interest approvals has been obtained. The effective date of the termination may not be a date prior to the receipt of an approvable application by the authorized officer. Illustration 1-7C provides a format for the approval of a request for voluntary unit termination. Further clarification as to when a voluntary termination is effective may be found in Aquarius Resources Corp., 64 IBLA 153, May 24, 1982.

0. Amendment of Approved Unit Agreement.

A unit agreement may be amended when such action is justified by circumstances or events not previously anticipated. Amendment of a unit agreement is accomplished in much the same manner as the designation and approval of a unit agreement. A request for preliminary approval of the text of the proposed amendment with supporting data normally is submitted to the authorized officer. After the authorized officer approves the text of the proposed amendment, it is circulated by the unit operator for signature by the owners of interest that are subject to the unit agreement. All parties committed to the agreement must sign or consent to the amendatory language before it may be approved by the authorized officer.

P. Allocation of Production.

Unitized substances normally are allocated to the committed working interest owners in the manner prescribed in the unit operating agreement. Royalty proceeds on this production are allocated to each tract of unitized land within the controlling participating area, normally on the basis of the surface acre percentage each committed tract in the participating area contributes to the total acres of unitized land within the participating area. While noncommitted tracts within a participating area generally receive no allocation from production under the unit agreement, compensatory royalty payments are due the Government for any unleased Federal lands located within a participating area, when provided for in the unit agreement (see Illustration 4 for model text of this provision.)

A situation may be encountered where a communitized area (CA) and a unit participating area (PA) overlap. Illustration 5 shows several examples to follow in allocating production under those circumstances.

Q. Drainage - Compensatory Royalty.

Section 17 of the model unit agreement provides that the unit operator will take such measures as are necessary to prevent drainage of unitized substances by wells on land not subject to the agreement. Accordingly, any producing non-unit well offsetting unitized land, regardless of the ownership of the land on which such well is located, subjects the unit to possible drainage. Prompt drilling of necessary unit protective wells and/or payment of an appropriate compensatory royalty, as determined by the authorized officer, may be required. Compensatory royalty payments may be due for presumed drainage of unleased Federal lands in a participating area. While all exploratory unit agreements approved since January 29, 1990, should provide for such compensation, older agreements may not. The specific unit agreement must be examined to see if it provides for drainage compensation for unleased lands.

Communitization agreements that include unitized and nonunitized lands in conformity with State spacing requirements also may be used to remedy potential drainage situations. Manual Handbook H-3160-2 provides additional guidelines concerning drainage determinations and computations.

R. Treatment of Existing Wells.

At times, producing or producible oil or gas wells may be present within the area proposed for unitization. When such wells indicate a discovery of questionable significance, the following paragraph should be added to Section 11, Participation After Discovery, of the model unit agreement for unproven areas (43 CFR 3186.1):

> Determination as to whether a well completed within the unit area prior to the

effective date of this agreement is capable of producing unitized substances in paying quantities shall be deferred, until an initial participating area is established as the result of the completion of a well for production of unitized substances in paying quantities in accordance with Section 9 hereof.

This determination should be made at the time the previously completed well(s) is to be included in a participating area and should be based on the same criteria applied in making any paying well determination. Existing wells should be evaluated for inclusion in a participating area as of the effective date of the initial participating area.

In unusual cases, where an existing well indicates that a significant discovery of oil or gas has been made on land proposed for unitization, but where additional exploration and development is necessary, an initial participating area based on the information from such wells may be established effective as of the effective date of the unit agreement. However, a participating area application based on such well(s) should not be approved until after a unit test well has been drilled and completed as a paying well under the terms of Section 9 of the unit agreement (43 CFR 3186.1). In this situation, all committed leases including those that otherwise would expire are extended automatically, since the effective date of the participating area and the unit agreement would be the same date. A requirement for the concurrent submission of a plan of operations and development may be added to Section 9, if warranted.

S. Reporting Format for Unit Wells.

For reporting purposes, the unit operator or his delegated party is responsible for submitting all required reports for unit wells, be it a paying or non-paying unit well as long as the well remains on land that is considered committed to the unit agreement. Wells located on non-committed lands or lands that have been automatically eliminated from the unit area, would be reported on a lease basis. A chart detailing how the Automated Inspection Record Systems (AIRS) should be set up for unit wells is presented in Illustration 6.

T. Unit Activity Report.

A unit activity report similar in format to that shown in Illustration 7, should be prepared monthly by the BLM Office having jurisdiction over well operations. This report will be used by the BLM Office that administers the unit agreement to fulfill its responsibilities concerning wells drilled to meet unit obligations, establishment and revision of participating areas, automatic elimination dates, and unit terminations. Guidelines for completing the activity report are also included in Illustration 7.

U. Lease Commitment Status.

Before a Federal lease can be considered for segregation or for benefits by unitization, it must be fully or effectively committed to the unit agreement.

1. Fully Committed (FC). Fully committed indicates that all interest owners in that tract have committed their interests therein. This includes the lessee(s) of record, basic royalty owners in fee tracts, owners of overrides or production payments, if any, and working interest owners if different from the lessee of record. The working interest owners also must have signed the operating agreement. A fully committed tract is subject to segregation, if applicable, and is eligible for all benefits under the unit.

2. Effectively Committed (EC) or (FC ex OR)). Effectively committed indicates that all interest owners, except the owners of overrides or production payments have signed. An effectively committed tract is also subject to segregation, if applicable, and is eligible for all benefits under the unit.

3. Partially Committed (PC). In reference to a fee tract, partially committed indicates that the basic royalty interest owner has not signed the unit agreement, but the lessee and working interest owner have committed their interests. Absent joinder by the basic royalty owner, such interest may be considered committed only if the underlying lease empowers the lessee/working interest owner to commit that interest to the unit agreement. A State or Federal tract is considered partially committed to the unit agreement when the lessee of record has not signed but the working interest owner has committed its interests (Note: In some States, commitment under a State or fee tract by a lessee of record who owns no working interest is considered unnecessary, and the tract may be considered as fully or effectively committed without such signature.) A partially committed lease is not subject to segregation or any benefit by unit operations unless there are actual operations and/or production on the lease itself, or it is included within and receives an allocation of production from an approved participating area. Unitized drilling is permissible on a partially committed tract, however, if unitized production is obtained on such a tract and a participating area is established

on the basis thereof, the entire production must be allocated to the participating area, and the responsible working interest owner must pay the noncommitted parties their just royalty on a leasehold basis.

4. Not Committed (NC). Any tract in which a working interest has not committed, regardless of other committed interest, is considered as not committed and is not subject to the unit agreement.

V. Designation of Agent.

Whenever a party other than the unit operator files an application for permit to drill a well on unitized land, the application must include an acceptable Designation of Agent from the unit operator (Illustration 2-4). This designation covers only the drilling and completion of the well, and must clearly state who has authority to operate the well, once completed. If the well encounters unitized substances capable of being produced in paying quantities, as defined in Section 9 of the unit agreement (43 CFR 3186.1), then either the unit operator will take over operation of the well or the designated agent will be named as successor unit operator and assume responsibility for operating the well. If a well is completed as a nonpaying unit well and a party other than the unit operator is designated to operate the well, the unit operator will remain ultimately responsible for all legal and regulatory obligations related to such operations, as long as the well is located on land that is considered committed to the unit agreement.

Illustration 2-5 provides a model form for the delegation of authority to operate a non-paying unit well. If a form different from that in Illustration 2-5 is submitted for approval, either the form itself or the authorized officer's approval must clearly reference the responsibilities and obligations retained by the unit operator for operation of this well.

W. Designation of Suboperator.

Except as provided above, all operations on unitized land must be performed by the unit operator, and designations of a suboperator will not be accepted or approved unless it is the only way to (1) allow operations in a unit involving special projects or operating techniques that could be handled more appropriately by a party other than the unit operator; or (2) prevent the premature termination of a unit agreement or the abandonment of marginal production. In such cases, suboperators must file all necessary reports covering all unit operations and production for which they are responsible as designated suboperators.

In extreme cases, the authorized officer may accept certain unit work to be performed and reports filed in behalf of or under the unit operator's name by a nonunit operator. This is considered as work performed by the unit operator, and acceptance of such work or reports does not relieve the unit operator of any obligation or responsibility under the unit agreement.

X. Successor Unit Operator.

Procedures for selecting a successor unit operator are included in Section 6 of the model unit agreement (43 CFR 3186.1) to provide orderly succession if the unit operator resigns or is removed. Generally, this succession is accomplished through the approval of an instrument executed by or on behalf of the unit operator, the successor unit operator, and the owners of committed working interests. That instrument provides for the resignation of the unit operator, acceptance by the successor unit operator of the duties and responsibilities of unit operator, as described in Section 4 of the model form, and approval of the new unit operator by owners of committed working interests in the manner prescribed in the unit agreement (Section 6 of the model form) or unit operating agreement, as appropriate.

The authorized officer may accept a Designation of Successor Operator which has not been formally ratified by working interest owners, provided the successor operator certifies in writing that it has obtained the required working interest owner approvals. The authorized officer's written approval of such a designation (see Illustration 1-8A) shall include and be subject to the following, or similar disclaimer:

"In approving this designation, the Authorized Officer neither warrants nor certifies that the designated party has obtained all required approvals that would entitle it to conduct operations under the Unit Agreement."

Normally, if no successor unit operator is selected and qualified within a reasonable period of time, the authorized officer shall declare the unit agreement terminated. The Successor Operator Instrument in Illustration I-8B may be used for the concurrent resignation of a unit operator and designation of a successor operator.

Y. Bankrupt Unit Operator.

A unit operator who declares bankruptcy may continue to operate the unit if he so desires. The Bureau lacks the authority to unilaterally remove a unit operator simply because they have declared bankruptcy. Section 5 of the model form of unit agreement (43 CFR 3186.1) provides for such removal of a unit operator, for whatever reason, by consent of a majority of the working interest owners.

If a unit operator declares bankruptcy, then the Bureau may accept an

appointed agent to act on behalf of the operator to ensure compliance with all applicable requirements of the unit agreement and regulations. Acceptance of an agent can occur even if the unit operating agreement is rejected as an executory contract. Our acceptance of an agent does not relieve the unit operator of his/her ultimate responsibility for compliance with all the terms and conditions of the unit agreement. Our acceptance of an agent should terminate if a sale of the unit properties is consummated because the purchaser should assume all unit responsibilities. Where unassumed liabilities exist, the BLM may be able to take action against a bankrupt operator's unit bond, since a bond is not considered an asset of the bankrupt debtor's estate.

Z. Subsequent Joinder and Late Joinder.

The commitment of oil and gas interests in lands within the unit area subsequent to final approval of the unit agreement is governed by the appropriate provisions of the agreement (Section 28 of the model form, 43 CFR 3186.1).

Usually, once operations are commenced, the unit agreement allows the commitment of a working interest by the owner who signs joinders to both the unit and unit operating agreements and obtains such approvals of the owners of committed working interests as may be required by the unit operating agreement. Such joinders should be accompanied by a statement from the unit operator that the terms of the unit operating agreement have been satisfied.

A nonworking interest may be committed to a unit agreement by the owner of the interest signing a joinder to the unit agreement and the owner of the corresponding committed working interest approving the commitment of said interest. *Normally, a nonworking interest may not be committed to a unit* agreement unless the corresponding working interest is committed thereto. In order for a working interest to be committed to a unit agreement, it must also be committed to the unit operating agreement.

Illustrations 1-9A and 1-9B are suggested formats for use by the authorized officer in approving subsequent and late joinders to the unit agreement.

AA. Bond Requirements.

The operator of a Federally approved unit must furnish a bond prior to the commencement of any surface disturbing activities on a Federal lease. Such a bond must be conditioned on faithful performance of duties and obligations under the unit agreement and the terms and conditions of all Federal leases subject thereto, and be for an amount that the authorized officer shall determine to be adequate to protect the interests of the United States. *The bond may be posted by one of the following three methods:*

1. The unit operator may post a unit bond to cover operations on Federal leases committed to a specific unit in the language of the sample at 43 CFR 3186.2. The amount of the unit bond must not be less than $25,000. In the event of unit contraction, lands excluded from the unit area should be checked for proper bond coverage.

2. The unit operator may use his own statewide/nationwide bond to cover operations on Federal leases committed to the unit. If his statewide/nationwide bond was filed on a pre-1987 edition of the bond form, the unit operator should attach an operator rider which extends coverage of the bond to all leases he operates, whether or not he owns an interest in the leases. The unit operator in accordance with 43 CFR 3104.4 may submit a unit operator rider covering his operations on that specific unit to the statewide/nationwide bond.

3. The unit operator may be covered on Federal leases committed to the unit under another lessee/sublessee's individual lease/statewide/nationwide bond *provided that, in accordance with regulations at 43 CFR 3104.2, a consent* of surety, or the obligor in the case of a personal bond, to include the operator under the coverage of the (lessee's) bond is furnished to the BLM Office maintaining the bond. If the unit operator utilizes his own individual lease bond, the coverage will only apply to that specific lease and will not cover operations on other committed Federal leases within the unit.

A designated agent (or sub-operator) may conduct operations under his own bond or under the unit operator's bond or under the lessees bond with consent of surety. A statement must be submitted by the unit operator identifying the type of bond coverage to be used to cover operations on the Federal leases committed to the unit, including the BLM Bond Number. A bond is not required for Federal leases receiving allocated production. The authorized officer may, when justified, require an increase of the bond amount in accordance with 43 CFR 3104.5.

AB. *Development or Operation of Nonparticipating Lands.*

Whenever the owner of a working interest in unitized land and the unit operator are unable to reach agreement providing for the drilling of a desired test well, the working interest owner may cause the well to be drilled at its sole risk and expense. If the well is to test a formation for which a participating area has been established, it must be drilled at a location outside the existing participating area. Operations on noncommitted land not subject to the unit agreement are approved on an individual lease basis.

Whenever a party other than the unit operator files an application for a permit to drill a well on unitized land, it may be accompanied by a Designation of Agent from the unit operator. Adequate bond coverage must be provided. Such designation must clearly state, or be approved conditioned upon the requirement that the unit operator will assume the operation of such well if it is determined to be capable of producing unitized substances in paying quantities. If the completed well is capable of producing unitized substances in paying quantities, it must either be turned over to the unit operator for operation or the operator of the well must take over as successor unit operator, since only one operator may be responsible for unit operations. If the well is determined to be nonpaying under the terms of the unit agreement, it will be operated and produced on a lease or spacing unit basis, as appropriate.

AC. Non-Federal Form of Unit Agreement.

If Federal lands proposed for inclusion in a unit comprise less than 10 percent of the unit area, a non-Federal form of unit agreement may be used. Typically, an American Petroleum Institute (API) model agreement is submitted. Procedures for processing and administering non-Federal form unit agreements involving Federal lands should be consistent within the BLM. The authorized officer should take an active role in approving and monitoring such agreements. Unit regulations set forth in 43 CFR 3181-3185 may be applied to non-Federal form agreements, as appropriate. Specifically, the unit proponent should be asked to initiate a preliminary review process that allows for authorized officer concurrence with the proposed unit boundary and with the proposed terms of the unit agreement. Following preliminary review and concurrence by the authorized officer, the unit operator should submit the executed agreement for final approval. These types of agreements normally are approved by a State jurisdictional agency.

If the authorized officer agrees to the commitment of Federal land to the unit agreement, then the authorized officer executes an approval letter and a modified certification-determination page (see Illustration 1-2B.) An agreement number should be assigned and reflected on the modified certification-determination page. The certification-determination page should contain a statement that site security, measurement, reporting of production and operations, and assessments or penalties for noncompliance with such requirements found in 43 CFR Part 3160 are applicable to any well and facility on land considered committed to the unit agreement which affects Federal interests. References to the article provisions in the modified certification-determination page should be checked for conformance with the articles in the unit agreement.

Upon final approval of a unit agreement, all committed Federal leases are subject to the provisions of 43 CFR 3107 concerning Federal leases committed to units and cooperative plans. A Federal lease committed to an approved unit agreement is subject to segregation and any corresponding extensions. A Federal lease committed to an approved unit agreement will not expire by its own terms if the agreement is considered producing.

If the authorized officer deems the non-Federal from of unit agreement to be not in the public interest, then the unit agreement should not be approved. Consequently, the terms and provisions of the agreement would not apply to the Federal lands and such lands would have to be operated and administered on a leasehold basis.

AD. Indian Land.

1. Special Provisions in Unit Agreement.

Many of the basic provisions of the model Federal unit agreement (43 CFR 3186.1) are generally applicable for exploratory unit agreements involving Indian lands; however, various modifications and/or additions may be required by the BIA or the Indian tribe. Appropriate language also must be included in the proposed unit agreement to provide for the preferential hiring of available Indian labor. The following language from a unit agreement involving both allotted and tribal Indian land and private land provides an example, but is not intended to represent a standard format.

Whereas Section. Whereas, the rules and regulations governing the leasing of restricted allotted and tribal Indian lands for oil and gas promulgated by the Secretary of the Interior (25 CFR Part 211 and 212) under and pursuant to the Allotted Land Mineral Leasing Act of March 3, 1909, 35 Stat. 783, 25 U.S.C. 396, and the Tribal Land Mineral Leasing Act of May 11, 1938, 52 Stat. 347, 25 U.S.C. 396a et seq., and the oil and gas leases covering said allotted and tribal Indian lands provide for the commitment of such leases to a cooperative or unit plan of development or operations.

Enabling Act and Regulations. The Indian Tribal and Allotted Leasing Acts, supra, and all valid pertinent regulations, including operating and unit plan regulations, heretofore issued thereunder or valid

pertinent and reasonable regulations hereafter issued thereunder are accepted and made a part of this agreement as to Indian lands, provided such regulations are not inconsistent with the terms of this agreement.

Expansion of Unit Area. The unit area may, therefore, with approval of the Commissioner of the Bureau of Indian Affairs or his duly authorized representative hereinafter referred to as 'Commissioner', be expanded to include therein any additional tract or tracts. (Note: Requires preliminary recommendations by the BLM.)

Indian Employment. The unit operator shall comply with the terms and conditions of the leases on Indian lands with respect to the employment of available Indian labor while engaged in operations hereunder.

The normal responsibilities of the authorized officer with respect to approvals of successor unit operator, plans of development, establishment and revision of participating areas, and other unit activities will be done in accordance with the Memorandum of Understanding between the Bureau of Land Management, Bureau of Indian Affairs, and Minerals Management Service Regarding Working Relationships Affecting Mineral Lease Activities. For units involving only Indian land or Federal and Indian lands, these provisions and other appropriate references to Indian lands may be incorporated in the model Federal form prior to circulation of the agreement for execution. Where both Federal and Indian lands are involved, the authorized officer's approval of such actions should be made after approvals are obtained from the Bureau of Indian Affairs and the Indian owners.

2. Procedures for Unitization of Indian Lands.

In summary, the steps in the unitization of Indian lands are:

a. The authorized officer's review of the proponent's proposal with recommendations furnished to the Bureau of Indian Affairs (may be in the form of a proposed letter designating the area as logically subject to unitization).

b. Preliminary approval of agreement by BIA and/or the Indian tribe. (BIA's concurrence may be indicated in a memorandum or by endorsement of the proposed designation letter.)

c. Designation of the area as logically subject to unitization by the authorized officer. (If no Federal lands are involved, BIA may show approval of the proposal by a letter indicating preliminary approval of the proposal to unitize and approval of the text of the proposed unit agreement.)

d. Approved form of unit agreement is circulated to interest owners for execution.

e. The executed agreement is submitted to the authorized officer for review and forwarding with recommendations to BIA.

f. Final approval by BIA (Indian owners should have approval prior to submission of executed agreement). If Federal lands are also involved, BIA returns the approved agreement to the authorized officer for approval, which should determine the effective date of the agreement.

AE. State Agencies.

The control of specific operations on State and fee lands is the general responsibility of the appropriate State regulatory agency. Some earlier versions of the model form of unit agreement for unproven unit areas incorporate provisions which provide parallel authority to be exercised by State agencies, as appropriate. Generally, any provisions which a State wishes to include in a unit agreement will be acceptable as long as they do not adversely affect Federal/Indian lands or the authorized officer's authority and responsibility. Illustration 8 provides an example of State land provisions that may be found in joint Federal/State agreements.

If a proposed unit includes lands which are subject to existing State spacing orders covering unitized formations, the BLM may recommend to the unit proponent that a request be made to have the spacing order, as it applies to the unit area, rescinded. Some BLM offices have an agreement with the corresponding State agency whereby, whenever the BLM approves a unit agreement, the spacing order is automatically vacated as it applies to the unit area. This generally is the preferable situation. However, it is recognized that in some circumstances it is necessary to retain State spacing within the unit area to provide a means for allocating production (i.e., when the unit area contains prior unit wells that have been communitized or when non-committed tracts within the unit area would be eligible for production allocation under the spacing order). In these cases, spacing should be accepted in the unit area unless the authorized officer determines that such spacing is not in the public interest.

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Bibliography

Ashland Oil, Inc., et al., 7 IBLA 58 (August 9, 1972), which determined

that an oil and gas lease extended only by reason of its inclusion in a producing unit is not within its "primary term."
Martin Yates III, et al., 7 IBLA 261 (September 15, 1972), concerning the effect of unitization on 20-year oil and gas leases.
Amoco Production Company, 10 IBLA 215 (April 3, 1973), concerning royalty computation on unitized leases.
Atlantic Richfield Company, 16 IBLA 329 (August 14, 1974), concerning royalty computation on unitized leases.
Marathon Oil Company, 16 IBLA 298 (August 14, 1974), concerning royalty computation on unitized leases.
Bruce Anderson, 30 IBLA 179 (May 19, 1977), concerning nonjoinder and subsequent joinder to a unit agreement.
Aquarius Resources Corp., 64 IBLA 153 (May 24, 1982), concerning voluntary termination of a unit agreement.
Yates Petroleum Corp., et al., 67 IBLA 246 (September 24, 1982), concerning extension of leases committed to unit agreement by production in paying quantities.
Conoco, Inc., 80 IBLA 161 (April 11, 1984), concerning consolidation of oil and gas leases.
Anadarko Production Co., 92 IBLA 212 (June 16, 1986), concerning oil and gas lease segregation and extension.
Celsius Energy Co. and Southland Royalty Co., 99 IBLA 53 (September 8, 1987), concerning oil and gas lease segregation and extension.

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Champlin Petroleum Company, 100 IBLA 157 (December 3, 1987), concerning the inclusions of lands in a participating area considered necessary for unit operations.
Coors Energy Co., 110 IBLA 250 (September 11, 1989), concerning protection of the Federal royalty interest in unleased Federal lands in units.
Solicitor's Opinion M-36629 concerning constructive production. A unitized lease shall not be subject to automatic termination for failure to pay rental if there is a producing or producible well anywhere in the unit, June 25, 1962.
Solicitor's Opinion M-36776 concerning horizontal lease segregation when less than all formations are unitized, May 7, 1969.
Solicitor's Opinion interpreting the unitization provisions of the Mineral Leasing Act, June 4, 1973.
Unitization Instructions, Northern Rocky Mountain Area (May 1, 1972).

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H-3180-1 - UNITIZATION (EXPLORATORY)
FORM LETTERS AND NOTICES USED IN UNITS ADMINISTRATION

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H-3180-1 - UNITIZATION (EXPLORATORY)
Unit Designation Letter

Gentlemen:
Your application of , filed with the (BLM office name) ,
requests the designation of acres, more or less, in
County, , as logically subject to exploration and development
under unitization provisions of the Mineral Leasing Act, as amended.
Pursuant to unit plan regulations 43 CFR Part 3180, the land requested, as
outlined on your plat marked "Exhibit 'A', "
is hereby designated as a logical unit area.
The unit agreement to be submittedse for the area designated should provide
for a well located in the ____of Section _____ Township _____ Range
_____,_____ County, _____ to test the
Formation or to a depth of feet. Your proposed use of the Form
of Agreement for Unproven Areas at 43 CFR 3186.1, modified only as shown in
your application, will be accepted.
If conditions are such that further modification of said standard form is
deemed necessary, two copies of the proposed modifications with appropriate
justification must be submitted to this office for preliminary approval.
In the absence of any other type of land requiring special provisions or of
any objections not now apparent, a duly executed agreement identical with said
form, modified only as outlined above, will be approved if submitted in
approvable status within a reasonable period of time. However, notice is
hereby given that the right is reserved to deny approval of any executed
agreement submitted that, in our opinion, does not have the full commitment of
sufficient lands to afford effective control of operations in the unit area.
Please include the latest status of all acreage when the executed agreement is

submitted for final approval. The format of the sample exhibits attached to the model unit agreement (43 CFR 3186.1) should be followed closely in the preparation of Exhibits A and B. A minimum of copies of the executed agreement should be submitted with your request for final approval.

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Optional Paragraph

Inasmuch as this unit area contains State of lands, we are sending a copy of this letter to the State (appropriate agency) at , and we hereby request that you contact the State promptly in connection with this letter before soliciting joinders.

Sincerely yours,

(Authorized Officer)

cc: Appropriate District or Resource Area Office
BIA (if appropriate)
State Agency (if appropriate)
Surface Management Agency (if appropriate)

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H-3180-1 - UNITIZATION (EXPLORATORY)
Unit Approval Certification-Determination Page
(Federal Form Agreement)
CERTIFICATION-DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, under the Act approved February 25, 1920, 41 Stat. 437, as amended, 30 U.S.C. sec 181, et seq., and delegated to the Authorized Officer of the Bureau of Land Management, under the authority of 43 CFR 3180, I do hereby:

A. Approve the attached agreement for the development and operation of the _____ Unit Area, State of _____. This approval shall be invalid ab initio if the public interest requirement under □ 3183.4(b) of this title is not met.

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty and royalty requirements of all Federal leases committed to said Agreement are hereby established, altered, changed or revoked to conform with the terms and conditions of this agreement.

Dated: _____, 19___

(Authorized Officer)
Bureau of Land Management

Contract No: _____

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H-3180-1 - UNITIZATION (EXPLORATORY)
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H-3180-1 - UNITIZATION (EXPLORATORY)
Unit Approval Certification-Determination Page
(Non-Federal Form Agreement)
CERTIFICATION-DETERMINATION

Pursuant to the authority vested in the Secretary of the Interior, under the act approved February 25, 1920, as amended (41 Stat. 437, 30 U.S.C. 181, et seq.) and delegated to the Authorized Officer of the Bureau of Land Management by Order of the Secretary of the Interior, I do hereby:

A. Approve the attached agreement for the development and operation of the Unit, County, .

B. Certify and determine that the unit plan of development and operation contemplated in the attached agreement is necessary and advisable in the public interest for the purpose of more properly conserving the natural resources.

C. Certify and determine that the drilling, producing, rental, minimum royalty, and royalty requirements of the Federal lands committed to said agreement are hereby established, altered, changed, or revoked to conform with the terms and conditions of this agreement, except as follows:

1. The provisions of Article 6.3* requiring a party to bear any extra expenditures incurred in the taking in kind or separate disposition of its proportionate share of the production shall be ineffective as to any royalty which may be taken in kind by the Federal Government.
2. The provisions of Article 6.6* relative to the royalty free recovery of Outside Substances shall be rendered ineffective as to Federal lands. In the event an Outside Substance is injected into a Unitized Formation, its recovery on royalty free basis shall be in accordance with such formula as the Authorized Officer may approve or prescribe.
3. The provisions of Article 9.2* shall be ineffective as to Federal lands.
4. Regulations relating to site security, measurement, reporting

of production and operations, and assessments or penalties for noncompliance with such requirements are applicable to all wells and facilities on State or privately-owned mineral lands committed to the unit agreement which affect Federal or Indian interests, notwithstanding any provision of the unit agreement to the contrary.

2-53□Illustration 1-2B, Page 2

H-3180-1 - UNITIZATION (EXPLORATORY)

(Optional) 5. In the event the lands subject to this agreement are re-surveyed, the Federal Government shall have the right to require a redetermination of tract participation percentage for the Federal tracts subject to this agreement.

Approved: Date:

(Authorized Officer)
Bureau of Land Management

Contract No.:

* The actual agreement should be reviewed to ensure the articles are consistenet with the intent.

2-54□ Illustratio

H-3180-1 - UNITIZATION (EXPLORATORY)
Unit Approval Letter

Gentlemen:

The Unit Agreement, County, ,
was approved on , 19 . This agreement has been assigned Number X and is effective as of the date of approval.

The basic information is as follows:

No oil and gas has been discovered in the unit area. The depth of the test well and the area to be unitized were approved by letter dated , 19 .

formation(s) are unitized.

3. The unit embraces acres, more or less, of which acres (. percent) are Federal lands, acres (. percent) are Indian lands, acres (. percent) are State lands, and acres (percent) are patented lands.

The following Federal leases embrace lands within the unit area:

*Indicates committed leases to be considered for segregation pursuant to Section 18(g) of the unit agreement, Public Law 86-705, and 43 CFR 3107.3-2.

All lands and interests are fully committed except Tracts , totaling acres (. percent) which are not committed and Tracts , totaling acres (. percent) which are partially committed. Certain overriding royalty interest owners have not signed the unit agreement. All parties owning interests within the unit were invited to join the unit agreement.

2-55□Illustration 1-2C, Page 2

H-3180-1 - UNITIZATION (EXPLORATORY)

In view of the foregoing commitment status, effective control of operations within the unit area is assured. We are of the opinion that the agreement is necessary and advisable in the public interest and for the purpose of more properly conserving natural resources.

This unit provides for the drilling of an "obligation well" and subsequent drilling obligations pursuant to Section 9 of the unit agreement. The obligation well is considered to be a contractual commitment on the part of the Unit Operator. No extension of time beyond , 19 , will be granted to commence the obligation well other than "unavoidable delay" (Section 25), where justified. Any extension granted for "unavoidable delay" requires convincing written justification and documentation prior to the critical date, and is limited to 30 days with possible renewal for 30-day periods if the delay is extensive, with timely written documentation for each extension.

Pursuant to 43 CFR 3183.4(b) and Section 9 of the unit agreement, if the Public Interest Requirement is not fulfilled, the unit will be declared invalid and no lease committed to this agreement shall receive the benefits of 43 CFR 3107.3-2 and 3107.4.

Approval of this agreement does not warrant or certify that the operator thereof and other holders of operating rights hold legal or equitable title to those rights in the subject leases which are committed hereto.

Copies of the approved agreement are being distributed to the appropriate Federal offices. You are requested to furnish all interested parties with appropriate evidence of this approval.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
bcc: District Manager _____ w/enc
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch w/exhibit B
State Land Board

2-56□ II

H-3180-1 - UNITIZATION (EXPLORATORY)
Non Paying Well Determination Notice

_____ 19___
_____
_____
_____
_____

Re: _____
_____
____

_____
Gentlemen:
Pursuant to your request of _____, it has been determined by this office that under existing conditions the _____ Unit Well No._____,_____ Lease No._____, Unit Tract No._____, located in the ___¬ ___¬, Section ___ Township _____, Range _____, _____ County, _____ is not capable of producing unitized substances in paying quantities as defined in Section 9 of the unit agreement. Production from this well shall be handled and reported on a lease basis.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
bcc: District Manager _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch

2-57□

H-3180-1 - UNITIZATION (EXPLORATORY)
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2-58□ Illustratio

H-3180-1 - UNITIZATION (EXPLORATORY)
Initial Participating Area Approval Letter

_____ 19___
_____
_____
_____
_____

Re: Initial
_____Formation PA "___"

_____ Unit

_____ County, _____

Gentlemen:
The Initial _____ Formation Participating Area, "____"
_____ Unit, _____, is hereby approved effective as of _____, 19___, pursuant to Section 11 of the _____ Unit Agreement, _____ County, _____.
The Initial _____ Formation Participating Area results in an Initial Participating Area of _____.__ acres and is based upon the completion of Unit Well No. _____, located in the ____¬ _____¬, Section _____, Township _____, Range _____, _____, Unit Tract No. _____, Lease No. _____, as being a well capable of producing unitized substances in paying quantities. Enclosed is a schedule showing the lands and their percentage of allocation in the participating area. Copies of the approved request are being distributed to the appropriate agencies and one copy is returned herewith. Please advise all interested parties of the establishment of the _____ Formation Participating Area, _____ Unit, and the effective date.

2-59□Illustration 1-4A, Page 2

H-3180-1 - UNITIZATION (EXPLORATORY)
For production and accounting reporting purposes all submissions pertaining to the _____ participating area should refer to _____

(appropriate participating area identifier).
If the subject well is producing, this approval requires the submission of a Payor Information Form MMS-4025 to the Minerals Management Service (MMS) within 30 days (30 CFR 210.51). Please notify the designated payor or payors as soon as possible regarding this requirement. Any producing royalties that are due must be reported and paid within 90 days of the Bureau of Land Management's approval date or the payors will be assessed interest for late payment under the Federal Oil and Gas Royalty Management Act of 1982 (See 30 CFR 218.54). If you need assistance or clarification, please contact the Minerals Management Service at 1-800-525-9167 or 303-231-3504.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
Enclosure
bcc: District Manager _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch w/exhibit B
2-60□ Illustratio

H-3180-1 - UNITIZATION (EXPLORATORY)
Participating Area Revision Approval Letter

_____ 19____

_____
_____
_____
_____

Re: ___ Revision of
_____ Formation PA "___"

_____ Unit

_____

County, _____
Gentlemen:
The ____ Revision of the _____ Formation Participating Area, "___"
_____ Unit, _____, is hereby approved effective as of
_____, 19___, pursuant to Section 11 of the _____ Unit Agreement, _____ County, _____.
The ____ Revision of the _____ Formation Participating Area, "____"
results in the addition of _____.____ acres to the participating area for a total of _____.___ acres and is based upon the completion of Unit Well No. _____, located in the ____¬ ____¬, Section _____, Township _____, Range _____, Unit Tract No. _____, Lease No. _____, as a well capable of producing unitized substances in paying quantities.
Copies of this approval letter are being distributed to the appropriate Federal agencies and one copy is returned herewith. Please advise all interested parties of the ____ Revision of the _____ Formation Participating Area, "___" _____ Unit and the effective date.
2-61□Illustration 1-4B, Page 2

H-3180-1 - UNITIZATION (EXPLORATORY)
For production and accounting reporting purposes all submissions pertaining to the _____ participating area should refer to _____ (appropriate participating area identifier).
If the subject well is producing, this approval requires the submission of a Payor Information Form MMS-4025 to the Minerals Management Service (MMS) within 30 days (30 CFR 210.51). Please notify the designated payor or payors as soon as possible regarding this requirement. Any producing royalties that are due must be reported and paid within 90 days of the Bureau of Land Management's approval date or the payors will be assessed interest for late payment under the Federal Oil and Gas Royalty Management Act of 1982 (See 30 CFR 218.54). If you need assistance or clarification, please contact the Minerals Management Service at 1-800-525-9167 or 303-231-3504.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
Enclosure
bcc: District Manager _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch w/exhibit B
2-62□ Illustratio

H-3180-1 - UNITIZATION (EXPLORATORY)
Automatic Contraction Concurrence Letter

_____

19_____
_____

_____
_____
_____

Re: Automatic
Contraction

_____ Unit

_____ County, _____
Gentlemen:
Your letter of _____, 19___, describes the lands automatically eliminated effective _____, 19___ from the _____ Unit, _____ County, _____, pursuant to Section 2(e) of the unit agreement and requests our concurrence. The lands you have described contain _____ acres, more or less, and constitute all legal subdivisions, no parts of which are in the _____ Participating Area "___" _____, _____ Participating Area "___" _____, _____ Participating Area "___" _____,and the _____ Participating Area "____" _____. As a result of the automatic elimination, the unit area is reduced from _____ acres to _____ acres.
The following Federal leases are entirely eliminated from the unit area.

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

2-63□Illustration 1-5A, Page 2
H-3180-1 - UNITIZATION (EXPLORATORY)
The following Federal leases are partially eliminated from the unit area.

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The following Federal leases are contained entirely within the unit area.

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

You have complied with the requirements of Section 2(e), provided you promptly notify all interested parties.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
Enclosure
bcc: District Manager _____ w/enc
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch w/exhibit B
State Oil and Gas Regulatory Agency
State Land Board

2-64□ III
H-3180-1 - UNITIZATION (EXPLORATORY)
Request For Lands Automatically Eliminated from Unit

_____

19_____
_____
_____
_____
_____

Re: Automatic
Contraction

_____ Unit

_____ County, _____
Gentlemen:
All legal subdvision of lands (i.e., 40 acres by government survey or its nearest lot or tract equivalent) no part of which is the _____ Participating Area "_____", _____ Unit Agreement, _____ County, _____, were automatically eliminated from the unit area effective _____, 19___, pursuant to Section 2(e) of the unit agreement.

You are requested to timely submit a description of the lands eliminated within 90 days after the effective date of the automatic elimination, as required by Section 2(e). Revised Exhibits "A" and "B" should also be submitted showing the lands remaining in the unit area.

Sincerely,

(Authorized Officer)

Bureau

of Land Management
bcc: District Manager _____
_____ Unit File
Lease Adjudication Section

2-65□
H-3180-1 - UNITIZATION (EXPLORATORY)
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2-66□ Illustratio
H-3180-1 - UNITIZATION (EXPLORATORY)
Preliminary Approval for Unit Expansion Letter

_____ 19_____
_____
_____
_____
_____

Re: Preliminary

Approval of the

Proposed Expansion of the

_____ Unit

_____ County, _____

Gentlemen:

Your application of _____, 19___, requests preliminary approval of the proposed expansion of the _____ Unit Area, _____ County, _____. This expansion will add _____.___ acres to the _____.___ acre unit, resulting in an enlarged unit area of _____.__ acres, more or less.

* The expansion of the unit must provide for an obligation well to test the upper _____ feet of the _____ Formation. The obligation well will be located in the _____ ¬ _____¬ Section _____, Township _____, Range _____, _____, _____ County, _____. The well must commence drilling operations within 6 months after final approval. Said obligation shall be considered the Public Interest Requirement pursuant to 43 CFR 3183.4(b). Should you fail to meet the Public Interest Requirement, this expansion will be invalidated ab initio.

The expansion is regarded as acceptable on the basis of the geologic/reservoir information accompanying your application. We hereby concur in the proposed expansion, provided it is accomplished pursuant to Section 2 of the unit agreement. The effective date of the proposed expansion will be _____, 19___, in accordance with your application, pursuant to Section 2(a).

* Optional paragraph for use when an obligation well will be required.

2-67□Illustration 1-6A, Page 2
H-3180-1 - UNITIZATION (EXPLORATORY)

A minimum of _____ copies of the application for final approval, accompanied by the appropriate joinders and supplements to Exhibits "A" and "B" should be filed with the Authorized Officer. The format of Exhibits "A" and "B" attached with your application is acceptable.

Sincerely,

(Authorized Officer)

Bureau

of Land Management
bcc: District Manager, _____
_____ Unit File
Lease Adjudication Section
State Oil and Gas Regulatory Agency
State Land Board

2-68□ Illustratio
H-3180-1 - UNITIZATION (EXPLORATORY)
Final Approval for Unit Expansion Letter

_____ 19____
_____
_____
_____
_____

Re: Final
Approval

____
Expansion___
_____
Unit County,
_____
___

_____
Gentlemen:
The Unit, County, , was
approved , 19 . Request for final approval for expansion of
the unit was received by letter dated , 19 . All of the
requirements set forth in Section 2 of the unit agreement have been fulfilled.
Said expansion is hereby approved, to be effective as of , 19 .
The basic information is as follows:
The expansion of the unit area was given preliminary approval by Bureau
letter dated , 19 .
As a result of the expansion, the unit area is increased from .
acres to . acres, more or less, of which . acres (.
percent) are Federal lands, . acres (. percent) are State lands,
and . acres (. percent) are patented lands.
The following Federal leases embrace lands within the expanded unit area:

*Indicates committed leases to be considered for segregation pursuant
to Section 18(g) of the unit agreement, Public Law 86-705, and
43 CFR 3107.3-2.

2-69□Illustration 1-6B, Page 2
H-3180-1 - UNITIZATION (EXPLORATORY)
All lands in the expanded area are fully committed except Tracts ,
totaling . acres (. percent) which are not committed and Tracts
, totaling . acres (. percent) which are partially
committed. Certain overriding royalty interest owners have not signed the
unit agreement.
In view of the foregoing commitment status, effective control of operations
within the expanded unit area is assured. We are of the opinion that the
expansion is necessary and advisable in the public interest for the purpose of
more properly conserving natural resources.
* The unit expansion provides for the drilling of one "obligation well"
pursuant to our preliminary approval of _____, 19___. The
obligation well will be located in the _____ of Section ____, T. ____,
R. ____, _____, _____ County, _____ and will be
drilled to a depth of _____ feet or to a depth sufficient to test the
upper _____ feet of the _____ Formation. Failure to commence
drilling the obligation well within the expanded area, if required, within 6
months of the approval date will result in this expansion being invalidated ab
initio. No extension of time will be granted to commence the obligation
well other than that justified as "unavoidable delay" under Section 25 of
the unit agreement.
Approval of this expansion does not warrant or certify that the operator
thereof and other holders of operating rights hold legal or equitable title to
those rights in the subject leases which are committed hereto.
Copies of the approved expansion are being distributed to the appropriate
Federal offices. You are requested to furnish all interested parties with
appropriate evidence of this approval.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
bcc: District Manager, _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch w/exhibit B
State Oil and Gas Regulatory Agency
State Land Board
* Optional paragraph for use when an obligation well is required.

2-70□ III
H-3180-1 - UNITIZATION (EXPLORATORY)
Automatic Unit Termination Notice
for Cessation of Production

_____ 19____
_____
_____
_____

_____

Re: _____
Unit_____
County,
_____

_____
Gentlemen:
The _____ Unit, No. _____X, _____ County, _____, automatically terminated effective _____, 19___, in accordance with Section 20(c) of the unit agreement.
The termination is based on the plugging of Well No. _____ located in the ___¬ ___¬, Section ___, Township _____, Range _____, on _____, 19____, as the last well within a participating area capable of producing unitized substances in quantities sufficient to pay for the cost of producing same from said well.
Please advise all interested parties of this unit termination and its effective date.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
bcc: District Manager _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch
State Oil and Gas Regulatory Agency
State Land Board

2-71□
H-3180-1 - UNITIZATION (EXPLORATORY)
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2-72□ III
H-3180-1 - UNITIZATION (EXPLORATORY)
Automatic Unit Termination Notice for
Failure to Meet Drilling Requirements

_____ 19____
_____
_____
_____
_____

Re: Automatic
Termination
_____
Unit_____
County,
_____

Gentlemen:
The _____ Unit, No. _____X, _____ County, _____, automatically terminated effective _____, 19____, pursuant to the last paragraph of Section 9 of the unit agreement.
Copies of this letter are being distributed to the appropriate Federal agencies. It is requested that you furnish notice of this termination to each working interest owner, lessee and lessor.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
bcc: District Manager, _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch
State Oil and Gas Regulatory Agency
State Land Board

2-73□
H-3180-1 - UNITIZATION (EXPLORATORY)
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2-74□ III
H-3180-1 - UNITIZATION (EXPLORATORY)
Voluntary Unit Termination Approval Letter

_____ 19_____
_____
_____
_____
_____

Re: Voluntary

Termination

_____ Unit

_____ County, _____
Gentlemen:
Your request for voluntary termination of the _____ Unit Agreement, _____ County, _____, is hereby approved, effective _____, 19___, pursuant to the last paragraph of Section 20 thereof. You have fulfilled the Public Interest Requirement as defined in 43 CFR 3183.4(b).
Copies of this letter are being distributed to the appropriate Federal agencies. It is requested that you furnish notice of this termination to each interested owner, lessee, and lessor.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
bcc: District Manager, _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch
State Oil and Gas Regulatory Agency
State Land Board

2-75□
H-3180-1 - UNITIZATION (EXPLORATORY)
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2-76□ III
H-3180-1 - UNITIZATION (EXPLORATORY)
Successor Operator Approval Letter

_____ 19_____
_____
_____
_____
_____

Re: _____
Unit
_____
County,
_____

Gentlemen:
On , 19 , we received an indenture dated , 19 , whereby resigned as Unit Operator and was designated as Successor Unit Operator for the Unit, County, . The indenture was executed by both parties and the signatory parties (working interest owners) have complied with Sections 5 and 6 of the unit agreement.
The instrument is hereby approved effective _____ 19___. In approving this designation, the Authorized Officer neither warrants nor certifies that the designated party has obtained all required approvals that would entitle it to conduct operations under the Unit Agreement.
Your oil and gas bond, No. (BLM Bond No.)
will be used to cover unit operations.
It is requested that you notify all interested parties of the change in unit operator. Copies of the approved instruments are being distributed to the appropriate Federal offices, with one copy returned herewith.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
bcc: District Manager _____
_____ Unit File
Lease Adjudication Section
State Oil and Gas Regulatory Agency
State Land Board

2-77□
H-3180-1 - UNITIZATION (EXPLORATORY)
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2-78□ Illustratio
H-3180-1 - UNITIZATION (EXPLORATORY)
Successor Operator Request Letter and Instrument

_____ 19_____
_____
_____
_____

_____
_____

Re: _____
_____
_____

_____
Gentlemen:
A designation of a successor operator for the _____ Unit Agreement, _____ County, _____, authorizing _____ to operate the unitized area has not been filed with this office.
A successor operator is designated by the owners of the working interests, in accordance with Section ____ of the unit agreement. If the change of operator is not filed with and approved by this office, you are operating the _____ Unit Area without authority.
The procedure for processing and approving successor operator designations under unit agreements has been amended to provide an optional method for obtaining approval of successor operators which should expedite the approval process. Bureau of Land Management (BLM) offices now have a self-certification procedure for unit agreements. A party proposing to become the successor operator may submit a statement certifying that the required working interest owner approvals have been obtained. The party to be *designated successor operator must still execute a Designation of Successor* Unit Operator, but the document does not necessarily need to be signed by the working interest owners. Upon verification that adequate bonding has been obtained, the Authorized Officer (AO) may accept and approve in writing the designation of successor operator.
For consistency in processing requests for successor operator, a standardized statement certifying that working interest owner approvals have been obtained can be used to facilitate processing the requests for approvals of designations of successor unit operator. The certification statement submitted to BLM offices requesting approval of the successor operator should contain the following language:

2-79□Illustration 1-8B, Page 2

H-3180-1 - UNITIZATION (EXPLORATORY)

(Name of the proposed successor unit operator), as the designated successor operator under the _____ Unit Agreement, hereby certifies that the requisite approvals of the current working interest owners in the agreement have been obtained to satisfy the requirements for selection of a successor operator as set forth under the terms and provisions of the agreement.

Please be advised that you may adopt the self-certification procedure to complete the change in operator for the above Unit Agreement, or you may submit the working interest owner signatures and a revised Exhibit "B" showing the current ownership under the Unit Agreement. A copy of the latest Exhibit "B" on file with this office is available at your request.
Please complete the enclosed forms for effecting a change in operator for the _____ Unit Agreement and submit them, in triplicate, to this office within 60 days from receipt of this letter.
Should you have any questions, please contact _____ at _____.

Sincerely,

(Authorized Officer)

Bureau

of Land Management
Enclosures
bcc: District Manager _____
_____ Unit File

2-80□ Illustratio

H-3180-1 - UNITIZATION (EXPLORATORY)
Successor Operator Instrument
RESIGNATION OF UNIT OPERATOR
Unit Area
County of
State of
Unit Agreement No.

Under and pursuant to the provisions of Section 5 of the Unit Agreement for the Development and Operation of the Unit Area, County, , , the designated Unit Operator under said Unit Agreement, does hereby resign as Unit Operator, effective upon the selection and approval of a successor Unit Operator.

EXECUTED with effect as aforesaid the day of , 19 .

ATTEST:

DESIGNATION OF
SUCCESSOR UNIT OPERATOR
Unit Area

County of
State of
Unit Agreement No.

THIS INDENTURE, dated as of the day of , 19____, by and between , hereinafter designated as "First Party," and the owners of unitized working interests, hereinafter designated as "Second Parties,"

2-81□Illustration 1-8B, Page 4

H-3180-1 - UNITIZATION (EXPLORATORY)

W I T N E S S E T H :

WHEREAS, under the provisions of the Act of February 25, 1920, 41 Stat. 437, 30 U.S.C. Secs. 181, et seq., as amended by the Act of August 8, 1946, 60 Stat. 950, the Secretary of the Interior, on the day of , 19 , approved a Unit Agreement for the Unit Area; and

WHEREAS (current operator) has resigned as such Operator and the designation of a successor Unit Operator is now required pursuant to the terms thereon; and

WHEREAS the First Party has been and hereby is designated by Second Parties as Unit Operator, and said First Party desires to assume all the rights, duties and obligations of Unit Operator under the said Unit Agreement:

NOW, THEREFORE, in consideration of the premises hereinbefore set forth and the promises hereinafter stated, the First Party hereby covenants and agrees to fulfill the duties and assume the obligations of Unit Operator under and pursuant to all the terms of the Unit Agreement, and the Second Parties covenant and agree that, effective upon approval of this indenture by the Authorized Officer, Bureau of Land Management, First Party shall be granted the exclusive right and privilege of exercising any and all rights and privileges as Unit Operator, pursuant to the terms and conditions of said Unit Agreement; said Unit Agreement being hereby incorporated herein by reference and made a part hereof as fully and effectively as though said Unit Agreement were expressly set forth in this instrument.

IN WITNESS WHEREOF, the parties hereto have executed this instrument as of the date hereinabove set forth.

FIRST PARTY (Successor Unit Operator)

BY

SECOND PARTIES (Working Interests)

BY

Execution Date:

BY

Execution Date:

2-82□ Illustratio

H-3180-1 - UNITIZATION (EXPLORATORY)

CORPORATE ACKNOWLEDGEMENT

STATE OF)
) SS.
COUNTY OF)

The foregoing instrument was acknowledged before me this day of , 19 , by , President, and by , Secretary of , a corporation.

WITNESS my hand and official seal.

My Commission Expires:

Notary Public

Place of Residence:

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF)
) SS.
COUNTY OF)

On the day of , 19 , personally appeared before me , the signer(s) of the above instrument,

who duly acknowledge to me that he (she or they) executed the same.
WITNESS my hand and official seal.
My Commission Expires:

Notary

Public
Place of Residence:

2-83□
H-3180-1 - UNITIZATION (EXPLORATORY)
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2-84□ III
H-3180-1 - UNITIZATION (EXPLORATORY)
Subsequent Joinder Approval Letter

_____ 19_____
_____
_____
_____
_____

Re: Subsequent
Joinder Tract #

_____ Unit _____ County, _____
Gentlemen:
Your letter dated , 19 , transmitted a ratification and joinder to the Unit and Unit Operating Agreements, County, . The document was executed by , as the working interest owner in Tract No. , Federal Lease No. .
Pursuant to Section 28 of the unit agreement, this joinder is approved as of , 19 . (Tract No. is now considered fully committed and Federal Lease No. is now eligible for segregation pursuant to Section 18(g) of the unit agreement, Public Law 86-705, and 43 CFR 3107.3-2).
It is requested that you notify all interested parties of the joinder approval. This office will make distribution to the appropriate Federal offices.

Sincerely,

(Authorized Officer)

Bureau

of Land Management
bcc: District Manager _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch w/exhibit B
State Oil and Gas Regulatory Agency
State Land Board

2-85□
H-3180-1 - UNITIZATION (EXPLORATORY)
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2-86□ III
H-3180-1 - UNITIZATION (EXPLORATORY)
Late Joinder Approval Letter

_____ 19_____
_____
_____
_____
_____

Re: Late Joinder

Tract # _____

Gentlemen:
Your letter dated , 19 , transmitted a ratification and joinder to the Unit and Unit Operating Agreements, County, . The document was executed by , as the working interest owner in Tract No. , Federal Lease No. . No working interest owner consent is required for this joinder due to the fact that unit operations have not commenced.
Pursuant to Section 28 of the unit agreement, this joinder is approved as of , 19 . (Tract No. is now considered fully committed and Federal Lease No. is now eligible for segregation pursuant to Section 18(g) of the unit agreement, Public Law 86-705, and 43 CFR 3107.3-2).
It is requested that you notify all interested parties of the joinder approval. This office will make distribution to the appropriate Federal offices.

Sincerely,

(Authorized Officer)
Bureau
of Land Management
bcc: District Manager _____
_____ Unit File
Lease Adjudication Section
MMS-RMP Reference Data Branch w/exhibit B
State Oil and Gas Regulatory Agency
State Land Board

2-87□
H-3180-1 - UNITIZATION (EXPLORATORY)
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2-88□ Illustra
H-3180-1 UNITIZATION (EXPLORATORY)
GUIDELINES AND SUGGESTED FORMATS FOR OPERATOR SUBMISSIONS

2-89□Illustration 2, Page 2
H-3180-1 UNITIZATION (EXPLORATORY)

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2-90□ Illustra
H-3180-1 UNITIZATION (EXPLORATORY)
LETTER TO THE APPLICANT PROVIDING INFORMATION ON
PREPARING APPLICATION FOR UNIT AGREEMENT

Gentlemen:

The attachments to this letter have been prepared as an aid to those responsible for preparing and handling requests for the Bureau of Land Management's (BLM) approval of actions relating to unit agreements. If the suggestions contained in the attachments are followed carefully, our personnel will be able to process requests with a minimum of delay, and the time and effort of your personnel will be employed more effectively.

All requests relating to unit agreements should be submitted to the appropriate BLM office having jurisdiction over the area in question. Preliminary discussions with the appropriate BLM office personnel during the preparation of an application are very helpful. Such discussions are especially desirable in connection with requests for approval of proposed forms of unit agreement and designation of areas as logically *subject to unitization and requests defining or redefining areas* reasonably proven productive of unitized substances in paying quantities.

Since some filing systems bind on the left and others bind on the top, special effort should be made to ensure that there is an adequate margin along the left side and at the top of all material prepared for submittal to the BLM.

Please ensure that all personnel who are responsible for the preparation and handling of actions relating to unit agreements are aware of the contents of the attachments to this letter.

Sincerely yours,
(Authorized Officer)
Bureau of Land Management

Attachments:
1 - Guidelines for Requesting Approval of a Proposed Form of Unit Agreement
2 - Guidelines for Requesting Designation of an Area as Logically Subject to Unitization
3 - Guidelines for Requesting Approval of the Executed Unit Agreement
4 - Guidelines for Expanding or Contracting the Unit Area
5 - Participating Areas
6 - Format for a Designation of Agent
7 - Format for the Delegation of Authority to Operate a Non-Paying Unit Well

2-91□Illustration 2, Page 4
H-3180-1 UNITIZATION (EXPLORATORY)
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2-92□ Illustra
H-3180-1 UNITIZATION (EXPLORATORY)
GUIDELINES FOR REQUESTING APPROVAL OF A
PROPOSED FORM OF UNIT AGREEMENT

(This request is normally combined with the application requesting designation of an area as logically subject to unitization.)

Use of the model form of unit agreement approved by the BLM is encouraged. Whenever circumstances justify or require the use of special provisions, their inclusion in the agreement must have prior approval by the BLM authorized officer. Whenever conditions require major deviations from the forms approved by the BLM, three copies of the proposed form, including Exhibits A and B, should be submitted for the authorized officer's approval.

Every deviation from the model form of agreement should be plainly marked on the proposed form of agreement and explained in the material submitted in support of the request for approval of the form of unit agreement.

Attachment 1
2-93□Illustration 2, Page 6

H-3180-1 UNITIZATION (EXPLORATORY)
GUIDELINES FOR REQUESTING DESIGNATION OF AN AREA
AS LOGICALLY SUBJECT TO UNITIZATION

(Submit in duplicate.)
Application should be addressed to the appropriate BLM authorized officer and should consist of an application letter accompanied by a supporting geologic report and land ownership map.

The application letter should:

1. Identify the area proposed for unitization.
2. Cite the deepest formation to be tested and the depth to which the initial test well must be drilled to test that formation.
3. List the serial numbers of all Federal leases, lease offers, Indian leases, and lease expiration dates. This list must be in proper sequence and may be included as part of the land ownership map.
4. State if geological and geophysical data and discussions are to be kept confidential. If this information is to be kept confidential, each page must be clearly marked as CONFIDENTIAL INFORMATION.

The geologic report should include:

1. A map drawn on the public land base showing the proposed unit boundary, with detailed structural and stratigraphic conditions pertinent to the proposed unit area. The map also should show the status, depth, and lowest formation penetrated by each well drilled in the unit area and the immediate vicinity.
2. Appropriate cross sections and stratigraphic columns, identifying prospectively productive formations and indicating expected depths.
3. Pertinent geophysical interpretations.
4. Discussion of the specific geologic basis used in delineating the boundary of the proposed unit area, such as closing contour, fault, or pinch-out.

Attachment 2, Page 1
2-94□ Illustra

H-3180-1 UNITIZATION (EXPLORATORY)

The land ownership map should:

1. Show the area proposed for unitization on a legible plat based on the official public land survey. (Include the official number of each lot, tract, and section, the acreage in each, and the total acreage in the proposed unit area.)
2. Show the boundaries of each lease and each unleased tract of land, and the working interest owners and lease numbers of Federal and Indian leases. Unless otherwise specifically approved, the same numbers will be used on Exhibit "B" of the unit agreement.
3. Distinguish between the different types of land, such as Federal, Indian, State, or fee lands by distinctive coloring or symbols. Different types of Federally supervised lands, such as Forest Service, Fish and Wildlife Service, and Indian allotted or tribal lands should also be identified in a similar manner.

Attachment 2, Page 2
2-95□Illustration 2, Page 8

H-3180-1 UNITIZATION (EXPLORATORY)
GUIDELINES FOR REQUESTING APPROVAL OF
THE EXECUTED UNIT AGREEMENT

(Submit minimum of ____ duplicate originals.)
Generally, when more than four duplicate originals are required, the authorized officer's letter designating an area as logically subject to unitization will specify the number of executed agreements to be filed with the request for final approval. The executed agreements submitted with the request for final approval should include an original of the agreement and all joinders, consents, and exhibits. The proponent is responsible for meeting non-Federal requirements for copies of the agreement.
During the preparation of an executed agreement for final approval, review the following requirements.

1. Executed agreement.
   a. The executed agreement must be identical to that approved in the designation letter. The unit area, objective formation, and drilling depths cited in the agreement must conform with those prescribed in the designation letter.
   b. Exhibit B should list the lands in the unit area in the following order: Federal, Indian, State, and fee.
      (1) Tracts. Each separately owned lease, portion of a lease, or unleased tract of land should be given a tract number. This tract number should be determined by the order of

its listing in Exhibit B and should appear in its appropriate place on Exhibit A.

(2) Federal leases should be listed in numerical order by issuing land office.

(3) Indian leases should be listed in numerical order.

(4) The total acreage of each type of land and its percentage of the total unit area should be included in Exhibit B.

Attachment 3, Page 1

2-96□ Illustra

H-3180-1 UNITIZATION (EXPLORATORY)

2. Number of duplicate originals of the unit agreement to be filed.
   a. For Federal leases, all of which are under the jurisdiction of the BLM, complete duplicate originals are required.
   b. For Federal leases involving other surface management agencies (SMA's), those in 2a plus the quantities needed for the other SMA's.
   c. For Federal and Indian leases with no other SMA's involved, add two to requirements under 2a.
3. Joinder and nonjoinder.
   a. Invite every owner of an interest to join the unit agreement.
   b. Submit evidence of reasonable effort to obtain joinder from all owners who fail or refuse to sign the unit and unit operating agreement. (Include copy of each refusal letter giving reasons for nonjoinder.)
4. Signatures and executions.
   a. Signatures should be witnessed or acknowledged before a notary.

   b. Execution by a corporate official should show title and carry proper attestation and the corporate seal.
   c. Agreements submitted for final approval may include a list of the overriding royalty interest owners who have executed ratification of the unit agreement in lieu of duplicate originals of said joinders.
5. Tract Committment Status (optional)

A summary showing the committment status of teh tracts withinb thge unit boundary (see attached)

Attachment 3, Page 2

2-97□Illustration 2, Page 10

H-3180-1 UNITIZATION (EXPLORATORY)

GUIDELINES FOR EXPANDING OR CONTRACTING THE UNIT AREA

It is necessary to secure the preliminary concurrence of the authorized officer for a change in a unit boundary before notices reflecting the proposed change are sent to the interested parties. Most agreements include provisions that set forth the procedures to be followed in changing the unit boundaries. An application for final approval of an expansion or contraction of a unit area should not be submitted until all pertinent provisions of the unit agreement have been satisfied.

The procedures recommended in connection with expansion or contraction of unit areas are outlined below.

1. Preliminary approval (submit request in quadruplicate). (This action is comparable to designation of an area as logically subject to unitization.)
   The request for preliminary approval of the proposed action (contraction or expansion) may be in letter form. It must contain sufficient information and supporting data to justify the proposed action. The supporting engineering and geologic data may be submitted as a separate report. Any data considered proprietary should be clearly marked on each page as CONFIDENTIAL INFORMATION.
2. Notice to interested parties (submit four copies to authorized officer).
   Notices of the proposed change in the unit area should be sent to all parties whose interest will be affected only after the authorized officer gives preliminary concurrence in the proposal. Extreme care should be taken to see that each principal is notified of the proposal. The date of proper notice establishes the start of the 30-day period allowed for the submission of objections to the unit operator. The effective date for the proposed expansion or contraction should be specified in the notice. (The first day of a month subsequent to the dispatching of the notice is suggested as a desirable effective date.) The notice should include a small plat that clearly shows the current unit area and the area to be added and/or eliminated.

Attachment 4, Page 1

2-98□ Illustrat

H-3180-1 UNITIZATION (EXPLORATORY)

3. Request for final approval (submit in quadruplicate).
   The request for final approval may be submitted after the required

30-day waiting period has expired. The application should summarize the procedures followed and show that all requirements prescribed in the unit agreement have been fulfilled. If the application requests approval for expansion of the unit area, joinders to the unit agreement and, when appropriate, to the unit operating agreement must accompany the request. Joinders must be submitted by the owners of interests within the area being added, even though the interest owner is already a party to the unit agreement. Copies of any objections to the proposed expansion and/or contraction should be submitted with the request for final approval, along with the operator's reply and/or discussion of the relative merits of the objections received.

4. Revised Exhibits A and B.
Revised Exhibits A and B must be submitted concurrently with a request for approval of an expansion of the unit area and should be submitted concurrently with or immediately following approval of a request for contraction of the unit area. Revised exhibits prepared in connection with an expansion or contraction should retain the tract numbers contained in the original exhibits. Lands being added to the unit area should be assigned tract numbers that follow the original tract numbers in proper sequence.

Attachment 4, Page 2
2-99□Illustration 2, Page 12

H-3180-1 UNITIZATION (EXPLORATORY)
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2-100□ Illustrat

H-3180-1 UNITIZATION (EXPLORATORY)
PARTICIPATING AREAS

Participating areas (PA's) are established and revised in accordance with the applicable provisions of the controlling unit agreement.
The application for approval of the initial PA or for the revision of an existing PA must be accompanied by a request for determination of production of unitized substances in paying quantities (see Section 9 of the model form of unit agreement, 43 CFR 3186.1) for the well or wells being used to justify the PA, or its revision, unless these determinations have already been made. Applications for establishment or revision of a PA should be accompanied by comprehensive engineering and geologic information which justifies the proposed definition or redefinition of the lands reasonably proven to be productive of unitized substances in paying quantities. These reports should indicate which wells are shut in and which wells are producing. Current and cumulative production figures should also be cited. Comments on expectations relative to the development of a market should be included when wells are shut in for lack of a market.
Noncommitted lands within the unit area reasonably proven productive in paying quantities should be included within the area defined as constituting the initial or revised participating area for the formation in question. Such noncommitted lands should be shown on the schedule of participation as receiving no allocation. Normally, the percentage of participation attributable to each committed tract within a participating area shall be computed to four decimals.
Preliminary discussions with the BLM authorized officer should prove helpful to those responsible for preparation of participating area applications. The model applications that are attached hereto have been prepared for use as guides in the preparation of requests for the authorized officer's approval of the establishment or revision of participating areas.

Attachment 5, Page 1
2-101□Illustration 2, Page 14

H-3180-1 UNITIZATION (EXPLORATORY)
FORMAT FOR INITIAL PARTICIPATING AREA APPLICATION

In Re: Unit Area Application for
County, . approval of initial
participating area
for the
Formation.

(Authorized Officer)
Bureau of Land Management

, as unit operator for the
Unit Agreement, pursuant to provisions of Section thereof, respectfully submits for your approval the selection of the following described lands to constitute the initial participating area for the
producing zone or formation, to wit: (Description of initial participating area by township, range, section, and subdivisions, with exact total acreage.)

In support of this application, the following numbered items are attached and made a part hereof:

(1) A paying well determination showing that the well upon which the participating area is based is capable of producing unitized substances in paying quantities.
(2) An ownership map (Exhibit "A") showing thereon the boundaries of the unit area and the proposed initial participating area.
(3) A schedule showing the lands entitled to participation in the

unitized substances produced from the Formation, with the percentage of participation of each lease or tract indicated thereon. (The schedule may be patterned after Exhibit "B" of the unit agreement with appropriate adjustments.)

Applicant is submitting separately in triplicate a geological and engineering report with accompanying geologic maps supporting and justifying the proposed selection of lands for inclusion in the initial Formation participating area.

Attachment 5, Page 2
2-102□ Illustrat

H-3180-1 UNITIZATION (EXPLORATORY)

This proposed initial participating area is predicated upon the knowledge and information first obtained upon the completion in paying quantities under the terms of the unit agreement on , 19 , of Unit Well No. , in the 1/4 1/4, Sec. ,T. ,R. , with an initial production of from the Formation at a depth of to feet (if several wells, recite or tabulate in detail). The effective date of this initial participating area shall be , 19 , pursuant to Section of the unit agreement.

Applicant respectfully requests your approval of the above selection of lands to constitute the initial Formation participating area, effective as of , 19 .

Dated this .

(Signature, with typed name and title)

Attachment 5, Page 3
2-103□Illustration 2, Page 16

H-3180-1 UNITIZATION (EXPLORATORY)

Attachment 5, Page 4
2-104□ Illustrat

H-3180-1 UNITIZATION (EXPLORATORY)

Attachment 5, Page 5
2-105□

Exhibit "B"
Initial _____ Formation
Participating Area
_____ Unit Agreement
_____ County, _____

Tract No.	Lease No. or type of land	Description	Participating acres	Percent of participation	Working interest owner
1	B-038470	Sec. 14: SW SW Sec. 15: S« SE Sec. 23: W« NW	200.00	55.5556	Frost Oil Co.
2	Patented	Sec. 22: NE	160.00	44.4444	W. W. Smith
	Total Federal lands		*200.00*	55.5556	
	Total patented lands		160.00	44.4444	
	Total		360.00	100.0000	

□Illustration 2, Page 18

H-3180-1 UNITIZATION (EXPLORATORY)

FORMAT FOR APPLICATION FOR REVISION OF A PARTICIPATING AREA

In Re: Unit Area
County, .

Application for approval of the revision of the participating area for the Formation.

(Authorized Officer)
Bureau of Land Management

, as unit operator for the Unit Agreement, approved by the Bureau of Land Management, effective , pursuant to the provisions of Section thereof, respectfully submits for your approval the selection of the following described land to constitute the revision of the participating area for the producing zone or formation, to wit: (Give only the accurate description and the exact number of acres being added to or being subtracted from the participating area as established or revised.)

In support of this application, the following numbered items are attached and made a part hereof:

(1) A paying well determination showing that the well upon which the participating area is based is capable of producing unitized substances in paying quantities.

(2) An ownership map (Exhibit "A") showing thereon the boundary of the unit area, the participating area as established or revised, and the boundary of the proposed revision requested herein.

(3) A schedule (Exhibit "B") showing the lands entitled to participation in the unitized substances produced from the Formation, with the percentage of participation of each lease or tract indicated thereon.

Attachment 5, Page 6

2-106□ Illustrat

H-3180-1 UNITIZATION (EXPLORATORY)

Applicant is submitting separately in triplicate a geological and engineering report with accompanying maps supporting and justifying the proposed selection of lands for inclusion in the revision of the Formation participating area.

This proposed revision of the participating area is predicated upon the knowledge and information first obtained upon completion in paying quantities under the terms of the unit agreement on , 19 , of Unit Well No. , in the 1/4 1/4, Sec. ,T. , R. , with an initial production of from the Formation at a depth of to feet (if several wells, recite or tabulate in detail). The effective date of this revision shall be , 19 , pursuant to Section of the unit agreement.

Applicant requests your approval of the above selection of lands to constitute the revision of the Formation participating area effective as of , 19 .

Dated .

(Signature, with typed name and title)

Attachment 5, Page 7

2-107□Illustration 2, Page 20

H-3180-1 UNITIZATION (EXPLORATORY)

Attachment 5, Page 8

2-108□ Illustrat

H-3180-1 UNITIZATION (EXPLORATORY)

Attachment 5, Page 9

2-109□

Exhibit "B"

Revision _____ Formation Participating Area

_____ Unit Agreement

_____ County, _____

Tract No.	Lease No. or type of land	Description	Participating acres	Percent of participation	Working interest owner
1	B-038470	Sec. 14: SW SW Sec. 15: S« S« Sec. 23: W« NW	280.00	38.8889	Frost Oil Co.
3	W-041345	Sec. 21: E« NE	80.00	11.1111	Frost Oil Co.
7	State	Sec. 16: SE SE	40.00	5.5556	Deer Oil Co.
9	Patented	Sec. 22: N«	320.00	44.4444	W. W. Smith
	Total Federal lands		360.00	50.0000	
	Total State land		40.00	5.5556	
	Total patented lands		320.00	44.4444	
	Total		720.00	100.0000	

□Illustration 2, Page 22

H-3180-1 UNITIZATION (EXPLORATORY)

FORMAT FOR A DESIGNATION OF AGENT

(Submit in triplicate)

The undersigned is, on the records of the Bureau of Land Management, Unit Operator under the Unit Agreement, County, , No. , approved and effective on and hereby designates:

Name:

Address:

as its agent, with full authority to act on its behalf in complying with the terms of the unit agreement and regulations applicable thereto and on whom the Authorized Officer or his representative may serve written or oral instructions in securing compliance with the Oil and Gas Operating Regulations with respect to drilling, testing, and completing Unit Well No. in the 1/4 1/4, Sec. , T. , R. , County, . Bond coverage will be provided under (Statewide, Nationwide, Lessee) Bond No. .

It is understood that this Designation of Agent does not relieve the Unit Operator of responsibility for compliance with the terms of the unit agreement and the oil and gas operating regulations. It is also understood that this Designation of Agent does not constitute an assignment of any interest under the unit agreement or any lease committed thereto.

In case of default on the part of the designated agent, the Unit Operator will make full and prompt compliance with all regulations, lease terms, or orders of the Secretary of the Interior or his duly authorized representative.

The Unit Operator agrees promptly to notify the Authorized Officer of any change in the designated agent.

This Designation of Agent is deemed to be temporary and in no manner a permanent arrangement, and a designated agent may not designate another party as agent.

Attachment 6, Page 1
2-110□ Illustrat

H-3180-1 - UNITIZATION (EXPLORATORY)

This designation is given only to enable the agent herein designated to drill the above specified well. It is understood that this Designation of Agent is limited to the field operations performed while drilling and completing the specified well and does not include administrative actions requiring specific authorization of the Unit Operator. This designation in no way will serve as authorization for the agent to conduct field operations for the specified well after it has been completed for production. Unless sooner terminated, this designation shall terminate when there is filed in the appropriate office of the Bureau of Land Management all reports and a Well Completion Report and Log (Form 3160-4) as required by the approved Application for Permit to Drill for the specified well.

In the event the above specified well is completed as a non-paying unit well, the authority for the designated agent to operate this well shall be established by completion of the Delegation of Authority to Operate Non-paying Unit Well form and submittal of the form to the appropriate office of the Authorized Officer.

Date Unit Operator

By:

Date Authorized Officer

Attachment 6, Page 2
2-111□Illustration 2, Page 24

H-3180-1 - UNITIZATION (EXPLORATORY)
FORMAT FOR THE DELEGATION OF AUTHORITY
TO OPERATE A NON-PAYING UNIT WELL
(Submit in triplicate)

The undersigned delegates authority to:
Name:
Address:

to produce and maintain the following described well which has been determined to be a non-paying unit well within the Unit.
Well No. Lease No.
Location: 1/4 1/4, Sec. , T. , R. ,
County, .
Bond coverage will be provided under (Nationwide, Statewide, Lessee) Bond No. . The undersigned will promptly notify the appropriate Bureau of Land Management office of any change in this delegation of authority. This delegation does not relieve the Unit Operator of unit obligations and related reporting responsibilities as they apply to the unit well or for compliance with all applicable laws and regulations for operations conducted on the well so long as the lands upon which the well is located shall remain subject to the unit agreement.

Operator - Non-paying Unit Well Unit Operator
By: By:
Authorized Signature Authorized Signature

Title Date Title Date

Approved By:
Authorized Officer

Title Date

Attachment 7
2-112□

H-3180-1 - UNITIZATION (EXPLORATORY)
Numbering System For Approved Unit Agreements

The official Bureau of Land Management number for exploratory and secondary recovery unit agreements approved prior to January 1, 1988, will be considered to be the Automated Financial System (AFS) number assigned by the Minerals Management Service (MMS) with an "X" suffix (i.e., 891003502X). All initial and consolidated participating areas approved for a unit agreement approved prior to January 1, 1988, will be assigned a unique AFS number which is the base AFS number with an alpha suffix that sequentially follows the already assigned alpha suffixes for existing participating areas. This applies to all participating areas in units approved prior to January 1, 1988, regardless of when the participating area is approved. New numbers are not assigned to revisions of participating areas.

For exploratory and secondary recovery unit agreements approved after January 1, 1988, a Case Recordation System (CRS) number with an "X" suffix (i.e., COC12345X) will be assigned to all agreements. The same CRS number with a corresponding A, B, C, D, etc., suffix will be used to identify each initial or consolidated participating area in a unit area. The first participating area established for the unit will always be assigned the same CRS number for the unit agreement but instead of an "X" suffix an "A" suffix (i.e., COC12345A) will be used. All subsequent participating areas would have a number composed of the core CRS number for the unit agreement with an

appropriate alpha suffix assigned by effective date in alphabetical order (i.e., COC12345B, COC12345C, etc.). Again, revised participating areas do not receive a new alpha suffix.

The old 14-digit contract numbering system will not be used for agreements approved after January 1, 1988. This 14-digit contract number is only considered a cross-reference number for agreements approved prior to that date.

Since initial and consolidated participating areas have a unique number, it needs to be assigned when the participating area is approved and so stated in the approval letter to the operator.

2-113□

H-3180-1 - UNITIZATION (EXPLORATORY)

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2-114□ Illustra

H-3180-1 - UNITIZATION (EXPLORATORY)

Compensatory Royalty Provision in Unit Agreement for Unleased Federal Lands

The following text which revises Section 12, reassigns the existing text of Section 17 as paragraph 17(a), and adds a new paragraph (b) to Section 17 of the model form of unit agreement found at 43 CFR 3186.1, should be used in all future Federally-approved exploratory unit agreements.

12. ALLOCATION OF PRODUCTION. All unitized substances produced from a participating area established under this agreement, except any part thereof used in conformity with good operating practices within the unitized area for drilling, operating, and other production or development purposes, or for repressuring or recycling in accordance with a plan of development and operations which has been approved by the AO, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of unitized land and unleased Federal land, if any, included in the participating area established for such production. Each such tract shall have allocated to it such percentage of said production as the number of acres of such tract included in said participating area bears to the total acres of unitized land and unleased Federal land, if any, included in said participating area. Each working interest owner of a tract of unitized land in said participating area shall have allocated to it, in addition, such percentage of the production attributable to the unleased Federal land within the participating area as the number of acres of such unitized tract included in said participating area bears to the total acres of unitized land in said participating area, for the payment of the compensatory royalty specified in Section 17 of this agreement. Allocation of production hereunder for purposes other than for settlement of the royalty, overriding royalty, or payment out of production obligations of the respective working interest owners including compensatory royalty obligations under Section 17, shall be prescribed as set forth in the unit operating agreement or as otherwise mutually agreed to by the affected parties. It is hereby agreed that production of unitized substances from a participating area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular part or tract of the participating area. If any gas produced from one participating area is used for repressuring or recycling purposes in another participating area, the first gas withdrawn from the latter participating area for sale during the life of this agreement, shall be considered to be the gas so transferred, until an amount equal to that transferred shall be so produced for sale

2-115□Illustration 4, Page 2

H-3180-1 - UNITIZATION (EXPLORATORY)

and such gas shall be allocated to the participating area from which initially produced as such area was defined at the time that such transferred gas was finally produced and sold.

* * * * *

17. DRAINAGE.

(a) * * * * *

(b) Whenever a participating area designated under Section 9 of this agreement contains unleased Federal lands, the value of 12 1/2 percent of the production that would be allocated to such Federal lands under Section 12 of this agreement, if such lands were leased, committed and entitled to participation, shall be payable as compensatory royalties to the Federal Government. Working interest owners party to this agreement and within the applicable participating area shall be responsible for such compensatory royalty payment on the volume of production reallocated from the unleased Federal lands to their unitized tracts under Section 12. The value of such production subject to the payment of said royalties shall be determined pursuant to 30 CFR Part 206. Payment of compensatory royalties on the production reallocated from unleased Federal land to committed Federal tracts within the participating area shall fulfill the Federal royalty

obligation for such production and said production shall be subject to no further Federal royalty assessment under Section 14. Payment of compensatory royalties as provided herein shall accrue from the date the committed tracts in the participating area which includes unleased Federal lands receive a production allocation, and shall be due and payable monthly by the last day of the calendar month next following the calendar month of actual production. If leased Federal lands receiving a production allocation from the participating area become unleased, compensatory royalties shall accrue from the date the Federal lands become unleased. Payment due under this provision shall end when the unleased Federal tract is leased or when production of unitized substances ceases within the participating area and the participating area is terminated, whichever occurs first

2-116□ Illustra

H-3180-1 - UNITIZATION (EXPLORATORY)

Communitization Agreements in Units

In situations involving an overlapping communitization agreement (CA) and participating area (PA), the following procedures should be invoked:

(1) CA entirely within the PA; all CA lands committed to the unit agreement. Under these conditions, the CA is considered to be silent as far as production allocation is concerned. Because the CA serves no purpose from an allocation standpoint, an attempt should be made to have the CA terminated effective as of the effective date of the PA. For reporting purposes, if the CA is not terminated, the CA well should be reported under the PA, with one hundred percent of the CA well's production reported under and attributed to the PA. The letter approving the PA engulfing the CA should state that 100 percent of the royalties due from the CA well's production is to be applied to and paid for under the PA. A courtesy copy of this letter should be sent to the CA operator.

(2) CA entirely or partially overlapped by a PA; some overlapped land not committed to the unit agreement. Under this scenario, all of the CA well's production is to be reported under the CA. The location of the CA well makes no difference. The approval letter for the overlapping PA should state what percentage of the royalties due from the CA well's production is to be applied to and paid for under the PA (i.e., the number of acres of CA lands within the PA that are considered committed to the unit agreement, divided by the total acres of the CA), and also what percentage of each CA tract considered committed to the unit is also contained in the PA. A courtesy copy of this letter should be sent to the CA operator.

(3) CA partially overlapped by PA; all overlapped lands committed to the unit agreement. The guidelines described in (2) would also apply in this situation.

MMS has agreed to internally account for the payment of proper royalties for leases subject to overlapping agreements pursuant to these procedures. These procedures are applicable if the overlapping CA/PA cover the same formation; otherwise, there is no potential conflict. The following examples reflect the situations described above.

2-117□Illustration 5, Page 2

H-3180-1 - UNITIZATION (EXPLORATORY)

Case 1: CA ENTIRELY WITHIN PA; ALL CA LANDS COMMITTED TO UA

CA boundary

In this scenario, where the entire CA is contained within the PA and all lands in the CA are committed to the unit, the CA could probably have been terminated by mutual consent. However, the CA was not terminated. In either case, the CA well is essentially considered a unit well and 100 percent of its production would be allocated to the participating area. Lease Nos. 1 and 2 each get 20 percent of the gross production for the participating area.

Recording Data in AIRS

AIRS will contain an inspection item identifier for the participating area. The participating area will contain a well record for each well, including the CA well. The "Lease-CA-Number" data field should show the lease number for the well bottomhole location. The remarks section for the CA well should reflect the CA numbers and the allocated amount according to the participating area schedule.

Do not set up records for the CA or leases in AIRS.

2-118□ Illustra

H-3180-1 - UNITIZATION (EXPLORATORY)

Case 2: CA WITHIN PA; SOME OVERLAPPED LANDS UNCOMMITTED TO UA

CA boundary

In this scenario, the CA could never be terminated even though it is entirely included in a PA. It contains lease No. 2, which is not committed to the UA.

Without the CA or joinder to the UA, lease No. 2 could never be protected from drainage due to the constraints of State spacing. Lease No. 2 is totally within the PA's boundary. It receives 25 percent allocation from the CA and nothing from the PA. Lease No. 1 is committed to the unit and within the PA boundary. It receives 75 percent allocation from the CA which is attributed to the PA. Subsequently, lease No. 1 receives 20 percent of the production from the PA.

Recording Data in AIRS:

The CA will be recorded in AIRS as an inspection item. The CA well record will cross-reference the PA identifier in the well remarks data field. The CA's Lease-CA-Number element should show the lease for the well bottomhole location included in the CA with their allocated amount.

AIRS will contain an inspection item for the participating area if there are Federal wells. However, the CA well will not be recorded under the participating area. Cross-reference to the CA may be placed in the participating area's inspection record remarks section.

AIRS will not contain a separate inspection item for the leases in the CA.

2-119□Illustration 5, Page 4

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Case 3: CA PARTIALLY WITHIN PA; ALL OVERLAPPED LANDS COMMITTED TO UA CA boundary

In this scenario, the participating area was effective March 1958. A communitization agreement was formed June 1974 and comprised lease 1 and lease 2. The CA well is located outside unit boundaries. Lease 1 is committed to the unit and 50 percent of this lease is contained inside the PA. Lease 2 is totally outside the unit. Lease 1 comprises 33 percent of the CA and lease 2 comprises 67 percent of the CA. Therefore, 16.5 percent of the CA well's production is attributed to lease 1 with the remaining 16.5 percent of the 33 percent allocation for lease 1 being attributed to the participating area. From this participating area lease 1 will receive an allocation from the gross production attributed to the participating area. The allocation of production attributed to the participation area will be the same if the CA well is located inside the unit boundaries.

Recording Data in AIRS:

The CA will be recorded in AIRS as an inspection item. The CA well record will cross-reference the PA identifier in the well remarks data field with their allocated amount. The CA Lease-CA-Number element should show the leases included in the CA.

No well record for the CA well is to be carried under the inspection item identifier for the PA. Cross-reference to the CA may be placed in the inspection record remarks section.

AIRS will not contain an inspection item for the leases in the CA.

2-120□ Illustra

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AIRS/MRO Reporting Format for Unit Wells

AIRS Elements	Spud	UNIT WELL STATUS Completed (Pending Determination)	Paying Well Determination	Non-paying Well Determination.
1. Inspection Item Identifier (ID)□A. Lease No.□□	X**□□		X***□B. Unit Agreement (UA) No.□ X*□□X+PA suffix (replacing "X" suffix)□□2. Lease Name□A. Lease No.□□	X**□□
X□B. Unit Name□	X□□		X□□C. Participating Area (PA)/ Unit Name□ □ X□□□3. Operator□A. Lessee/ Designated Operator□□□□ X****□B. Unit Operator (UO) or Suboperator□ X□ X□ X□□4. General Remarks/ Well Records□A. Unit Inspection ID□ "Drilling"□Completion Date "Pending Determination"□ Lease No.□□B. Lease Inspection ID□□□□Unit Name "Non-paying	

Unit Well"
and possibly
UO

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X = Is what entry is to occur on AIRS under a specific inspection identifier.

* = If UA approved prior to 1/1/88, then the number is the Automated Financial System No. If UA approved on or after 1/1/88, then the number is the Case Recordation System No. which includes an "X" suffix. An inspection record for the UA must be created when the first unit well is spudded. All wells being drilled in the unit would be carried under this inspection item ID. However, in the formation covered by the PA, then this well should be carried under the number for the PA. If there is no drilling activity or there are no completed wells which have a pending paying well determination *on non-participating area lands for an existing UA, then no inspection* record under the UA number with an X suffix should be created.

** = The exception to reporting unit wells which have a pending paying/nonpaying well determination under the unit number would be when a paying well determination for a Federal well completed for production outside an existing participating area will be delayed for a significant period of time due to extended production testing requirements or due to a unit suspension. If the authorized officer approves/orders such a delay for a Federal well, then this well is to be recorded in AIRS under the lease inspection item identifier until the determination is made. The remarks section of the well record should reflect when the well was completed, unit *name, pending determination delayed, and reason for delay (i.e., comp.* 9/15/87, McElmo Dome, Pend. Det. Delay, Production Test Req.).

*** = If a fee/State well is determined to be a non-paying unit well and is not covered by a PA, then its well record should be removed from AIRS. In some cases, a unit well, be it Federal or non-Federal, may be a non-paying well, but is situated on land considered part of a PA established for the same formation from which the well can produce. These unique wells should be carried under the PA number since all of the wells' production would be attributed to the gross production for the PA.

**** = In many cases, someone other than the unit operator is allowed to operate a nonpaying unit well. Whoever is accepted as operator of the well should be responsible for reporting.

Whenever a non-paying unit well is automatically eliminated from the unit area, the UO and the unit name can be removed from the remarks section of the well record which is carried under the lease number for the inspection item ID.

For a contracted unit area, only those wells drilled in the unit area having an objective formation not covered by the corresponding PA will be reported under the UA number with an X suffix.

This reporting format is referenced in the AIRS User Handbook, which instructs field offices on how to enter unit wells into AIRS. This structuring of AIRS will be compatible with the way the Monthly Report of Operations is to be submitted to MMS by the Unit Operator.

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Guidelines for the Unit Activity Report

UNIT ACTIVITY REPORT

The Unit Activity Report should be used for the following unit wells.

Any well drilled to extend the date of automatic elimination of lands as provided in subsection 2(e), 43 CFR 3186.1. The completion date of any well drilled under this section is very important. The period of time allowed between wells commences after the well is completed and, if another well is not timely started, the automatic elimination is effective the first day thereafter, as provided in the model unit agreement (43 CFR 3186.1). If a later well is completed prior to a well that was started earlier, the completion date of the latter well would govern. These wells should be put on the report when spudded and carried every month, showing the status until the well is completed.

Any well drilled under Section 9 (43 CFR 3186.1). These wells are usually required every 6 months and keep the unit in effect for its fixed term until a well capable of producing unitized substances in paying quantities is completed. As provided in the model unit agreement (43 CFR 3186.1), failure to commence a well timely will result in automatic termination of the unit agreement. These wells should be put on the report when the well is spudded and carried until completed.

Any well completed or recompleted that may result in the revision of an existing participating area or establishment of an initial participating area. It should be noted in the "Paying Well" column of the form whether you consider the well capable of producing unitized substances in paying quantities. This should be noted with a "yes", "no", or "questionable". You need not make a detailed study on this point. These wells need to be listed on the report for the month in which they are commenced and the month they are completed.

Any well plugged and abandoned that is the last producing well in a participating area. These wells need to be listed on the report only

for the month in which they are plugged and abandoned. The model unit agreement (43 CFR 3186.1) provides that a participating area will automatically terminate upon the abandonment of the last producing well. Prior to June 10, 1983, the model unit agreement did not provide for such participating area termination and, under those earlier agreements, such a nonproducing participating area will continue for the life of the unit agreement.

2-123□Illustration 7, Page 2
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2-124□
_____, 19__ UNIT ACTIVITY REPORT _____ DISTRICT

UNIT FORMATION WELL NO. 1/4 1/4 SEC. T. & R. SPUD DATE COMPLETION DATE INITIAL (I.P., completion depth, and formation)

Illustration 8, Page 1
H-3180-1 - UNITIZATION (EXPLORATORY)
Sample Text for State Land Provisions in the Unit Agreement
WYOMING STATE LAND PROVISIONS

35. STATE LAND PROVISIONS. Certain of the unitized land is public land of the State of Wyoming, and in connection with the approval of this agreement by the Board of Land Commissioners of said State pursuant to Title 36, Section 36-74, Wyoming Statutes, 1957, it is agreed that there shall be filed with the Commissioner of Public Lands of said State:

(a) Two copies of the complete unit agreement and two copies of any revised Exhibits "A" and "B" concurrently with the filing thereof with the AO, pursuant to Section 2 hereof.

(b) Two copies of any notice of the proposed expansion or contraction of the unit area required to be delivered to the AO pursuant to Section 2(b) hereof.

(c) Two copies of any unit operating agreement executed pursuant to Section 7 hereof.

(d) Two copies of any schedule of proposed participating area submitted for approval under Section 11, concurrently with its submission to the AO. The Commissioner or his authorized representative shall have a period of fifteen days from receipt of said schedule within which to file with the AO any objection thereto, together with any recommendation for revision thereof. If such objection or recommendation is not concurred in by Unit Operator and the AO prior to submission of the schedule to the AO for final approval, the AO shall approve or disapprove the schedule after giving due consideration to the objections and recommendations filed by the Commissioner or his representative.

(e) Two copies of any proposed plan of development or modification thereof, which if filed with the AO under Section 10 hereof.

(f) Two copies of all instruments of subsequent joinder executed under Section 28 hereof.

It is further agreed that:

(1) All valid, pertinent and reasonable regulations hereafter issued governing drilling and producing operations on non-Federal lands which are not inconsistent with the terms hereof or with the laws of the State of Wyoming are hereby accepted and made a part of this agreement.

1-125□Illustration 8, Page 2
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WYOMING STATE LAND PROVISIONS

(2) Nothing in this agreement contained shall relieve lessees of the public lands of the State of Wyoming from their obligations to pay rentals and royalties with respect to unitized substances allocated to such lands thereunder, at the rate specified in their respective leases.

(3) In the event that a title dispute arises as to State lands or leases, no payment of funds due the State of Wyoming shall be withheld, but such funds shall be deposited as directed by the Commissioner of Public Lands to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Each party to this agreement, holding any lease or leases of public lands from the State of Wyoming subject to this agreement, or holding any interest in or under such lease or leases or in the production from the lands covered thereby, agrees that said Board of Land Commissioners may, and by its approval thereof, does hereby alter, change, modify or revoke the drilling, producing and royalty requirements of such lease or leases, and the regulations in respect thereto, to conform the provisions of said lease or leases to the provisions of this agreement. Such parties and said Board further agree that, except as otherwise expressly provided in this agreement, no such lease shall be deemed to terminate or expire so long as it shall remain committed hereto. Notwithstanding anything to the contrary in Section 18 hereof contained, should any of the public lands of the State of Wyoming outside of a participating area established hereunder cease to be committed to this agreement, such lands shall thereafter be free from the effect of this agreement unless and until such lands are expressly recommitted to this

agreement pursuant to Section 28 hereof, with the approval of the Board of Land Commissioners.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

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