

BLM Colorado Oil and Gas Unitization Process

Step	Process
Designation	In order for an oil and gas operator to form a federal Oil and Gas Unit, the operator must submit an application that describes the area proposed for unitization and the geologic basis for the proposed unit. This process is usually accompanied by an area and depth meeting between the BLM and the operator during which the operator presents the information within the designation application and submits information on the unit obligation well. The BLM will review the technical data provided and either approve or deny the unit designation as logical for development.
Approval	After the operator receives BLM's designation of the proposed unit area, the operator must then receive consent from at least 85 percent, on an acreage basis, of the working interests and basic royalty owners. After receiving the requisite consents, the operator must submit a final unit application to the BLM. The BLM will ensure that the requisite joinders (or consents) were received and approve the application upon a determination that the agreement is necessary or advisable in the public interest and is for the purpose of more properly conserving natural resources.
Drilling or Invalidation	Upon final approval, the operator has 6 months to drill the unit obligation well; otherwise, the unit will be declared Invalid ab initio. However, under extenuating circumstances, this deadline can be extended per section 9 or 25 of the model form of the unit agreement. The BLM would consider granting an extension when an action by the BLM or other surface management agency taken in the interest of conservation prohibit the unit operator from beneficially using the unit area or events beyond the control of the operator prevent operations within the unit area.
Yates Decision	After drilling and completing the initial unit obligation well, the operator works with the field office to have the field office evaluate the well's initial production to determine if the well is capable of production on a lease basis (pay out its operating costs). If the well is capable of production on a lease basis, then all of the committed federal leases are prevented from expiring. This is based on an IBLA case in 1982, 67 IBLA 246.
Pay Well Determination	After drilling the well, the operator must submit a paying well determination to the BLM. The BLM evaluates the well's production to determine if the well is producing in unit paying quantities (the well is capable of paying out its drilling, completion, and operating costs in a reasonable timeframe). If the well is not capable of production in unit paying quantities, then the operator must drill another well within 6 months. If the operator does not continue to drill until a unit paying well is drilled, then the unit will terminate.
Participating Area	When the BLM determines a well is capable of unit paying production, then the operator and BLM will work together to establish a participating area for the well. This is the area that is reasonably proven productive by a well that produces in unit paying quantities. This area shares in the costs of the well and the financial benefits of the production.
Exploration Stage (5 years)	After formation of a participating area, the unit operator has 5 years from the effective date of the participating area without any drilling obligations. Operators usually drill additional wells and evaluate the production at this time.
Development Stage (5 to 7 years)	On the fifth year anniversary of the initial participating area, the unit enters the developmental stage. The unit operator must be drilling a well within the unit area every 90 days; otherwise, the unit will contract to the existing participating areas. However, under extenuating circumstances, this drilling requirement can be delayed per section 25 of the model form of the unit agreement. The BLM would consider granting a suspension per section 25 when the operator experiences unavoidable delays outside of the its control. After 5 years, the operator can request a 2 year extension. As long as the continuous drilling requirements are met, this request is granted.
Unit Contraction	Upon cessation of drilling or at the tenth year or twelfth year anniversary of the initial participating area, the unit will contract to the existing participating area(s). All leases entirely eliminated by contraction will be eligible for a 2-year extension pursuant to 43 CFR 3107.4.

BLM Colorado Oil and Gas Unitization Process

Step	Process
Unit Termination	Upon cessation of production from the unit area, the unit will terminate. At this time, all federal leases within the unit area will be eligible for a 2-year extension pursuant to 43 CFR 3107.4.