



UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

MANUAL TRANSMITTAL SHEET

Release
3-215

Date
7/7/88

Subject

3160-9 - COMMUNITIZATION

1. Explanation of Material Transmitted: This release updates R28-CDM 645.3 (formerly USGS Conservation Division Manual 645.3, maintained in the BLM directives system via Instruction Memorandum #85-681) and converts it to the BLM Manual System for the Oil and Gas Operations Program.
2. Reports Required: None.
3. Material Superseded: None.
4. Filing Instructions: File as directed below.

REMOVE:

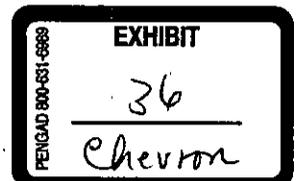
None

INSERT:

All of 3160-9

(Total: 24 Sheets)

Assistant Director,
Energy and Mineral Resources



Chevron 36

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.1 Communitization Involving Federal Lands. The following guidelines and procedures apply to communitization of Federal leases or a Federal lease communitized with State or fee leases.

.11 Guidelines.

A. Justification for Communitization. Communitization is authorized when a Federal lease cannot be independently developed in conformity with an established spacing pattern. The following circumstances will constitute sufficient justification for communitization.

1. Conforming to an Acceptable State Spacing Pattern. Communitization is required in order to form a drilling unit that conforms to an acceptable nonoptional spacing pattern established by State order. As a general guideline, communitization will not be authorized when a single Federal lease or unleased Federal acreage can be fully developed and still conform to an optional (North-South or East-West spacing) pattern established by State order. If the Federal tract cannot be independently developed and there are a number of spacing options, the authorized officer should require the one that is in the best interest of the Federal Government, i.e., the one that provides the largest Federal participation.

2. Providing More Efficient Reservoir Management. Adequate engineering and/or geological data is presented to indicate that communitizing two or more leases or unleased Federal acreage will result in more efficient reservoir management of an area. For example, justification for approval of communitization exists when sufficient control is available to generally define productive reservoir limits and communitization is necessary to confine a spacing unit within the defined reservoir limits.

3. Spacing Comprising Both Unit and Nonunit Lands. Communitization is required when the logical spacing for a well includes both unit and nonunit land, i.e., is located outside the unit boundary or is not committed to the unit agreement.

4. Conforming to Development Pattern. Where, in the absence of State field or area spacing or statewide rules, the area has been developed by the actual drilling of at least three wells on a fixed pattern in reasonable proximity, with the closest well not more than 2 miles away from the proposed well location, a written statement of intentions to develop the leases in the area on this pattern should usually be required from the operator.

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F. Effects of State Orders. Generally, the operator should be required to submit a communitization agreement signed by all necessary parties for the authorized officer's approval, even if the area has been force-pooled by State order. Non-Federal royalty interest owners must either sign the agreement, be force-pooled by a State order, or be signers of a lease that already contains a force-pooling provision. However, a communitization agreement signed by the operator and complete in all respects, except for signatures of all working interest and royalty owners, may be accepted and approved by the authorized officer when a State order force-pooling such interests in the lands in question is also submitted. Should the authorized officer determine that an existing or proposed State spacing or pooling order is not in the public interest, the State Commission should be notified, and if the order is not modified satisfactorily, the authorized officer will furnish the State Director with a complete report. If the State Director concurs with the recommendation of the authorized officer, but the problem cannot be resolved with the State Commission to the BLM's satisfaction, the State Commission and all interested parties must be advised that no Federal lands will be made subject to the order. Similar action must be taken when evidence shows that an existing order is no longer appropriate.

G. Authority to Approve Communitization Agreements. The authority to approve a communitization agreement (CA) involving jurisdictional lands is vested in the authorized officer. The well location and dedication plat attached to an application for permit to drill (APD) should indicate the acreage that the operator proposes to dedicate to that well. Where the acreage proposed to be dedicated to the well is embraced by two or more tracts of diverse ownership, experience has shown that some operators interpret the approval of the APD as a commitment by the Bureau to approve a communitization agreement for that acreage. Guidelines in this regard are as follows.

1. Required State Spacing. When the applicable State spacing order explicitly defines the areal extent and orientation of spacing units, i.e., no optional directions for spacing are authorized, and the acreage proposed for dedication conforms therewith for a well drilled at the proposed location, the authorized officer, in approving the APD, should advise the operator that a CA will be required for the acreage shown on the well location and dedication plat if the well is productive.

2. Optional State Spacing. When the applicable State spacing order provides for optional spacing units (e.g., for 320-acre spacing, the N1/2, or S1/2, or E1/2 or W1/2 of a section), and

a. The acreage proposed to be dedicated conforms therewith and the drillsite lease cannot be independently developed by selecting another of the optional spacing units, the authorized officer, in approving the APD, should notify the operator that a CA will be required for the dedicated acreage if the well is productive; or

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b. The acreage proposed to be dedicated conforms therewith but the drillsite lease could be independently developed by dedicating another of the optional spacing units. The authorized officer, in approving the APD, should notify the operator of the Bureau's objection to the proposed dedicated acreage and advise as to the acreage dedication that will be required.

3. Absence of State Spacing. When no applicable State spacing exists, the authorized officer, in approving the APD, should notify the operator that once the target formation in the area has been spaced, the appropriate acreage to be dedicated to the well will be determined and that a CA may be required at that time if the well is productive.

H. Communitization of Unleased Tracts. Generally, communitization agreements for areas that contain unleased Federal lands may be approved if (1) There is at least one leased tract (Federal, State, Indian, or fee) containing a producible well within the area to be communitized; and (2) there will be a long delay (over 6 months) in leasing the Federal land.

1. Establishment of Escrow Account. The second paragraph of section 5 of the model form of agreement requires the operator to establish an escrow account for any unleased tract in the communitized area. At the time of leasing, a disclosure of the dollar amount in escrow shall be submitted to the authorized officer. The amount in escrow is to be included, for information purposes, in the notice of sale.

2. Competitive Leasing of the Federal Tracts. The unleased Federal lands should be offered for competitive leasing as soon as possible. The lease sale notice for such Federal land will be subject to a stipulation that the successful bidder must negotiate a subsequent joinder to the communitization agreement so that proceeds may be distributed.

3. Compensatory Agreement. A compensatory agreement for small tracts of unleased lands may also be negotiated pursuant to 43 CFR 3100.2-1 (see also Manual Sections 3100 and 3160-2) in lieu of leasing such tracts.

I. Report of Production from Communitized Areas. The operator will submit a separate Lessee's Monthly Report of Operations (Forms 3160-6 and 3160-7) for the communitized area.

J. Bond Requirements. A bond for a Federal lease will be required only if operations are actually being conducted on that lease. See Manual Section 3104 for details.