

UNITED STATES DEPARTMENT OF THE INTERIOR
Bureau of Land Management
Colorado State Office
Lakewood, Colorado 80215-7093

February 26, 1999

In Reply Refer To:
3100/3160 (CO-934) P

EMS Transmission 02/26/99
Instruction Memorandum No. CO-99-018
Expires: 9/30/00

To: Field Office Managers

From: Deputy State Director, Resource Services

Subject: Implementation of WO-IM-99-054, Relief to the Petroleum Industry Due to Low Oil Prices

Distribution: Field Office Fluid Minerals Staff

Issue: The subject Instruction Memorandum (IM) was issued to provide relief in the form of a lease Suspension of Operations and Production (SOOP) to the petroleum industry at a time of low oil price. Normal issuance of a SOOP involves certain procedures that must be modified to provide the relief desired.

Objective: This IM will provide Field Offices the necessary procedure to process a low oil price stripper well royalty reduction SOOP under the guidelines presented in WO-IM-99-054, Relief to the Petroleum Industry Due to Low Oil Prices (see attached).

Background and Policy: The Bureau of Land Management (BLM), Washington office, has dispensed this instruction to Field Offices for the issuance of a requested SOOP on leases containing an approved stripper well royalty reduction property as defined under 43 CFR 3103.4-2. The SOOP requirements contained under 43 CFR 3103.4-4 and 43 CFR 3165.1 must be modified to implement WO-IM-99-054. The necessary procedures to accomplish these modifications are explained below:

- Consideration of an SOOP can only occur if the West Texas Intermediate (WTI) crude closing price as posted on the Dow Jones Commodities Index chart is below \$15 per barrel. This information can be found in the business section of larger newspapers, such as the Denver Post, or on the Internet. Please contact the Colorado State Office if you should need assistance.
- Since Field Offices approve SOOPs, all applications must be filed at the appropriate office.

- The required application need only contain a request for an SOOP due to the low price of oil and the corresponding economic shortfall when attempting to produce such wells.
- Field Offices will check On-line Recordation and Case Access (ORCA) to ensure the lease in question contains a stripper well royalty reduction property. A SOOP request for leases that do not contain a stripper well royalty reduction property will be processed in the normal manner. If you have a doubt or conflicting accounts about whether or not a lease contains a stripper well royalty reduction property, you must contact the Colorado State Office lease adjudication staff for verification.
- Field Offices will ensure all Lease Operating Right (OPR) holders have consented to the SOOP by noting the signatory parties to the SOOP **and** by obtaining a verification statement from the applicant denoting all OPR holders have signed. No case recordation cross-check is necessary.
- Criteria No. 3 in WO-IM-99-054 will substitute for the normal SOOP termination language. Any approved SOOP will contain this termination language. All offices will need to monitor the price of WTI crude to determine if the lease SOOP termination criteria is met. Additionally, "operations" as stated in Criteria No. 3 includes oil or gas production.

The approved lease SOOP will be effective the first day of the month in which the application was received at the Field Office.

WO-IM-99-054 does not contain a provision for a complete application as stated under 43 CFR 3165.1 (c). Therefore, the approval of a complete application for a lease SOOP will be effective on the first day of the month in which the application was received at the field office. Also note, no provision is allowed for field office determination of an alternate effective date for these types of suspensions.

- Verbiage will be included in the approved SOOP advising the applicant to notify all lease interest holders of the approval.
- The approved SOOP will include the statement, "This SOOP is based on stripper well relief." This statement will allow Minerals Management Service (MMS) to distinguish between lease suspension types.
- If the SOOP is complete, the Field Office will approve the SOOP with copies to MMS (Mail Stop 3130, P.O. Box 25165, Denver, CO, 80225) and the Colorado State Office.
- The Field Office will document the lease SOOP on both the Automated Fluids Mineral Support System, ORCA, or the Legacy Re-Host 2000 system if deployed, as mentioned in WO-IM-99-054. Additionally, the Field Offices will document the ORCA case record with the action code "676," include an entry in the action remarks which reads, "stripper," and include the pending actions code "CO93400."

Based on the lease SOOP approval documentation received from the Field Offices, the Colorado State Office will provide MMS an accounting advice only if the lease is in partial rental status to ensure the necessary and corresponding minimum royalty suspension.

- If the suspension is terminated due to WTI crude oil price, field offices must continue to monitor the WTI price for 30 days after lease SOOP termination to ensure proper action on a request for a lease SOOP extension. Reference Criteria No. 3 in WO-IM-99-054.

Implementation and Schedule: The processing of requests received on or after February 4, 1999, for a low oil price stripper well royalty reduction lease suspension will begin immediately.

Coordination: Normal and routine coordination between Colorado BLM offices and the MMS.

Budget Implications: Since this IM does not significantly change any existing procedures or add any new record keeping or data collection requirements, it should have only a minimal impact on the oil and gas budget.

Contact: Any questions concerning this IM should be directed to Mary Buckman (303-239-3786), Milada Krasilinec (303-239-3767), or Patty Gillard (303-239-3777) for lease adjudication matters, and Hank Szymanski (303-239-3797) for lease operations matters.

Signed by
Dave Strunk
Acting Deputy State Director,
Resource Services

Authenticated by
Don Snow
EMS Operator

Attachment

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240

January 4, 1999

In Reply Refer To:
3100, 1310 (WO-310) P
Ref. IB No. 99-023

EMS TRANSMISSION 02/05/99
Instruction Memorandum No. 99-054
Expires: 09/30/00

To: State Directors

From: Director, Washington Office

Subject: Relief to the Petroleum Industry Due to Low Oil Prices

Oil prices are as low in actual dollars as they have been since 1975. The Bureau of Land Management (BLM) shares the industry's concern regarding low oil prices. In accordance with comments received in response to Information Bulletin No. 99-023, we believe it is appropriate to implement policy allowing field offices to approve suspensions of operations and production (SOOP) on leases which include stripper oil properties (averaging 15 barrels or less of

production per day as defined in 43 CFR §3103.4-2). During this severe, long-term depression of oil prices, this policy will allow operators to maintain their lease, thereby conserving the resources until it becomes economical to continue production. A SOOP will suspend the requirement to pay rental or minimum royalties, toll the running of the lease term, if the lease is in its primary term, and prevent lease expiration during the suspension. For those leases without properties that qualify for a stripper royalty rate reduction, we will determine, on a case-by-case basis, qualification for a suspension as authorized by 43 CFR §3103.4-4. In such instances, the operator must submit an application to the appropriate BLM office in order to be considered for a suspension in the interest of conservation of natural resources.

The approved suspension will be effective the first day of the month in which the application was filed. Any suspension granted under this policy will be subject to the following criteria:

(1) The Bureau's threshold for considering a lease eligible for SOOP is when the WTI (West Texas Intermediate) crude closing price, posted on the Dow Jones Commodities Index chart, is below \$15 per barrel.

(2) The application must be executed by all operating rights owners as required in 43 CFR 3165.1(b).

(3) The suspension will terminate with the earliest of any of the following conditions: (a) first day of the month in which the operator conducts any operations; (b) two years from the effective date of this policy; or (c) when the price of WTI crude is at or above \$15 per barrel for 90 consecutive pricing days. If the suspension is terminated due to rising prices and the WTI crude price subsequently falls below the threshold within 30 days, you may approve a request for an extension of the suspension without requiring execution by all operating rights owners.

The required application can be a one-page request stating that, due to the current low price of oil, the lease is uneconomical to produce. All SOOPs granted under this policy will be documented in the Automated Fluid Minerals Support System (AFMSS). The AFMSS entry must include, at a minimum, the completion of the type of SOOP (economics), and the filing, approval and effective dates. Documentation in Case Recordation (or the Automated Land and Minerals Record System if deployed) will be in accordance with the existing data entry standards (see updated Bureau instructions for standard data entry dated November 20, 1992).

This policy terminates two years from the date of this memorandum. However, if low oil prices persist, we will evaluate whether to continue this policy.

For further information, please contact Rudy Baier, WO-310, 202-452-5024.

Signed by:
Tom Fry
Acting Director
Group, W0540

Authenticated by:
Robert M. Williams
Directives, Records & Internet