

Attachment 4

Guidance for Determining Future Beneficial Use

The Bureau of Land Management (BLM) will consider a well to have future beneficial use if the operator will be able to use the well to generate royalties in lease paying quantities or will support the operator's efforts to generate royalties from other wells on the lease. To facilitate the Field Office's (FO) understanding of situations with future beneficial use, a few scenarios involving wells with future beneficial use are listed below:

- An operator drills a gas well and determines the capability of the well to produce in lease paying quantities; however, the operator shuts in the well and plans to return the well to production after it constructs a pipeline;
- An operator shuts in a water disposal well as it waits on the completion of other wells on lease before it returns to operation;
- An injection well that is currently shut-in due to the pattern of injection in a secondary recovery unit; and
- The operator temporarily abandons a well and plans to evaluate the well for recompletion in another zone, for water disposal, or for an enhanced recovery project. Additional requirements for temporarily abandoning a well include a detailed plan on the future use of the well, the operator's isolation of the perforations, and the well's passage of a mechanical integrity test.

This list does not include all examples of rationale for future beneficial use. The authorized officer may approve continued nonoperational status for other rationale as long as it will result in a future benefit to the lease. To facilitate the FO's understanding of situations without future beneficial use, a few scenarios regarding wells without future beneficial use are listed below:

- A shut-in or temporarily abandoned well that cannot produce in lease paying quantities and the operator has not provided any plans for using the well as a future producing well or as a water disposal well or water supply well for operations on lease;
- An operator shuts in a gas well for over seven years while waiting on the construction of a pipeline; however, the operator has not drilled any additional wells on lease and is still waiting for the construction of a pipeline; and
- Any well that cannot pass a mechanical integrity test.

If the operator claims that a well is still capable of production in lease paying quantities, then the FO petroleum engineer should verify the economic assumptions and calculations to ensure that the well is still capable of production in paying quantities. If the operator has not completed a well production test in the last few years, then the BLM, at the authorized officer's discretion, should verify the production and order the operator to complete a new well test.

The following is an example of an economic analysis that the FO petroleum engineer may use to document the determination of lease paying production.

EXAMPLE ECONOMIC EVALUATION
Operating Cost Analysis

Example Federal #2

Example Company, LLC
Example Lease #
Example Unit #

The Example Company, LLC completed a well test on the Example Federal #2 well on July 22, 2019. The operator completed the well in the Niobrara formation. The test results had a rate of 15 bopd, 50 bwpd and 500 mcfg/d. The oil has a gravity of 45.5° API and the gas has a BTU of 1,107. The operator has not built a pipeline to the well; therefore, the operator flares all gas produced by the Example Federal #2 well.

The following valuation incorporates the production rates and operating costs provided by Example Company, LLC based upon BLM's request for information.

Revenue:

15 bbl oil/d @ \$60/bbl	=	\$900/day revenue, gross
500mcf/d @ \$0.50/mcf (flared)	=	\$250/day revenue, gross
Royalty reduction @ 12.5%	=	- \$112.50/day
Taxes @ 6%	=	- <u>\$54/day</u>
Daily revenue x 30.4 days/month	=	\$983.5/day revenue, net
Monthly Revenue	=	\$29,898/month revenue, net

Operating costs:

Overhead	=	\$3000/month
Water Disposal (includes transportation)		
50 bbl/d @ \$8/bbl x 30.4 d/month	=	\$12,160/month
Monthly Operating Costs	=	\$15,160/month operating expenses

The Example Federal 2 well is capable of producing hydrocarbons in paying quantities on a lease basis

Based on BLM's verification of the well's production, the operator correctly identified that this well is capable of production in lease paying quantities.