Examples of Drainage Stipulations for Unleased Federal

Minerals Subject to Drainage

DRAINAGE STIPULATION

All or part of the lands contained in this lease are subject to drainage by well(s) located adjacent to this lease. The lessee shall be required within 6 months of lease issuance to submit to the authorized officer plans for protecting the lease from drainage. Compensatory royalty will be assessed effective the expiration of this 6-month period if no plan is submitted. The plan must include either an Application for Permit to Drill (APD), a protective well, or an application to communitize the lease so that it is allocated production from a protective well off the lease. Either of these options may include obtaining a variance to State spacing for the area. In lieu of this plan, the lessee shall be required to demonstrate that a protective well would have little or no chance of encountering oil and gas in quantities sufficient to pay in excess the costs of drilling and operating the well. In the absence of either an acceptable plan for protecting the lease from drainage or an acceptable justification why a protective well would be uneconomical, the lessee shall be obligated to pay compensatory royalty to the Minerals Management Service at a rate to be determine by the authorized officer.

Examples of Drainage Stipulations for Unleased Federal

Minerals Subject to Drainage

DRAINAGE STIPULATION

All or part of the lands contained in this tract (lease) may be subject to drainage in the __(Name)__ formation(s) by well(s) _(Well number(s)_ located adjacent to this tract (lease) in section(s) __________________, T. ____, R. ____, _______ M., _____________ County, State of _______________.

The lessee shall, within 6 months of lease issuance, submit for approval by the authorized officer plans for protecting the lease from drainage. If no plan(s) is submitted, compensatory royalty will be assessed effective the first day following the expiration of this 6-month period and shall continue until a protective well has been drilled and placed in continued production status or until the offending well(s) ceases production, whichever occurs first.

The plan must include either an Application for Permit to Drill (APD) for the necessary protective well(s) or inclusion to an agreement for the affected portion(s) of the lease. Any agreement devised shall provide for an appropriate share of the production from the offending well(s) to be allocated to the lease. In lieu of this, the lessee must submit engineering, geologic, and economic data to demonstrate to the authorized officer's satisfaction that no drainage has or is occurring and/or that a protective well would have little or no chance of encountering oil or gas in quantities sufficient to yield a reasonable rate of return in excess of the costs of drilling, completing, and operating the well.

In the absence of either an acceptable plan for protecting the lease from drainage by drilling or by entering into an agreement or an acceptable justification as to why drainage is not occurring or that a protective well would be uneconomical, the lessee shall be obligated to pay compensatory royalty based on the drainage factor(s) determined by the authorized officer.