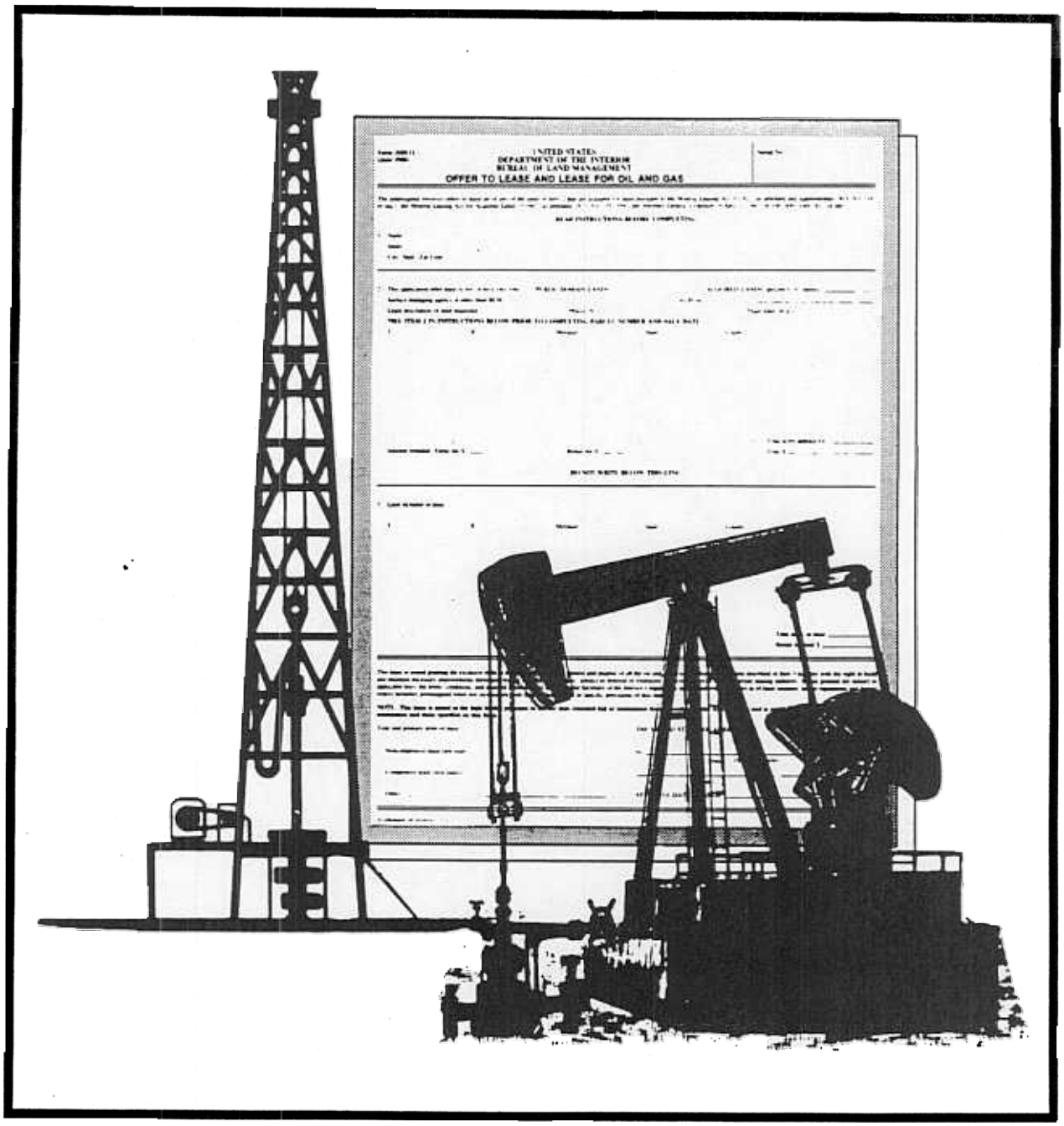
Oil and Gas Adjudication Handbook

Fees, Rentals, and Royalty



BLM MANUAL HANDBOOK 3103-1

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H-3103-1 - FEES, RENTALS, AND ROYALTY

Introduction

This Handbook provides guidelines concerning oil and gas lease fees, rentals, and royalty rates. Guidelines are included for determining rental, royalty, and minimum royalty rates for leases when lease accounts revert from royalty to rental status and for calculating and establishing correct lease rental charges for the reversion. Also contained in this Handbook are the required lease rental charges for terminated leases being reinstated; for lands outside participating areas of producing units; and for lands determined to be within a known geological structure (KGS) or favorable petroleum geological province (FPGP), as well as lands deleted from a KGS or FPGP.

Guidelines and procedures also are included for actions involving suspensions of operations and/or production and for rental and royalty rate reductions. Information concerning the suspension of excess overriding royalties or payments out of production, removed from the leasing regulations in June 1988 and no longer required to be processed, is briefly discussed in Section IX of this Handbook.

Other guidance concerning fees, rentals, and royalties is provided in Manual Section 3103 and in the specific Handbooks for processing oil and gas lease actions, including Handbook 3105-1, Handbook 3106-1, Handbook 3107-1, Handbook 3108-1, Handbook 3109-1, Handbook 3110-1, and Handbook 3120-1.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Keywords

I. Fees

A. General

FEES

Filing and administrative fees for oil and gas lease actions are generally nonrefundable. For unusual situations and exceptions, see the specific provisions discussed in Handbook 3110-1, Handbook 3120-1, Handbook 3106-1, and Handbook 3108-1.

The fees currently required for various oil and gas leasing actions are listed below.

1. Competitive oil and gas lease - $75 administrative fee.

2. Noncompetitive oil and gas lease - $75 filing fee.

3. Class I oil and gas lease reinstatement $25 filing fee.

4. Class II oil and gas lease reinstatement - $500 administrative fee, plus $125 (subject to change) Federal Register publication cost.

5. Class III oil and gas lease reinstatement - $500 administrative fee, plus $125 (subject to change) Federal Register publication cost.

6. Oil and gas lease record title assignment and transfer of operating rights - $25 filing fee.

7. Transfer of overriding royalty interest, payment out of production, or similar interest - $25 filing fee.

8. Exchange or renewal lease application - $75 filing fee.

9. Oil and gas right-of-way lease under the Act of May 21, 1930 - $75 filing fee.

Keywords

B. Deposit of Filing and Administrative Fees

Effective February 1, 1990, all fees associated with lease actions (with the exception of Class II and Class III lease reinstatement fees) are to be deposited into the proprietary receipt account 142419.1.

FEE ACCOUNT
TREASURY
FUND SYMBOL

The $500 fee and $125 publication cost for Class II and Class III lease reinstatements are to be deposited into the appropriated fund account 14X5017 Subactivity 5700. (See Handbook 3108-1.)

Keywords

II. Lease Rental Provisions

A. General

RENTAL RATES UNDER THE REFORM ACT

The Mineral Leasing Act (MLA) delegates to the Secretary of the Interior the authority to determine annual rental rates for oil and gas leases, subject to the minimum amounts prescribed in the law. The MLA provisions that apply to leases issued under the Federal Onshore Oil and Gas Leasing Reform Act (Reform Act) of December 22, 1987 (Section 17(d) of the MLA), require annual rental payments for competitive and noncompetitive leases to be not less than $1.50 per acre or fraction thereof for the first through fifth lease years and $2 per acre or fraction thereof for subsequent lease years. Acting under the Secretary of the Interior's authority, the leasing regulations promulgated effective June 17, 1988 (43 CFR 3103.2-2), established the annual rental rates at these minimum statutory amounts.

RENTAL RATES · LEASES ISSUED ON OR AFTER SEPTEMBER 2, 1960

Previously, under the Act of September 2, 1960, the rental rates were required to be not less than 50 cents per acre or fraction thereof per year. The Secretary promulgated regulations applying to leases issued on or after September 2, 1960 (43 CFR 3103.3-2), requiring an annual rental of 50 cents to $2 per acre or fraction thereof ($1 per acre or fraction thereof for noncompetitive leases issued on or after February 1, 1977). These regulations did not alter the rental rate of previously issued oil and gas leases outstanding on September 2, 1960.

RENTAL RATE FOR ESCALATING SIMULTANEOUS LEASES CHANGED BY REFORM ACT REGULATIONS

The Reform Act regulations changed the rental rate for simultaneous oil and gas leases that had been issued under 43 CFR Part 3112. Effective February 19, 1982, the annual rental rate was changed from $1 per acre or fraction thereof for the entire 10-year lease term to a rate of $1 per acre or fraction thereof for the first through fifth lease years and $3 per acre or fraction thereof for the sixth and subsequent lease years. The Reform Act regulations of June 17, 1988 (43 CFR 3103.2-2(b)(1)), changed the simultaneous oil and gas lease annual rental rate for the sixth and succeeding lease years to $2 per acre or fraction thereof.

Keywords

The Reform Act regulations of June 17, 1988, also made the following changes: For leases determined to be within a KGS or FPGP after December 22, 1987, the annual rental rate shall not to be increased, but shall remain at the non-KGS/FPGP rate (43 CFR 3103.2-2(b)(2)). In addition, reinstated competitive and noncompetitive leases shall not increase an additional $2 per acre or fraction thereof per lease year if they were determined after December 22, 1987, to contain KGS/FPGP lands.

RENTAL RATE FOR LEASES IN KGS OR FPGP CHANGED BY REFORM ACT

The rental rate for oil and gas right-of-way leases issued in accordance with the Act of May 21, 1930, that were issued after the June 17, 1988, regulations shall be $1.50 per acre or fraction thereof for the first through fifth lease years and $2 per acre or fraction thereof for lease years 6 through 20.

RENTAL RATE FOR 1930 ACT RIGHT-OF-WAY LEASES

Leases also may be subject to a Secretarial rental rate reduction. Under 30 U.S.C. 209 (Section 39 of the MLA), on October 24, 1986, the Secretary of the Interior announced a rental rate reduction that applied to simultaneous oil and gas leases. This rental rate reduction has been continued and extended to certain other oil and gas leases. The Secretary's decision reduced the annual rental rate to $1 per acre or fraction thereof for all simultaneous oil and gas leases that were subject to the February 19, 1982, rental rate increase and extended the rental rate reduction to certain leases with lease anniversary years commencing March 1, 1989 (see Illustration 1 for leases affected). The rental rate reduction has been extended through February 29, 1996.

SECRETARIAL RENTAL REDUCTIONS

Reduced rental and royalty rates cannot be prescribed as a part of the initial terms of a lease at the time of lease issuance. For example, a renewal lease must be issued on the appropriate lease form at the rental and royalty rates specified in the current leasing regulations, i.e., an annual rental rate of $2 per acre or fraction thereof, and a fixed royalty rate of 12½ percent. However, since such leases are renewals of existing leases, they are subject to any Secretarial rental rate reduction that may still be in effect at the time of renewal, such as the rental rate reduction announced January 19, 1989.

RENEWAL LEASE RENTAL RATE REDUCTION PROCEDURES

Keywords

Therefore, at the time of issuance of a renewal lease with an effective date on or after March 1, 1989, but an effective date not later than February 29, 1996 (or such other effective date that may be announced should the Secretary grant an extension of the rental rate reduction or decide to terminate the rental rate reduction prior to that date), the actual annual rental amount to be collected is to be reduced immediately to $1 per acre or fraction thereof. However, if the renewal lease effective date is prior to March 1, 1989, the full $2 per acre annual rental amount must be collected, and the rental reduction would not occur until the next lease anniversary date (i.e., January 1, 1990).

If the lessee of a renewal lease submits annual rental of $2 per acre rental with an application for renewal of a nonproducing renewal lease, the first year's advance rental of $1 per acre is to be applied with the excess refunded by the BLM upon lease issuance. In the event the renewal lease had already been issued and the full rental payment of $2 per acre has been transferred to the Minerals Management Service (MMS), Data Management Division (DMD), the $1 per acre excess is to be processed as an overpayment by the MMS and either credited to the lease account or refunded by the MMS-DMD.

REFUNDS - MMS ACTION

The BLM does not need to authorize refunds made by the MMS-DMD for overpayments for renewal leases or for any other oil and gas leases that are subject to the rental rate reduction.

For those renewal leases currently subject to a reduced royalty rate, a new application for determination of eligibility for a royalty rate reduction must be filed after the renewal lease is issued (see 43 CFR 3103.4-1)

When an accounting advice transmits lease information to the MMS-DMD for a lease that is subject to a Secretarial rental rate reduction, the accounting advice must be annotated to indicate that the rental rate reduction applies. This is to be indicated by crossing out the full rental rate required by the lease terms and regulations, and writing in the reduced rental rate in accordance with the rental rate reduction in force at the time.

Keywords

The BLM State Office is responsible for the collection of all the administrative and filing fees required for lease actions, including fees for lease offers, applications, assignments, transfers, and lease reinstatements; bonus monies for competitive lease bids; and the first year's advance rentals for all oil and gas leases.

RENTAL COLLECTION - BLM

The MMS is responsible for the collection and distribution of annual rental payments for leases beginning with the second lease anniversary date, except for future interest leases as addressed below. The MMS also collects and distributes all rentals and royalties from leases in a producing (nonterminable) status, including communitized leases and unitized leases in producing unit areas, compensatory royalty payments, subsurface storage fees, and directional drilling easements.

RENTAL COLLECTION MMS

The MMS also is responsible for the collection and distribution of all rentals and royalties for all future interest leases, including the first year's advance rental in situations where the rental has not been submitted to the BLM prior to lease issuance because the date of vesting of the minerals in the United States is still several years in the future. The MMS automated Common Reference Database System will accept monies for future interest leases prior to the date of vesting of the mineral interests in the United States. (See Handbook 3110-1, Section XV, and Handbook 3120-1, Section III.A.)

The first year's advance rental remittances may be made by either credit card (VISA or MasterCard only) or personal check, money order, cashier's check, OR certified check, and are to be made payable to the Department of the Interior - Bureau of Land Management. Payments made to the BLM may be made by other arrangements, such as by electronic funds transfer when so authorized by the BLM. Remittances to the MMS for all subsequent annual rental payments are to be made payable to the Department of the Interior - Minerals Management Service.

ACCEPTABLE REMITTANCES

Automated Clearing House (ACH) payments to the MMS are an acceptable method of rental payment. The ACH is an electronic payment system that is the functional equivalent of a check clearing facility (see Illustration 2, Automated Clearing House Payment Procedures Flow Chart).

AUTOMATED CLEARING HOUSE RENTAL PAYMENT PROCEDURES

Keywords

When the ACH is used, the lessee/payor authorizes its bank to make a payment and specifies the date the transfer is to be made. The lessee's/payor's bank electronically transfers the money and a payment message to the local ACH on the specified date. Overnight, the local ACH electronically transfers the money and a payment message to the agent's bank (currently Mellon Bank), that constitutes receipt by the MMS. The Mellon Bank electronically transfers the money and a message to the Federal Reserve Bank in New York, and concurrently, another payment message to the MMS. The Federal Reserve electronically transfers the money and a message to the Department of the Treasury the same day. The Treasury Department electronically transmits a payment message to the MMS.

REASONABLE DILIGENCE USING ACH

The leasing regulations are silent regarding timely payment and reasonable diligence as they apply to the use of the ACH for lease annual rental payments. However, payments made by the ACH will be considered timely made when the payments are actually received on or before the lease anniversary date by the Department of the Treasury or the Mellon Bank (agent bank), and the payment has been designated for posting to the MMS account. If the payment is received timely by the agent bank and, through an error of the agent bank, the funds are not posted on time to the MMS account, the rental payment will be considered received by the MMS when first received by the agent bank. If a posting error is due to an improper entry made by the payor, payor's bank or the ACH, the payment will be deemed received by the MMS when either the payor's bank for the ACH or the ACH corrects the error and properly completes the transfer. When using electronic funds transfer (ACH), reasonable diligence for lease reinstatement purposes under the MLA (30 U.S.C. 188(c)) shall be defined as receipt of the proper payment message by the ACH on or before the lease anniversary date. (See Handbook 3108-1, Section II.A, for additional procedures on late payments made through use of the ACH.)

Keywords

B. Leases Issued Under the Reform Act of December 22, 1987

The Reform Act, enacted on December 22, 1987, established a competitive leasing system that eliminated the KGS/FPGP designations. The noncompetitive simultaneous oil and gas leasing system also was eliminated. The law provided for the following annual rental rates:

REFORM ACT LEASES - RENTAL RATES

1. Competitive Leases. The rental is $1.50 per acre or fraction thereof for the first through fifth lease years and increases to $2 per acre or fraction thereof beginning the sixth lease year of the 10-year primary term and subsequent lease years.

COMPETITIVE LEASES - REFORM ACT RENTAL RATE

2. Noncompetitive Leases. The rental is $1.50 per acre or fraction thereof for the first through fifth lease years and $2 per acre or fraction thereof for the remainder of the 10-year term and subsequent lease years.

NONCOMPETITIVE LEASES - REFORM ACT RENTAL RATE

Keywords

C. Other Leases Issued On or After June 17, 1988

The regulations promulgated on June 17, 1988, to implement the Reform Act, establish the following annual rental rates in addition to the rental rates for Reform Act leases discussed in Section II.B, above.

1. Noncompetitive and competitive leases issued on or before December 22, 1987, or issued pursuant to an application or offer to lease filed prior to that date, have the annual rental rate as stated in the lease or in the regulations (43 CFR 3103.2-2(b)) in effect on December 22, 1987, except:

GRANDFATHERED LEASES - RENTAL RATES

1a. Simultaneous leases issued on or after February 19, 1982, are subject after February 1, 1989, to an annual rental rate of $2 per acre or fraction thereof in the sixth and subsequent lease years in lieu of $3 per acre per year as established in the lease terms at the time of lease issuance.

SIMULTANEOUS LEASE RENTAL CHANGED TO $2 FROM $3 WITH 6TH YEAR

1b. The annual rental rate shall not be increased for leases determined to be within a KGS or FPGP after December 22, 1987.

RENTAL NOT INCREASED FOR LANDS IN KGS OR FPGP

1c. Exchange and renewal leases require an annual rental rate of $2 per acre or fraction thereof upon exchange or renewal.

RENEWAL AND EXCHANGE LEASE RENTAL RATES

2. Leases being assessed compensatory royalty shall not have rental due on acreage for which royalty or minimum royalty is being paid, except for nonproducing leases being assessed compensatory royalty, in which case, both rental and royalty are due.

COMPENSATORY ROYALTY ASSESSMENTS - RENTAL DUE

3. Reinstated leases/converted oil placer mining claims have annual rental rates as follows:

REINSTATED LEASES - RENTAL RATES

3a. The annual rate for terminated noncompetitive oil and gas leases reinstated under 43 CFR 3108.2-3 (Class II provisions) and unpatented oil placer mining claims converted to a noncompetitive lease under 43 CFR 3108.2-4 (Class III provisions) is $5 per acre or fraction thereof. The annual rental rate is not increased an additional $2 per acre for KGS or FPGP lands determined after December 22, 1987, as had been required by the leasing regulations in effect prior to June 17, 1988.

CLASS II REINSTATEMENT

CLASS III REINSTATEMENT

Keywords

3b. The annual rental for terminated competitive leases reinstated under 43 CFR 3108.2-3 (Class II) shall increase to $10 per acre or fraction thereof.

REINSTATED COMPETITIVE LEASES

3c. For each succeeding time a specific lease is reinstated under 43 CFR 3108.2-3, the annual rental must increase an additional $5 per acre or fraction thereof for noncompetitive leases and $10 per acre or fraction thereof for competitive leases.

SUCCESSIVE REINSTATEMENTS RENTAL RATES

The minimum royalty rate established in the lease terms at the time the lease was issued is not affected by reinstatements.

MINIMUM ROYALTY RATE NOT CHANGED BY REINSTATEMENT

Keywords

D. Leases Issued On or After September 2, 1960, and Prior to the Reform Act

MLA REVISIONS OF 1960 - RENTAL RATE CHANGES

The Act of September 2, 1960, amending the MLA and the regulations promulgated thereunder, prescribed the rental rates for all leases issued on or after that date up to the time that leases were issued under the Reform Act of December 22, 1987. The annual rental for leases issued prior to the 1960 Act generally remained at the rate that was in effect at the time the lease was issued. (See Section II.E, below, for a discussion of these earlier rental rates.)

For all leases issued pursuant to the 1960 Act, the annual rental rates were applied on a per acre or fraction of an acre basis (i.e., $400 rental for a competitive lease containing 199.18 acres). Such rentals are not credited against royalties. The following annual rental rates for oil and gas leases were established in accordance with the Act of September 2, 1960:

COMPETITIVE LEASES - 1960 ACT RENTAL RATE CHANGE

1. Competitive Leases. The rental for all competitive leases issued on or after September 2, 1960, was set at $2 per acre or fraction thereof per year.

NONCOMPETITIVE LEASES OUTSIDE KGS - 1960 ACT RENTAL RATE CHANGE

2. Noncompetitive Leases.

2a. For all noncompetitive leases issued on or after September 2, 1960, that, on the date rental was due, covered lands wholly outside the limits of a KGS of a producing oil and/or gas field, rental was set at 50 cents per acre or fraction thereof. However, for noncompetitive leases issued on or after February 1, 1977, an annual rental of $1 per acre or fraction thereof was required.

NONCOMPETITIVE LEASES INSIDE KGS - 1960 ACT RENTAL RATE CHANGE

2b. If any of the lands covered by a noncompetitive lease issued on or after September 2, 1960, were included in a KGS on the date the rental was due, the rental was increased to $2 per acre or fraction thereof. This increase began the first lease year after 30 days notice by the BLM to the lessee. However, if the anniversary date of the lease fell during the 30-day notice period, the annual rental due at that time had to remain unchanged.

NOTE: This provision does not include leases committed to an approved unit plan that has a well capable of producing oil and/or gas.

Keywords

PARTICIPATING AREA/MINIMUM ROYALTY

2c. If any of the lands covered by a noncompetitive lease issued on or after September 2, 1960, were committed to an approved unit plan, and that unit plan includes a well capable of producing oil and/or gas, the lands within the participating area convert to a minimum royalty status. This provision remains the same under the Reform Act as for previous amendments to the MLA. For leases issued on or after September 2, 1960, but prior to February 1, 1977, the rental rate for the lands not within the participating area is 50 cents per acre or fraction thereof per year. For leases issued on or after February 1, 1977, but prior to and not subject to the Reform Act, the annual rental rate for those lands not in the participating area is $1 per acre or fraction thereof. For leases issued in accordance with the Reform Act, the annual rental rate for those lands in the participating area is $1.50 per acre or fraction thereof for leases in their first five lease years, and $2 per acre or fraction thereof for leases in their sixth or subsequent lease year.

Keywords

E. Leases Issued Prior to September 2, 1960

The amendment of the MLA of September 2, 1960, and the regulations promulgated thereunder concerning annual rental rates are generally inapplicable to leases issued prior to that date. Such leases retained the rental rates that were effective at the time the leases were issued. These rates are summarized in Illustration 3.

LEASES ISSUED PRIOR TO 1960 ACT - RENTAL RATES

1. Competitive Leases. The annual rental for competitive leases issued prior to September 2, 1960, is $1 per acre.

COMPETITIVE LEASES - PRE-1960 RENTAL RATE

2. Noncompetitive Leases. The annual rental for noncompetitive leases issued prior to September 2, 1960, has varied from time to time. Generally, leases issued before August 8, 1946, have a rental rate of 25 cents per acre per year. When any land in a noncompetitive lease issued prior to September 2, 1960, was subsequently determined to be in a KGS, the annual rental was increased to $1 per acre per year, unless the lease was committed to an approved unit agreement that included a producible well. In this situation, the annual rental is the same rate as if the land was not in a KGS.

NONCOMPETITIVE LEASES - PRE-1960 RENTAL RATES

3. Old-Form 20-Year Leases. Such leases specify a rental rate of $1 per acre per year. Annual rental on the fractional acreage is in equal fractions of a dollar (e.g., $169.34 rental owed for 169.34 acres).

20-YEAR LEASES

For all leases issued prior to August 8, 1946, rentals may be credited against royalties. Rentals may not be credited against royalties for leases issued on or after that date, nor for leases issued prior to that date for which elections have been filed for the leases to be governed by the 1946 Act. For all other leases, except old-form 20-year leases issued prior to August 8, 1946, the annual rental for a fraction of an acre is the same as that required for a full acre.

RENTALS CREDITED AGAINST ROYALTIES

RENTAL IN AMOUNT EQUAL TO NEXT FULL ACRE

Keywords

F. Leases in Cooperative Agreements - Assignments and Segregations

Committing a lease to a communitization or unit agreement does not affect its rental rate (including the increase in rental that occurred when all or part of the lease had been determined to be in a KGS prior to December 22, 1987) until oil and/or gas in paying quantities is discovered on the lands committed to the agreement. Once oil and/or gas is discovered in paying quantities on the lands committed to a unit, all lands included in the participating area are charged a minimum royalty per acre per year in lieu of rental. Those portions of noncompetitive unitized leases that do not participate in such production continue at the rental rate established in the lease for non-KGS lands (i.e., 25 cents, 50 cents, $1, $1.50 , or $2 per acre, as appropriate), even though such lands may be within the limits of a KGS.

COMMUNITIZATION/UNIT AGREEMENTS - LEASE RENTALS

PARTICIPATING AREA - MINIMUM ROYALTY IN LIEU OF RENT

OUTSIDE PARTICIPATING AREA/NON-KGS RENTAL RATE

If part of a unitized lease is eliminated from a unit due to contraction of the unit, the nonunitized lands will be charged rental at the same rate that would be charged if they were still nonparticipating unit lands. However, if an entire lease is eliminated from the unit (due to contraction of the unit), it will be charged annual rental based on whether it is within or outside the limits of a KGS (except for leases that may have been determined after December 22, 1987, to be within a KGS or FPGP because such leases are not subject to a KGS or FPGP rental increase per 43 CFR 3103.2-2(b)(2) effective June 17, 1988). Partial elimination from a unit does not result in lease segregation. (See Handbook 3105-1, Section V.)

PARTIAL CONTRACTION - NON-KGS RENTAL RATE

ENTIRE CONTRACTION - RENTAL RATE

Commitment of part of a lease to a unit results in segregation of the lease into two separate leases, normally the parent lease containing only the lands committed to the agreement, and the new lease containing the lands not committed to the unit. Each of the leases will have a rental or minimum royalty based on its own circumstances. (See Appendix 1 for a brief reference list of decisions addressing lease rentals.)

UNIT SEGREGATION - RENTAL OR MINIMUM ROYALTY

Any additional rental for acreage increments resulting from lease segregations or partial assignments shall be waived by both the BLM and the MMS until the next MMS regular annual rental courtesy notice billing cycle. The updated accounting advice for both the parent and new leases are to be annotated in the Remarks Section (see Illustration 4).

RENTAL DIFFERENCE DUE TO LEASE SEGREGATION/ PARTIAL ASSIGNMENT

Keywords

HORIZONTAL SEGREGATION · RENTAL FOR ENTIRE LEASE ACREAGE

Where only specific formations are unitized, some older leases have sometimes been segregated along horizontal lines to exclude only the unitized formations from the segregated lease. It is the policy of the BLM not to horizontally segregate leases. However, where such horizontal segregations have occurred in the past, the holder of each resulting lease is liable for payment of the annual rental and royalty based on the entire acreage included in the lease, even though this may result in multiple payments of rental or royalty for the same lands.

A summary of general rental and royalty rate provisions is provided in Illustration 3.

Keywords

G. Credit for Advance Rental

PRE-1946 LEASES - ADVANCE RENTAL CREDITED AGAINST ROYALTIES

Leases issued prior to August 8, 1946 (and where no election has been filed to have the lease come under the provisions of the 1946 Act), provide that advance rentals may be credited against royalties. The advance rental payment is due on or before the lease anniversary date. These leases are not subject to minimum royalty, but are subject to advance rental of $1 per acre per year if they are producing or in a unit participating area, and 25 cents per acre per year if they were issued noncompetitively and if they are nonproductive or nonparticipating. Leases issued on or after August 8, 1946, do not provide for crediting rentals against royalties, but are subject to minimum royalty requirements.

LEASES AFTER 1946 SUBJECT TO MINIMUM ROYALTY

Keywords

H. Proration of Rentals

The leasing regulations at 43 CFR 3103.3-2(e) in effect prior to the August 1983 regulation changes provided that if, on the anniversary date of a lease, less than a full year remained in the lease term, the annual rental would be prorated based upon the amount of time remaining in the lease term.

RENTAL PRORATION

The current regulations under 43 CFR 3103.2-2 provide that a full year's rental must be submitted even when less than a full year remains in the lease term. The rental shall not be prorated except when a suspension of operations and production results in less than a full year remaining in the lease term (see Section VIII, below).

FULL YEAR'S RENTAL REQUIRED

Keywords

I. Fractional Interest Leases

The method for determining rentals and minimum royalties for lands in which the United States owns an undivided fractional interest was changed by an amendment to 43 CFR 3103.3-3, effective October 28, 1976.

RENTALS FOR FRACTIONAL MINERAL INTERESTS

NOTE: This regulation amendment did not affect the method for determining royalty rates for this kind of lease.

For leases issued prior to October 28, 1976, rentals, minimum royalties, and royalties payable for lands in which the United States owns an undivided fractional interest are prorated.

For leases issued on or after October 28, 1976, rentals and minimum royalties are not prorated for lands in which the United States owns undivided fractional interest, but are payable for the full acreage in such lands.

Royalty on production, however, is payable only on that portion of the mineral interest owned by the United States. An opinion was requested from the Rocky Mountain Regional Solicitor on how to calculate the correct royalty rate for Federal oil and gas leases where the leases each have several different tracts with the United States owning a different fractional interest in each tract. The following question was posed to the Regional Solicitor. "Should the royalties from a producing well be based on the fractional interest the U.S. owns in that tract (75 percent in this case), or on the fractional interest the U.S. owns in the lease as a whole considering the United States' fractional ownership in all of the tracts combined (92 percent in this case)?" The Regional Solicitor concluded that the U.S. can collect royalties only in proportion to its actual ownership interest in each tract. The BLM has agreed to not issue any more leases with differing ownership interests in the tracts comprising the lease.

ROYALTIES FOR FRACTIONAL MINERAL INTERESTS

FRACTIONAL MINERAL INTERESTS MUST BE THE SAME IN EACH LEASE

Keywords

J. Refunds

Upon request, the MMS-DMD initiates actions for refunds of overpayments or payments sent to the MMS in error, i.e., filing fees, rights-of-ways charges, etc. The BLM will not review the MMS Business Information System (BIS) screens to determine the exact amount of any overpayment refunds. The BLM authorizes those refunds associated with lease relinquishments, cancellations, late payments, suspensions, and unapplied payments, etc.

REFUNDS - OVERPAYMENTS TO MMS

The refund payments will be initiated by the MMS-DMD for any escalating simultaneous oil and gas lease rental overpayment or other overpayment received by the MMS due to a Secretarial rental rate reduction, and will not require a BLM authorization. In these cases, an entity must make a refund request directly to the MMS instead of to the BLM. If such a refund request is made to the BLM, it is to be forwarded to the MMS, with the party notified by the BLM that the request for refund has been forwarded to the MMS.

Refunds of lease rentals associated with late payments, suspensions, relinquishments, cancellations, and unapplied payments are to be authorized by the BLM to the MMS-DMD only by an accounting advice, Form 1370-41 (see Illustration 5), that is to contain the following information:

REFUNDS

1. Major Items

MMS REFUND REQUESTS ON ACCOUNTING ADVICES

1a. Subject - Refund/State code.

1b. Lease number/anniversary date/status code "O."

Amount to be refunded.

2. Remarks Section Items

The type of refund, i.e., bonus, rental, etc.

2b. Reason for the refund, including the date of lease termination, etc.

Proof that collection of the money was made, i.e., copy of unapplied payment report, copy of canceled check, or check number.

Keywords

2d. Statement that documentation supporting the request for refund is on file in the BLM.

2e. In cases where the MMS-DMD does not have documentation of the receipt of the monies (i.e., the BLM receipt and earning of the funds occurred prior to the establishment of the MMS, or the documentation is no longer on file at the MMS due to a lengthy time lapse), a copy of the initial accounting advice and/or a receipt indicating that the payment was made is to be submitted to the MMS-DMD with the refund request.

BLM DOCUMENTATION OF RECEIPT OF MONIES NEEDS TO BE SUBMITTED TO MMS

The complete signature of the BLM employee requesting the MMS-DMD refund action must be shown on the accounting advice. The accounting advice will be returned to the BLM as unacceptable if only the initials of the BLM employee are provided.

COMPLETE SIGNATURE ON ACCOUNTING ADVICE

For any MMS-DMD refund requests submitted by the BLM, red special tags are not to be attached to the accounting advices, except in those cases of a highly irritated constituent or a direct request from a member of Congress.

Keywords

III. Minimum Royalty

A. General

Section 17(d) of the MLA, as amended, provides that a minimum royalty in lieu of rental shall be paid at the end of each lease year beginning on or after a discovery of oil or gas in paying quantities. For example, if a lease issued effective May 1, 1991, is determined on May 26, 1995, to have a discovery of oil or gas in paying quantities (the annual rental having been timely paid for the lease year beginning May 1, 1995), the minimum royalty payment to the MMS is due for the next lease year by April 30, 1997. Minimum royalty and annual rental are not paid for the same lease year.

MINIMUM ROYALTY

This minimum royalty provision is applicable to all leases issued on or after August 8, 1946, and to earlier-issued leases if the lessee has elected to be governed by the provisions of this Act. Section 15 of the Act of August 8, 1946, authorizes any person holding a lease on the effective date of the Act to elect to have the lease governed by the applicable provisions of the Act instead of the law previously in effect. Accordingly, not all existing oil and gas leases are subject to the minimum royalty provisions of Section 17(d) of the MLA. Therefore, the individual lease form and the rental and royalty rate schedule that may be attached to the lease form (for older leases) must be reviewed in each case.

ELECTION UNDER SECTION 15 OF 1946 ACT

Some lessees and/or operators of pre-1946 Act leases have been under the assumption that their leases were subject to minimum royalty in lieu of rentals, i.e., that an election to come under Section 15 of the 1946 Act had been filed when, in fact, such an election has never been filed. Therefore, if a lessee now files such an election, the State Office (SO) Lease Adjudication is to take no formal action to approve it, but is to provide a copy to the MMS (or receive a copy that was filed directly with the MMS), and ensure that a copy of the election is placed in the lease case file. For the ALMRS Entry, the appropriate royalty rate action code or Action Code 649 - LEASE PAYING MIN RLTY is to be cross-referenced in the Action or General Remarks with the statement that "Section 15, 8/8/46 Act election filed (MM/DD/YY)."

SECTION 15 ELECTION TO BE FILED IN LEASE CASE FILE

AUTOMATED NOTATION - ELECTION UNDER 1946 ACT

Keywords

For leases issued in accordance with the law and regulations that were in effect prior the Reform Act, a minimum royalty rate of $1 per acre or fraction thereof in lieu of rental is required.

MINIMUM ROYALTY RATE LEASES BEFORE REFORM ACT

Leases issued in accordance with the Reform Act of December 22, 1987, require a minimum royalty rate of not less than the rental rate that otherwise would be required for that lease year. Therefore, the minimum royalty rate is $1.50 per acre or fraction thereof for the first through fifth lease years and $2 per acre or fraction thereof for each lease year thereafter. These minimum royalty rates also apply to oil and gas right-of-way leases issued under the Act of May 21, 1930, when such leases are issued on or after the June 17, 1988, regulations. The minimum royalty rate for exchange and renewal leases issued since the Reform Act is $2 per acre or fraction thereof.

MINIMUM ROYALTY RATE REFORM ACT LEASES

The account for any lease in a minimum royalty status is maintained by the MMS.

See Appendix 2 for a brief listing of decisions addressing oil and gas lease minimum royalty issues.

Keywords

B. Application of Minimum Royalty

The following items define general minimum royalty provisions and outline the required procedures. Certain exceptions to these general provisions are discussed in Section III.C, below. Generally, these exceptions deal with situations where a currently nonproducing lease is extended by other provisions of the law and regulations or where lands are severed from those having a minimum royalty.

MINIMUM ROYALTY RATE PROVISIONS

1. The anniversary date of a lease is the anniversary of its effective date (ALMRS Entry: DE 1775 Action Code 225/DE 2910 Action Code 868). The lease year is defined as a 12-month period beginning at midnight immediately preceding the anniversary date (e.g., the midnight that begins the day of May 1, 1995) and ending at midnight on the last day prior to the next anniversary date (e.g., the midnight that ends the day of April 30, 1996). Minimum royalty accrues beginning from the anniversary date of a lease but is not payable until the end of the lease year.

2. Minimum royalty accrues as a debt to the U.S. in lieu of rental beginning from the first anniversary date of the lease on or after the initial discovery of oil or or gas in paying quantities, i.e., the completion of a well capable of producing oil or gas in paying quantities on the leasehold or the allocation of production to the leasehold. On unitized lands, minimum royalty accrues only on the acreage that participates in the unitized production. The nonparticipating acreage is subject to rental, unless this acreage also contains or has contained a well capable of producing oil or gas in paying quantities. On a lease that is subject to a communitization agreement (CA), the entire lease becomes subject to minimum royalty.

MINIMUM ROYALTY ACCRUES AFTER DISCOVERY

PARTICIPATING ACREAGE

NONPARTICIPATING ACREAGE

COMMUNITIZED LEASE

3. Actual royalty accruing from a lease or allocated to a unitized or communitized lease during the lease year is credited against the minimum royalty obligation for that lease year. If the royalty from production does not equal or exceed the required minimum royalty for the lease year, the lessee is obligated to pay the difference. For example, if the minimum royalty obligation for a 640-acre lease is $1,280 ($2 per acre), and the royalty from production is only $1,200, the difference of $80 must be paid to the MMS.

ACTUAL ROYALTY CREDITED AGAINST MINIMUM ROYALTY

Keywords

4. Once a lease converts to a minimum royalty status, it generally does not revert to a rental status during its original or fixed term. Some exceptions are discussed in Section III.C, below.

REVERSION TO RENTAL STATUS

5. Once effective, minimum royalty is a minimum amount unconditionally payable for the remainder of the lease year and is not subject to proration; i.e., if a productive lease becomes nonproductive, terminates, or acreage is relinquished during the lease year, the minimum royalty will not be reduced or prorated. For example, if a lease contained 640 acres at the beginning of the lease year (on the anniversary date) and 320 acres is relinquished later in the lease year, a minimum royalty of $960 (at $1.50 per acre) is owed for the entire lease year.

MINIMUM ROYALTY NOT SUBJECT TO PRORATION

6. The rental, royalty, and minimum royalty provisions of oil and gas leases issued under the various amendments to the MLA differ, and each lease must be reviewed independently to determine the appropriate requirements. The minimum royalty rate is not affected by lease reinstatements.

MINIMUM ROYALTY NOT AFFECTED BY LEASE REINSTATEMENTS

7. Since minimum royalty is an obligation accruing from the beginning of the lease year and is based on the acreage embraced in the lease at that time, any segregation of the lease during the lease year, whether by partial assignment or unitization, will not change this total obligation. Thus, for the lease year in which such a segregation is effected, the minimum royalty is to be determined based on the total acreage in the lease at the beginning of the lease year (on the anniversary date), and all production royalties from that acreage are to be credited against that obligation. (See also Section III.C, below.)

MINIMUM ROYALTY DUE ON ENTIRE LEASE ACREAGE DESPITE LEASE SEGREGATION DURING LEASE YEAR

8. Compensatory royalty payments may be applied to any minimum royalty obligation that exists on the lease. However, the payment of compensatory royalty will not, by itself, cause a lease to convert to a minimum royalty status.

COMPENSATORY ROYALTY MAY BE APPLIED TO MINIMUM ROYALTY

9. When a compensation due the United States is based on the full value of gas lost, such payment may be credited against the minimum royalty obligation.

COMPENSATION FOR VALUE OF GAS LOST

10. Rental, injection, withdrawal, and other charges under a gas storage agreement cannot be applied to any minimum royalty obligation that exists on the lease.

GAS STORAGE AGREEMENT CHARGES NOT APPLIED TO MINIMUM ROYALTY

Keywords

C. Effect of Lease Segregation on Minimum Royalty

EFFECT OF LEASE SEGREGATION ON MINIMUM ROYALTY OBLIGATION

A lease may be segregated into two or more separate leases either by partial assignment or by part of the lease being committed to a Federally approved unit. Partial commitment to a CA does not cause lease segregation. However, minimum royalty accrues as a debt due from the beginning of the lease year that is payable at the end of the lease year and is not reduced or increased by the subsequent segregation occurrences during that lease year, as discussed in Section III.B.7, above.

PARTIAL ASSIGNMENTS

For a lease segregated by a partial assignment, the assignor remains liable for the minimum royalty obligation on the assigned portion should the assignee fail or refuse to pay. The lease containing the well remains on minimum royalty. However, the lease without the productive well reverts to a rental status on the next lease anniversary date (which is the same as that for the original or parent lease). In such instances, the SO Lease Adjudication is to notify the lessee of the nonproductive lease that the lease is reverting to a rental status and that failure to pay such rental on or before the lease anniversary date, or within 30 days of receipt of the notice, will subject the lease to automatic termination. (See Section V.A, below.) Accordingly, for leases segregated by either partial assignment or unitization, the minimum royalty must be determined on the total acreage in the lease at the beginning of the lease year. All production royalties attributable to that acreage are to be credited against that obligation.

HORIZONTAL SEGREGATIONS

Although no longer an allowable policy, if in earlier years an oil and gas lease has been segregated horizontally by unitizing specific formations only, the holder of each such segregated lease is liable for the payment of rental or minimum royalty based on the entire acreage in such segregated lease even though this would result in multiple payments for the same lands.

Once a minimum royalty obligation accrues, it cannot be subsequently reduced or prorated. This provision applies even though the lease is relinquished, canceled, or terminated on the day following the anniversary date (see Solicitor's Opinion M-36405, dated June 13, 1957).

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Keywords

IV. Lease Royalty Provisions

A. General

ROYALTY RATES

Oil and gas leases with different royalty rate provisions have been issued in accordance with the various amendments of the MLA. The following is a synopsis of the MLA and its amendments affecting royalty. Each lease must be reviewed individually to determine the type of lease and the Act under which the lease was issued in order to determine the applicable royalty rate. For competitive and noncompetitive leases issued in accordance with the Reform Act, no specific royalty schedule is used. However, for leases issued under previous amendments to the MLA, certain royalty schedules were developed. For convenience, the following terms will be used, where applicable, to identify the various royalty schedules: Schedule "B", Schedule "C", and Schedule "D (sliding)". The basic requirements of these schedules and the appropriate action codes for ALMRS Entry are summarized in Illustration 6. Illustration 7 provides an explanation of each schedule. Schedule A (see Illustration 8) is applicable to certain noncompetitive leases and provides for a flat 12½ percent royalty on production removed or sold.

1. 1920 Act

ROYALTY RATE - 1920 ACT

The Mineral Leasing Act of February 25, 1920, established the issuance of prospecting permits for Federal lands. Under Section 13 of this Act, prospecting permits could be obtained covering those lands not within the known geological structure of a producing oil or gas field. The maximum size of a prospecting permit was 2,560 acres, and only one could be given to an individual on a single oil and gas structure or in an area, and not over three could be issued to an individual in the same State. These permits were issued for a period of 2 years and contained a drilling requirement that the permittee was to commence a well within 6 months, and within 1 year was to drill to a total depth of 500 feet, and within 2 years from the date of the permit, drill for oil and gas to an aggregate depth of not less than 2,000 feet unless oil or gas was discovered at a lesser depth. The prospecting permits contained no rental requirements and the royalty rate was 20 percent.

Keywords

OLDER 20-YEAR "a" LEASES - 5 PERCENT ROYALTY RATE

If it was established to the satisfaction of the Secretary that a valuable deposit of oil or gas had been discovered within the limit of the lands embraced within the prospecting permit, the permittee could apply for a lease. If the application was satisfactory, the applicant received a lease for one-fourth of the land embraced in the permit or a minimum of 160 acres, if that much acreage was contained in the permit area. The lease term was for 20 years at a 5 percent royalty rate. The lease rental became $1 per acre. Also, under Section 14 of the Act, the lease provided for a preference right to renew such leases for successive periods of 10 years, each upon such reasonable terms as the Secretary might prescribe. These 5-percent leases were called the "a" leases. As to the remainder of the acreage in the permit, the permittee received a preference right to a lease on the remainder of the area at a sliding-scale rate of 12½ to 33⅓ percent on oil. These "b" leases also were issued for a term of 20 years with a right to renew for successive 10-year periods. For the most part, the previously mentioned sliding-scale leases require a gas royalty rate of 12½ percent, if total lease production was less than 3,000 thousand cubic feet (Mcf) per day, and 16⅔ percent if production was 3,000 Mcf or over. On gasoline and liquefied petroleum gas (LPG), in most cases, a flat 16⅔ percent royalty rate is required.

OLDER 20-YEAR "b" LEASES - SLIDING SCALE 12½ - 33 PERCENT ROYALTY RATE

The unappropriated land within the known geological structure of a producing oil or gas field was leased by the competitive bidding system under Section 17 of the MLA, and not over 640 acres could be obtained in a single lease. Competitive leases normally contained a sliding-scale royalty rate and were issued for a primary term of 20 years with a right to renew for successive 10-year periods. Rental on the "a" and "b" leases was $1 per acre per year, with advance rental to be credited against royalties. Rental on competitive leases was also $1 per acre per year, with advance rental to be credited against royalties. At the first renewal date after August 8, 1946, most of these "a" and "b" leases became subject to minimum royalty as discussed in Section III, above.

Keywords

2. 1935 Act

ROYALTY RATE - 1935 ACT

The Act of August 21, 1935, established a new leasing policy and authorized the issuance of new types of oil and gas leases. It terminated the policy of issuing prospecting permits and authorized the exchange of outstanding permits for leases. Leases were issued for the majority of the outstanding permits as of January 1, 1939. The remainder of the permits were exchanged for leases effective January 1, 1940. The Act of 1935 authorized the exchange of outstanding 20-year leases and 10-year renewals thereof for new leases at a royalty rate of not less than 12½ percent (actual leases issued contained a step-scale royalty on oil of 12½ percent to 32 percent). Such exchanges were made pursuant to Section 2(a) of the Act of 1935. All other leases (competitive and noncompetitive) were issued pursuant to Section 17 of the Act, as amended.

The Act of 1935 also directed that, in every case where one or more permits were issued covering a structure, the Secretary was to issue permits to all other applicants on the same structure even though one or more of the permittees had developed the structure into a producing oil or gas field, provided that such additional applications were filed prior to the development of the structure into a producing field. In this situation, the person making the discovery obtained a lease at a 5-percent royalty rate as long as the discovery was made under the permit, and royalty on the other permits that were issued subsequent to the discovery, but which had been applied for prior to discovery, was at a 10-percent rate. The Act of 1935 also provided that prior to termination of the permit that had been issued, the permittee had a preference right to exchange that permit for a lease. The permittee that made the discovery was still entitled to a 5-percent lease as a reward for discovery on one-fourth of the permit, and, on the remainder of the permit, had a preference right to a lease on that acreage at the sliding-scale rate.

Keywords

All leases not issued upon discovery under a prospecting permit were issued under Section 17 of the MLA. Those leases issued pursuant to Section 17 carried a step-scale royalty rate on oil of 12½ percent to 32 percent, and 12½ percent on gas and liquid hydrocarbons when daily average gas production does not exceed 5,000 Mcf per well or 16⅔ percent when the daily well average is over 5,000 Mcf. By administrative action of May 3, 1945, the step-scale royalty rates on oil were reduced to 12½ to 25 percent (maximum of 25 percent instead of 32 percent) on leases thereafter issued.

The step-scale could be modified if the price was less than $1 per barrel with such modification in proportion to the price. Rental on these leases was 25 cents per acre per year prior to production, and $1 per acre per year after production. (Noncompetitive leases were further modified by the Act of July 29, 1942, that gave the leaseholder a preference right to a new lease if the lands were not included in the KGS.) Competitive leases issued under this Act were for an initial period of 10 years and so long thereafter as oil or gas is produced in paying quantities. Royalty under these competitive leases was established on a step-scale basis with a maximum rate of 32 percent. Subsequent Acts of 1943, 1944, and 1945 each granted 1-year extensions to leases covering lands in the KGS.

3. 1942 and 1945 Acts

ROYALTY RATE - 1942 AND 1945 ACTS

The MLA revision of December 24, 1942, limited royalty to 1/8 (12½ percent) for 10 years following a discovery on a lease. The benefit was limited to lessees who drilled the discovery and also was limited to production from the new deposit.

Circular No. 1595, issued May 3, 1945, amended the step-scale royalty rate provided under the Act of 1935 to limit the maximum royalty rate to 25 percent (see Illustration 7).

NOTE: The sliding-scale royalty rates still exceeded 25 percent and were unchanged.

Keywords

4. 1946 Act

The Act of August 8, 1946, limited the rate of royalty to 12½ percent on noncompetitive leases thereafter issued and on the existing leases as to production on oil and gas deposits discovered subsequent to May 27, 1941, except under competitive leases issued under the Act of August 31, 1935. It also substituted a $1 per acre per year minimum royalty for advance rentals after discovery of oil or gas (see Section III, above). All noncompetitive leases issued subsequent to the Act of August 8, 1946, carry a 12½ percent royalty rate. This flat 12½ percent royalty rate often is merely specified in the terms of the lease form. In some cases, it is set forth in Schedule A (see Illustration 8), that was attached to the lease form. All leases issued between May 3, 1945, and August 8, 1946, as well as competitive leases issued after the 1946 Act (except leases issued in accordance with the Reform Act of December 22, 1987), carry a step-scale royalty rate of 12½ percent to 25 percent, that is often set forth as Schedule B (see Illustration 9). Leases issued between August 21, 1935, and May 3, 1945, are subject to a similar schedule, except the maximum royalty rate is 32 percent rather than 25 percent (see Illustration 7, page 3).

ROYALTY RATE - 1946 ACT

SCHEDULE A

SCHEDULE B

The 1946 Act also provided for royalty of 12½ percent on the production removed or sold from lands determined by the Director not to be within the productive limits of any oil or gas deposits on August 8, 1946. The various determinations issued by the Director under the 1946 Act essentially are rulings as to whether: (1) a discovery on a lease or unit after May 27, 1941, qualified as a discovery under the 1946 Act; (2) whether lands that may constitute all or part of the lease or unit were outside the productive limits of any oil or gas deposits on August 8, 1946. The oil or gas deposit existing on August 8, 1946, that covered the greatest areal extent is the governing factor.

At that time, Schedule C was applicable for renewals or exchanges of 5-percent royalty rate leases. Such leases that were renewed or exchanged prior to May 3, 1945, required a maximum royalty rate of 32 percent rather than 25 percent. Schedule C omits the step royalty rates of 13, 14, 15, 16, and 17 percent used in Schedule B, and jumps from 12½ percent to 18, 19, 20 percent, etc. The Schedule C royalty rate remains at 12½ percent until the average daily oil production exceeds 110 barrels.

SCHEDULE C

Keywords

Schedule D can be applicable in a number of different cases since Item 2 on the schedule was filled in by the BLM to fit the case at hand. Schedule D normally was completed by typing in the royalty rate of the lease that was being renewed, provided the lease did not qualify under the 12½ percent royalty provision quoted in the upper part of Schedule D.

SCHEDULE D

Section 15 of the Act allowed a person holding a lease on August 8, 1946, to elect to have his lease governed by the applicable provisions of the 1946 Act (see Section III.A, above).

5. 1960 Act

The Act of September 2, 1960, provided for noncompetitive leases to be issued for a term of 10 years and so long thereafter as they contained a well capable of producing oil or gas in paying quantities. Such leases were issued with a flat royalty rate of 12½ percent and a rental requirement of 50 cents per acre per year payable in advance. Competitive leases issued under the 1960 Act were for a term of 5 years and so long thereafter as the lease contained a well capable of producing oil or gas in paying quantities. The rental requirement for a competitive lease was $2 per acre per year, and royalty was a step-scale royalty ranging from 12½ percent to 25 percent (Schedule B).

ROYALTY RATE
1960 ACT

6. Mineral Leasing Act for Acquired Lands of August 7, 1947

The leasing of acquired lands for oil and gas is covered by the Act of August 7, 1947. Section 3 of the Act provides that oil and gas deposits within the acquired lands covered by the Act may be leased by the Secretary under the same conditions as contained in the leasing provisions of the Mineral Leasing Act of 1920, as amended. Section 10 of the Act of 1947 provides that the Secretary may prescribe such regulations as are necessary to carry out the purposes of the Act, and regulations shall be the same as those prescribed under the mineral leasing laws to the extent that they are applicable. Accordingly, the provisions in 43 CFR Parts 3100, 3110, 3120, 3160, and 3180 are applicable to both public domain and acquired lands.

ACQUIRED LANDS
ACT OF 1947

Keywords

7. Federal Onshore Oil and Gas Leasing Reform Act of December 22, 1987

ROYALTY RATE - 1987 REFORM ACT

The Reform Act established a system requiring that all lands eligible and available for leasing must initially be offered by competitive sale. If a bid for a parcel is not received at a competitive oral auction, and the parcel was not subject to a presale noncompetitive lease offer, the lands in the parcel become available for postsale noncompetitive offer beginning on the first day following the last day of the competitive sale. Following a 2-year period from the date of the sale, if the lands in the parcel have not issued under a noncompetitive lease, the lands became subject again to leasing only through the competitive system. The Reform Act established rental in the amount of $1.50 per acre for the first 5 lease years and $2 per acre for subsequent lease years. The Reform Act continued the primary term of competitive leases as 5 years and the primary term for noncompetitive leases for 10 years. However, the Energy Policy Act of October 24, 1992 (P.L. 102-486), changed the competitive lease primary term to 10 years, the same length as for noncompetitive leases. Royalty rates required by the Reform Act are to be not less than 12½ percent for both lease types. The leasing regulations implementing the Reform Act require a flat 12½ percent royalty rate.

For exchange and renewal leases issued on or after the regulations of June 17, 1988, the royalty rate is a flat 12½ percent.

Keywords

B. Step-Scale Leases

STEP-SCALE ROYALTY SCHEDULES

Examples of the step-scale royalty schedules (Schedules "B" and "C") used for Federal public domain oil and gas leases are provided in Illustration 9.

STEP-SCALE GAS ROYALTY RATE

The gas royalty rate under step-scale leases is based on the average lease production per well per day for a calendar month using a 28-, 29-, 30-, or 31-day month without considering the actual number of days that the lease produced gas. Thus, the gas royalty rate for step-scale leases is to be determined based on the number of days in the calendar month regardless of the number of days that the wells produced, and each gas well that produced any gas during the month is to be counted. Gas royalties will be either 12½ percent or 16⅔ percent depending on this average production per well per day.

For example, a Schedule "B" lease having the following gas production from gas wells during April would have its royalty rate for gas computed as follows:

Well No.	Days Produced	Total Mcf
A	1	10,000
B	9	50,000
C	30	310,000
D	15	300,000
4 - Total wells		Total Mcf - 670,000

Royalty Rate = 670,000 Mcf + (4 wells x 30-day month)
5,583 Mcf/well/day

Royalty Rate (from Schedule B) = 16⅔ percent

Keywords

STEP-SCALE OIL ROYALTY RATE

The oil royalty rate under step-scale leases is generally based on the average production of oil per well per day for the calendar month. Oil wells are to be counted as prescribed in 43 CFR 3162.7-4. The total oil production (sales) for the month is to be divided by the number of countable wells, and the figure thus obtained is to be divided by the number of days in the month to obtain the average daily production per well. However, when initial production of the leasehold is made during the month or when, for a previously producing leasehold, no well produced for 15 days or more, royalty is to be computed on the basis of actual producing well days. Oil royalties will vary from 12½ percent to 25 percent or 32 percent, depending on this average daily production and applicable royalty schedule.

For example, a Schedule "B" lease having 5 wells counted as producing every day during July (31-day month) and a total monthly lease production of 20,000 barrels will have a royalty of 18 percent calculated as follows:

20,000 barrels - 5 wells - 31 days = 129 barrels/well/day

Royalty Rate (from Schedule B) = 18 percent

20,000 barrels x 18% = 3,600 Royalty Barrels

Keywords

C. Sliding-Scale Leases

Illustration 10 provides an example of the sliding-scale royalty schedule (Schedule "D"). Illustration 11 provides an explanation of the calculation of sliding-scale royalty.

SLIDING-SCALE ROYALTY SCHEDULE

For sliding-scale leases, the gas royalty rate is based on the total gas produced or allocated to the lease from all sources and is calculated on a 28-, 29-, 30-, or 31-day month, as the case may be, without considering well count or the actual number of days that the lease produced gas. For example, if a lease produced gas 2 days in April that totaled 15,000 Mcf, the royalty rate would be 12½ percent based on an average daily production of 500 Mcf (15,000 Mcf divided by 30 days). Gas royalties will be either 12½ percent or 16⅔ percent depending on whether the average production thus determined is greater or less than 3,000 Mcf per day.

SLIDING-SCALE GAS ROYALTY RATE

The oil royalty rate under sliding-scale leases is computed by determining the average production per well per day and then applying a specific royalty rate to certain portions of the average production. For example, if the sliding-scale royalty rate of 12½ to 33⅓ (or 25) percent on oil above 30° Baume is applicable and the average daily well production for the month was 50 barrels, royalty would be 12½ percent on the first 20 barrels and 16⅔ percent on the next 30 barrels or a total of 7½ royalty barrels. Oil wells are to be counted as prescribed in 43 CFR 3162.7-4.

SLIDING-SCALE OIL ROYALTY RATE

In cases where oil production from a sliding-scale lease or from a participating area with such a lease varies in gravity from above and below 30° Baume, API gravity is to be used instead of Baume. A volume weighted average royalty rate will be computed from the runs of the two gravity classes and such rate applied to the runs for the calendar month.

NOTE: The royalty rate schedule attached to some renewal and exchange leases was inadvertently labeled as Schedule "D" when, in fact, the royalty rate schedule was actually a "C" schedule. Some of these leases are located in Montana and Wyoming, and there may be other such exchange or renewal leases in the States of California, Colorado, and New Mexico.

Keywords

D. 12½ Percent Determinations

12½ PERCENT ROYALTY DETERMINATIONS

The 1946 revision of the MLA also provided for a royalty rate of 12½ percent on the production removed or sold from lands determined not to be within the productive limits of any oil or gas deposits on August 8, 1946. The various determinations issued in accordance with the 1946 Act essentially are rulings as to: (1) whether a discovery on a lease or unit after May 27, 1941, qualifies as a discovery under the 1946 Act, or (2) whether lands that may constitute all or part of the lease or unit are outside the productive limits of any oil or gas deposits on August 8, 1946. The greatest areal extent of the oil or gas deposit existing on August 8, 1946, is the governing factor.

Keywords

EFFECTS OF UNITIZATION ON ROYALTY RATE

E. Effects of Unitization

Generally, the royalty settlement provisions in the normal unit agreement provide that royalty due the United States shall be computed in accordance with the operating regulations as to all unitized substances allocated to the unitized Federal land at the royalty rate specified in the individual lease, and that each participating area is to be considered as a single lease.

As a general rule for production under a unit agreement, oil royalty rates for step-scale and sliding-scale leases and gas royalty rates for step-scale leases are based on the total number of countable wells in and total production from a given participating area.

For sliding-scale leases, such rates must be based in each case on the total amount of gas allocated to or produced from the lease from all sources within and without the unit.

If a dually completed well is producing from two participating areas, it is to be counted as a well in each of the areas, if otherwise qualified. When wells are multiple-completed in a participating area, and a zone is determined to be noncommercial under the unit agreement, the completion in the participating area is to be counted as a well for the participating area and the well also is to be counted as a well for the noncommercial zone.

Unless specifically permitted by the unit agreement, any well located outside of a participating area is not to be counted for participating area royalty purposes. However, a portion of such a well may be counted if a corresponding portion of the well's production is allocated to the participating area.

Many older unit agreements contain special royalty provisions that amend the unitized leases. Accordingly, the specific provisions of the unit agreement must always be reviewed prior to determining individual well counts and royalty rates.

Keywords

F. Effects of Communitization

EFFECTS OF COMMUNITIZATION ON ROYALTY RATE

The royalty rate for oil and condensate on leases subject to a step-scale or sliding-scale royalty rate shall be determined separately for the production from communitized wells and for the production from noncommunitized wells.

For a step-scale lease, the royalty rate for gas shall be determined separately as to production from each CA to which the lease is committed, and determined separately as to any noncommunitized lease production. For a sliding-scale lease, the rate of royalty applicable to gas production shall be determined by dividing the sum of all communitized production allocated to the lease and any noncommunitized production by the number of days in the month.

Keywords

G. Bond Demands for Royalty Liabilities

BOND DEMANDS FOR ROYALTY/ RECLAMATION COSTS ARE PAID TO BLM

When the MMS determines that royalty liabilities have occurred, i.e., insufficient royalty monies have been received, such royalty (including penalty and interest charges) and/or reclamation costs that are submitted in response to a bond demand are to be paid to the BLM in some form of guaranteed remittance. The BLM is to provide same-day confirmation receipt to the MMS by telefax or overnight mail for the royalty, penalty, and interest monies owed to the United States. The MMS monies are to be transferred to the BLM Service Center by Online Payment and Collection System (OPAC), Form 1372-5, so that the MMS can access the data within 5 working days of the payment's receipt. The receipt of the money by the BLM stops accrual of interest charges for the amount paid. Receipt of full payment by the BLM stops accrual of penalty charges. (See Handbook 3104-1, for bond collection procedures.)

Keywords

V. Reversion of Lease Account from Minimum Royalty to Rental Status

A. General

The following guidance is provided to determine whether a lease account reverts to a rental status collectible by the MMS when producing leases are segregated by partial assignment or unitization; when a CA terminates; when a unit agreement terminates or contracts; and when production ceases. (See also Section III.C, above.)

REVERSION OF LEASE ACCOUNT FROM MINIMUM ROYALTY TO RENTAL STATUS

Guidance for unit or CA termination, unit contraction, unit segregation, segregation due to partial assignment, and cessation of production, are contained in Handbooks 3105-1, 3106-1, and 3107-1, respectively. (See Handbook 3107-1 for guidance on transferring lease accounts from rental status to royalty/minimum royalty status. See also Handbook 3105-1, Appendix 4, for additional guidance concerning procedures for leases reverting from minimum royalty status to rental status.)

When the lease account reverts to a rental (terminable) status, the lessee must be notified by the SO Lease Adjudication of the obligation to pay the rental and be given 30 days to make the payment even though the rental due date may have already passed or be a date other than the lease anniversary date (see Husky Oil Company of Delaware, Depco, Inc., 5 IBLA 7 (1972), and American Resources Management Corp., 36 IBLA 157 (1978)).

NOTIFY LESSEE OF LEASE ACCOUNT REVERSION

Keywords

B. Nonunitized Leases

When a nonunitized or noncommunitized lease converts to a minimum royalty paying status, it will not revert to a rental status even though production ceases and there is no longer a well capable of paying production on the lease lands. Thus, even though the term of the lease may have reverted to a fixed number of years, it is still subject to minimum royalty (see Elliott, Inc., 71 I.D. 361 (1964)).

NONUNITIZED LEASE REMAINS IN MINIMUM ROYALTY STATUS AFTER PRODUCTION CEASES

However, there are several exceptions or instances where minimum royalty lands revert to rental, as follows:

1. When nonproductive lands are segregated from a producing lease into a separate lease by reason of a partial assignment, the lease without the productive well reverts to a rental status on the lease anniversary date that occurs on or after the effective date of the assignment, and the lease account will be transferred from a producing (nonterminable) status to a nonproducing (terminable) status in the MMS automated system. That portion of the parent lease containing the well remains on minimum royalty.

PARTIAL ASSIGNMENT OF NONPRODUCTIVE LANDS REVERTS TO RENTAL STATUS

2. If a renewal lease is in a minimum royalty status and is not held by the terms of a unit agreement, and actual production ceases prior to the end of its term, the lease reverts to a rental status in the MMS automated system when it is renewed for its final 20-year term in accordance with the Act of November 15, 1990.

RENEWAL LEASE IN MINIMUM ROYALTY STATUS AT END OF TERM REVERTS TO RENTAL STATUS

3. If a lease subject to minimum royalty is in its original or fixed term and production ceases, and if the depleted well is on the leasehold, the lease remains in a minimum royalty status in the MMS automated system through the remainder of such term. However, if the depleted well is off the leasehold, the lease will revert to a rental status on the next lease anniversary date and the account will be transferred from a producing (nonterminable) status to a nonproducing (terminable) status in the MMS automated system.

CESSATION OF PRODUCTION ON LEASEHOLD

CESSATION OF PRODUCTION OFF LEASEHOLD

For example, all leases in their original or fixed term committed to a CA receive a 2-year extension when the CA terminates upon cessation of production. The lease with the well would continue under minimum royalty during this 2-year period, while the lease without the well that merely participated in communitized production reverts to a rental (terminable) status on the next lease anniversary date following termination of the CA.

COMMUNITIZATION AGREEMENT TERMINATION - LEASE WITHOUT WELL REVERTS TO RENTAL STATUS

Keywords

LEASE IN EXTENDED TERM IN MINIMUM ROYALTY STATUS AND PRODUCTION CEASES REVERTS TO RENTAL STATUS

4. When a lease in minimum royalty status is in its extended term by production, and production ceases but the lease is extended by any other provisions of the law and regulations, the lease reverts to a rental status on the next lease anniversary date.

C. Unitized Leases

Keywords

When a producing lease is segregated into two leases upon partial commitment to a unit, the lease containing a productive well remains on minimum royalty. The lease without the productive well reverts to a rental status and the lease account is transferred from a nonterminable to a terminable status in the MMS automated system (see T. Jack Foster, 75 I.D. 81 (1968)).

UNIT SEGREGATION - LEASE WITHOUT WELL REVERTS TO RENTAL STATUS

When nonproductive acreage in a lease is automatically eliminated from a unit, no lease segregation occurs but the lease acreage inside and outside the unit area changes. When a unitized lease that has never had a producing well is removed from a participating area, the lease is no longer subject to the minimum royalty obligation and reverts to a rental status on the next anniversary date on or after its elimination from the participating area.

LEASE ELIMINATED FROM UNIT REVERTS TO RENTAL STATUS IF NO PRODUCIBLE WELL ON LEASE ACREAGE

A contraction or revision/expansion of the unit area decreases or increases the participating area acreage that is subject to the minimum royalty obligation and, therefore, also changes the nonparticipating acreage that is subject to rental obligations. When a lease is eliminated from the participating acreage due to a unit contraction, the lease reverts to a rental status on the next anniversary date on or after the effective date of the unit contraction if the lease does not and never did contain a well capable of producing in paying quantities.

UNIT CONTRACTION OR EXPANSION REVISES ACREAGE IN LEASES SUBJECT TO MINIMUM ROYALTY/RENTAL STATUS

When a unit agreement terminates and a unit lease was partly inside and partly outside the participating area and contains a producing well (or a well that was once capable of production in paying quantities), the entire lease remains on minimum royalty. If the lease does not and never did contain a producing well, the entire lease reverts to a rental status and the account is transferred from a nonterminable status to a terminable status in the MMS automated system (see Murphy Corporation, 71 I.D. 233 (1964)).

UNIT TERMINATION - LEASE WITHOUT WELL REVERTS TO RENTAL STATUS

For leases entirely eliminated from a unit by contraction, the leases that contain a producing well (or a well that was once capable of production in paying quantities) remain in a minimum royalty status. However, the leases that do not and never did contain a producing well revert to a rental status and the accounts are transferred from a nonterminable status to a terminable status in the MMS automated system.

UNIT CONTRACTION - LEASE WITHOUT WELL REVERTS TO RENTAL STATUS

Keywords

During the time a lease account is maintained by the MMS, when there is an arrearage or deficiency in minimum royalty/rental payments, and the lease account reverts to a rental status, the deficiency or arrearage will be annotated in the lease account in the MMS automated system. The individual BLM State Offices can identify such leases with deficiencies or arrearages in the MMS BIS automated system.

ROYALTY/RENTAL DEFICIENCIES IN MMS - BLM NOTIFIED

For leases reverting to a rental status from a royalty or minimum royalty status, the SO Lease Adjudication is to indicate the exact rental due date in the decision issued, particularly for those leases where the lessee is allowed 30 days to pay the rental (see Husky Oil Company of Delaware, Depco, Inc., 5 IBLA 7 (1972)). If the rental is not paid within the time allowed, the lease is then subject to the automatic termination provisions of the MLA. Transmit a copy of the decision to the MMS-DMD. (See Handbook 3105-1 for additional guidance.) Even though the lease may be subject to a Secretarial rental rate reduction (see Section II.A, above), the decision shall show the proper, higher rental rate that is contained in the lease terms or as provided under 43 CFR 3103.2-2(b), with further explanation of the reduced rate that is caused by the Secretarial rental reduction and the specific time frame during which the rental rate reduction is applicable.

ACCOUNTING ADVICE - SHOW EXACT RENTAL DUE DATE AND FULL ANNUAL RENTAL RATE

Rentals due on leases reverting to rental status following elimination from units or CA's fall into two categories:

1. Rental that was due to the MMS while the lease was unitized (and thus not subject to automatic termination). The amount due is a debt owed to the United States for which interest and penalties accrue. Initiation of cancellation proceedings by the BLM is required to cancel the lease if the amount due, which includes any interest and penalties charges, is not paid to the MMS.

RENTAL DUE TO MMS WHILE LEASE UNITIZED

Keywords

When a lease was in unit with the account in a producing (nonterminable) stat in the MMS automated system and the rental due was not paid, it is a violation of the lease terms that could result in lease cancellation under 43 CFR 3108.3 (not under 43 CFR 3108.2). Since the lease does not contain a well capable of production in paying quantities and is eliminated from a unit containing a well so capable, the lease may be canceled administratively by the BLM (lease does not terminate automatically). The lessee must be notified of the amount due and allowed 30 days from receipt of the BLM notice to tender the payment (43 CFR 3108.3(a)). This action will be taken by the BLM only after the MMS has exhausted all means in collecting the arrearage/deficiency. In accordance with the Bureau of Indian Affairs/BLM/MMS Memorandum of Understanding (MOU), Section IX.E., the MMS is to provide the BLM with all the pertinent supporting material in order to commence the cancellation proceedings.

RENTAL DUE AFTER UNIT CONTRACTION

2. Rental that is due to the MMS on the first anniversary date after unit contraction that, if not paid after receipt of the BLM notice of the lease status change, will result in automatic termination of the lease under 30 U.S.C. 188(b). No interests or penalties accrue; the consequence of nonpayment is the automatic termination of the lease.

NOTIFICATION OF CHANGE IN LEASE STATUS REQUIRED TO BE GIVEN LESSEE

In the second category, if rental is not paid timely, the lease does not automatically terminate if the lessee was not notified by the BLM of the change in status of the lease account (including any increased rental rate) prior to the rental due date. The IBLA held in Husky Oil Company of Delaware, Depco, Inc., 5 IBLA 7 (1972), that Congress intended that the automatic termination provision of 30 U.S.C. 188 apply to the regular, annual rental payment, the necessity for which a lessee had continuous notice, and that this automatic termination provision was not intended to apply to a case where a lessee had no way of knowing that the obligation had accrued. Thus, if the lessee is not notified of the elimination of the lease from the unit/CA prior to the first anniversary date after the effective date of elimination, the lease does not terminate.

Keywords

D. Automated Notation

The MMS-DMD does not generate an expiration list for nonproducing leases that remain in the minimum royalty status for the remainder of their term. It is, therefore, imperative that the ALMRS Entry be made for such leases as follows: ALMRS DE 1775/2910 Action Code 763-EXPIRES, using the date of expiration.

AUTOMATED NOTATION - LEASES REMAINING ON MINIMUM ROYALTY

When a lease account is transferred in the MMS from a producing (nonterminable) status to a nonproducing (terminable) status, make the following ALMRS Entry: DE 1775/2910 Action Code 058-NOTICE SENT-NONPROD STAT, using the date that a notice is sent that the lease account is changed from a nonterminable to a terminable status.

AUTOMATED NOTATION - LEASES REVERTING TO RENTAL STATUS

See Appendix 3 for a listing of the ALMRS action codes applicable to this the actions addressed in this Handbook 3103-1.

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Keywords

VI. Leases Affected by KGS/FPGP Determinations

A. General

Prior to the Reform Act of December 22, 1987, leasing and rental rates were based on determinations of whether lands were within a KGS outside of Alaska or FPGP within Alaska. Lands were required to be offered for competitive leasing if they were within a KGS or FPGP. If a lease issued noncompetitively for non-KGS lands, but at a later date any portion of the lands in the lease was determined to be included in a KGS, the rental rate for the noncompetitive lease was increased to the competitive rate on the next anniversary date following a 30-day notice to the lessee of the increased rental rate. The rental rate was increased for the entire lease even though only a portion of the lease may have been determined to be within the KGS.

LEASES AFFECTED BY KGS/FPGP DETERMINATIONS

30-DAY NOTICE OF KGS/FPGP RENT INCREASE

KGS/FPGP RENT INCREASE APPLIES TO ENTIRE LEASE ACREAGE

Prior to the changes resulting from the Reform Act, for noncompetitive leases that had been reinstated under the Class II reinstatement provisions at the increased rental rate of $5 per acre, the rental rate was increased an additional $2 per acre (totalling $7 per acre or fraction thereof) if the lease included any lands determined to be within a KGS prior to the reinstatement. If any of the lands within a noncompetitive lease that had been reinstated were later determined to be in a KGS or FPGP, the annual rental was increased an additional $2 per acre or fraction thereof beginning with the first lease year following a 30-day notice to the lessee of the increased rental rate due to the KGS or FPGP determination. Following a revision or declassification of a KGS or FPGP, resulting in a lease no longer containing any such lands, the rental is to be reduced to the non-KGS/FPGP rate. The partial assignment of a portion of the lease, with such new lease containing no KGS/FPGP lands, also results in the rental being reduced to the non-KGS/FPGP rental rate.

KGS/FPGP RENT INCREASES FOR CLASS II-REINSTATED NONCOMPETITIVE LEASES

Keywords

KGS/FPGP REVIEW FOR GRANDFATHERED NONCOMPETITIVE LEASE OFFERS

Noncompetitive lease offers filed prior to the Reform Act of December 22, 1987, that are pending processing toward lease issuance must be reviewed to determine if any of the lands are within a KGS/FPGP. Such "grandfathered" offers must be rejected as to any lands in the offer determined to be within a KGS, even though the leases are issued after enactment of the Reform Act. Effective June 17, 1988, the leasing regulations at 43 CFR 3103.2-2(b)(2) provide that the rental rate of any lease determined after December 22, 1987, to be within a KGS or FPGP shall not be increased due to such determination. Furthermore, if the lessee was not notified of a rental increase to $2 per acre before December 22, 1987, for a KGS determination that occurred prior to that date, the rental rate shall not be increased as a result of the KGS/FPGP determination. Notification shall be considered the date of the decision or notice issued by the BLM, not the date of receipt of such notice by the lessee. The rental rate for leases issued on or before December 22, 1987, and including KGS/FPGP lands shall be as stated in the lease terms, except for those leases not subject to the rental increase as discussed directly above.

LEASES EXEMPT FROM RENTAL INCREASE FOR KGS/FPGP DETERMINATION MADE AFTER THE REFORM ACT

Keywords

VII. Reduction of Rental and Royalty

A. General

Determinations for waiver, suspension, or reduction of rental, royalty, or minimum royalty are made by the BLM Field Office fluid mineral operations personnel (State Office or, if delegated, District or Area Office). Such a waiver, suspension, or reduction is authorized by the MLA (30 U.S.C. 209) for the purpose of encouraging the greatest ultimate recovery of the mineral resource when it is in the interest of conservation of natural resources and deemed necessary to do so in order to promote development or a lease cannot be successfully operated under its lease terms. Lease royalty may be reduced, but unlike rental or minimum royalty, cannot be waived or suspended.

RENTAL OR ROYALTY REDUCTION

For leases where the minimum royalty exceeds production royalty, the minimum royalty may be reduced by the BLM authorized officer (Field Office Fluid Mineral Operations) to a lower rate, i.e., from $1.50 or $2 per acre to $1 per acre, or to 50 cents or 25 cents per acre at the same time that a reduction of royalty is granted.

The right is reserved by the BLM authorized officer to terminate the reduction of royalty, readjust the amount of reduction, or to restore the royalty rate to that required by the lease terms and/or regulations at any time for the entire lease or for any portion thereof segregated for royalty purposes.

For a renewal lease, any reduced royalty rate does not carry over to the new renewal lease upon its issuance. The lease must be renewed at the current rates required by the leasing regulations, and a new application for a royalty or rental reduction must be filed by the lessee for a determination by the BLM authorized officer of eligibility for such a reduction.

ROYALTY REDUCTION ON RENEWAL LEASE NOT CARRIED OVER ON NEW RENEWAL LEASE

Keywords

A Class II-reinstated lease may be granted a royalty reduction on the entire lease or a portion thereof that has been segregated for royalty purposes. The royalty reduction may be granted if the BLM authorized officer determines that there are either economic factors or other circumstances that could cause undue economic hardship or premature termination of production due to the required higher royalty that is required by the Class II reinstatement criteria. Other factors also may be weighed in granting a royalty reduction for such a lease, including a determination by the authorized officer that it is equitable to do so. (See 43 CFR 3108.2-3(f), Gulf Oil Corp., 83 IBLA 289 (1984), and Alta Energy Corp., 100 IBLA 313 (1987)).

ROYALTY REDUCTION ON CLASS II-REINSTATED LEASE

A Class II-reinstated lease also may be granted a rental reduction if the authorized officer determines that there are either economic factors or other circumstances that would justify such a reduction, to promote development and be in the interest of conservation of natural resources.

RENTAL REDUCTION ON CLASS II-REINSTATED LEASE

Determinations for reduction of royalty for stripper oil wells are made by the MMS. The provisions for a royalty reduction for stripper oil wells went into effect on October 1, 1992. The policy was implemented to prevent premature abandonment of marginally economic and shut-in oil wells and to maximize the ultimate recovery of such wells. The Secretary will evaluate the effectiveness of the stripper well royalty reduction program and may at any time after September 10, 1997, terminate any or all royalty reductions granted under these provisions upon 6 months notice.

ROYALTY REDUCTION ON STRIPPER OIL WELLS

To qualify for a stripper oil well royalty reduction, the operator is required to calculate the reduced royalty rate in accordance with the criteria in 43 CFR 3103.4-1(c) and (d) and notify the MMS. The MMS will verify that the reduced rate (qualifying rate) submitted by the operator is correct and will notify all interested parties of the qualifying reduced rate. The qualifying reduced rate will prevail for the duration of the stripper royalty rate program unless a lower rate is recalculated by the operator for subsequent claim years and notifies MMS within 60 days of end of that claim year.

B. Action on Application for Reduction of Rental or Royalty

The following procedures are applicable for requests for a rental or royalty reduction, other than for stripper oil well properties, that are required to be filed in the proper BLM office.

Responsible Official	Step	Action	Keywords
SO Fluid Minerals or Field Office Operations	1.	Receive the application and review it for administrative completeness. Ensure that all the information required by 43 CFR 3103.4-1 is presented. If the application is incomplete, request the additional information from the applicant.	ROYALTY/RENTAL REDUCTION APPLICATION REVIEW
ALMRS Entry	2.	Enter Action Date (MANDATORY ACTION CODE): Date request for royalty reduction filed; DE 1775/2910 Action Code 624; Action Remarks: Optional.	AUTOMATED NOTATION
SO Fluid Minerals or Field Office Operations	3.	Determine whether the situation presented by the lessee/operator warrants a Federal royalty/rental reduction consideration in accordance with the appropriate, established BLM criteria.	ELIGIBILITY DETERMINATION
	4.	If all criteria for a royalty/rental reduction are not met, notify the applicant explaining the reason the lease is not eligible for a reduction of the royalty/rental. Also, advise the applicant of the right of appeal under 43 CFR 3165.4.	REDUCTION DENIED
ALMRS Entry	5.	Enter Action Date (MANDATORY ACTION CODE): Date royalty/rental reduction denied; DE 1775/2910 Action Code 626; Action Remarks: Enter reason (optional	AUTOMATED NOTATION
SO Fluid Minerals or Field Office Operations	6.	If all criteria for the royalty/rental reduction are met, advise the SO Lease Adjudication of the provisions for the reduction.	REDUCTION APPROVED

Responsible Official	Step	Action	Keywords
Adjudication	7.	Issue a decision reducing the royalty/ rental rate in accordance with the recommendation provided by the Fluid Minerals Staff (see Illustration 12).	DECISION ISSUED - REDUCTION APPROVED
ALMRS Entry	8.	Update ALMRS Entry using the current data standards.	AUTOMATED NOTATION
		8a. Enter Action Date (MANDATORY ACTION CODE): Date royalty reduction approved; DE 1775/2910 Action Code 625; Action Remarks: Effective date.	
		8b. Enter Action Date (MANDATORY ACTION CODE): Effective date of appropriate new royalty rate for entire lease, e.g., DE 1775 Action Code 107/DE 2910 Action Code 535 (RLTY RATE - 5%), or DE 1775 Action Code 108/DE 2910 Action Code 536 (RLTY RATE - OTHER); Action Remarks: Enter new royalty rate (when DE 1775 Action Code 108/DE 2910 Action code 536 is entered), followed by a tie / / for old royalty rate to be entered in General Remarks; General Remarks: Enter old royalty rate and its effective dates, i.e., FROM MM/DD/YY TO MM/DD/YY.	
		NOTE: Remove old royalty rate code when reduction applies to entire lease.	
SO Fluid Minerals or Field Office Operations	9.	Upon a determination that the royalty reduction is no longer necessary to promote development or to allow the successful operation of the lease, notify SO Lease Adjudication.	TERMINATION OF ROYALTY REDUCTION
Adjudication	10.	Issue decision rescinding royalty rate reduction (see Illustration 13).	DECISION ISSUED - REDUCTION ENDED

Responsible Official	Step	Action	Keywords
ALMRS Entry	11.	Update ALMRS Entry using the current data standards.	AUTOMATED NOTATION
		11a. Enter Action Date (MANDATORY ACTION CODE): Effective date royalty rate reduction lifted; DE 1775 Action Code 631/DE 2910 Action Code 630; Action Remarks: add a tie / / to appropriate DE 1775/2910 Action Code 625.	
		11b. Enter Action Date: (MANDATORY ACTION CODE): Effective date of appropriate new royalty rate for entire lease, e.g., DE 1775 Action Code 104/DE 2910 Action Code 532, or DE 1775 Action Code 102/DE 2910 Action Code 530; Action Remarks: Enter a tie / / to General Remarks; General Remarks: Enter previous royalty rate and its effective dates, i.e., FROM MM/DD/YY TO MM/DD/YY.	

C. Action on Notification of Reduction of Royalty - Stripper Oil Wells

Responsible Official	Step	Action	Keywords
Minerals Management Service	1.	Receive notification from operator of calculation of reduced royalty rate. Ensure all information required by 43 CFR 3103.4-1(c) and (d) is present.	ROYALTY REDUCTION NOTIFICATION FROM WELL OPERATOR
	2.	Verify that the reduced royalty rate submitted by the operator warrants a Federal royalty reduction consideration in accordance with the established criteria.	STRIPPER OIL WELL ROYALTY REDUCTION ELIGIBILITY DETERMINATION
	3.	If all criteria for a stripper oil well property royalty rate reduction are not met, notify the operator of the reason the oil well property is not eligible for reduction of royalty. Also, advise the operator of the right of appeal under 43 CFR 3165.4.	STRIPPER OIL WELL ROYALTY REDUCTION DENIED
	4.	If all criteria for the stripper well royalty reduction are met, notify the operator, the BLM Field Office fluid mineral operations staff, and the SO Lease Adjudication of the provisions for the royalty rate reduction.	STRIPPER OIL WELL ROYALTY REDUCTION APPROVED
ALMRS Entry	5.	Update ALMRS Entry using the current data standards.	AUTOMATED NOTATION
		5a. Enter Action Date (MANDATORY ACTION CODE): Date of the MMS memorandum approving the royalty rate reduction; DE 1775/2910 Action Code 625; Action Remarks: Enter a tie / / to DE 1775 Action Code 630/DE 2910 Action Code 621, as also entered (see next step).	

Responsible Official	Step	Action	Keywords
		5b. Enter Action Date (MANDATORY ACTION CODE): Effective date of stripper oil well royalty reduction; DE 1775 Action Code 630/DE 2910 Action Code 621; Action Remarks: Enter new royalty rate for stripper oil well property, and a tie / / to DE 1775/2910 Action Code 625 (see step above) and to General Remarks; General Remarks: Operator name, well number, AIRS IID rate, etc., (optional).	
		NOTE: If the oil well property reduced royalty rate pertains to unit or CA wells, show the serial number of the agreement with the tie / / in General Remarks. If there are lease, unit and/or CA oil wells located on a leasehold, more than one stripper well royalty rate reduction may be indicated for a lease.	
Minerals Management Service	6.	Upon a determination that the stripper oil well royalty reduction is no longer necessary to promote development or to allow the successful operation of the lease, issue a decision to the operator rescinding the royalty rate reduction, and notify the BLM Field Office fluid mineral operations and the SO Lease Adjudication with a copy of the decision.	TERMINATION OF ROYALTY REDUCTION

Responsible Official	Step	Action	Keywords
ALMRS Entry	7.	Update ALMRS Entry using the current data standards.	AUTOMATED NOTATION
	7a.	Enter Action Date (MANDATORY ACTION CODE): Effective date that stripper oil well property royalty rate reduction was lifted; DE 1775 Action Code 631/DE 2910 Action Code 630; Action Remarks: Enter a tie / / to the applicable DE 1775/2910 Action Code 625, and to the applicable DE 1775 Action Code 630/DE 2910 Action Code 621; General Remarks: Optional.	
	7b.	Enter Action Date (MANDATORY ACTION CODE): Effective date of appropriate new royalty rate for stripper oil well property, e.g., DE 1775 Action Code 104/DE 2910 Action Code 532, <u>or</u> DE 1775 Action Code 102/DE 2910 Action Code 530; Action Remarks: Enter a tie / / to General Remarks; General Remarks: Enter previous royalty rate and its effective dates, i.e., FROM MM/DD/YY TO MM/DD/YY.	

Keywords

VIII. Suspension of Operations and/or Production

A. General

Under 43 CFR 3103.4-2, a suspension of all operations and production on a lease may be granted only when the authorized officer consents to the suspension in the interest of conservation of natural resources. The authorized officer is responsible for promptly notifying the SO Lease Adjudication for appropriate lease case file processing. Circumstances that normally warrant lease suspensions are addressed in Manual Section 3160-10, Suspension of Operations and/or Production.

SUSPENSION OF OPERATIONS AND/OR PRODUCTION

The Department of the Interior Solicitor's Opinion M-36953, dated May 31, 1985 (92 I.D. 293), clarifies the policy and procedure for the suspension of oil and gas leases, and provides the following interpretation of the lease suspension provisions contained in Sections 39 and 17(i) (Section 17(f) prior to the amendments of the Reform Act) of the Mineral Leasing Act, as amended (30 U.S.C. 209 and 226(i), respectively).

SOLICITOR'S OPINION ON LEASE SUSPENSIONS

A suspension of operations and production under Section 39 of the MLA must suspend both operations and production to the extent that the lessee is denied all beneficial use of the lease. Such a suspension stops the running of the lease term and suspends the payment of rental, royalty, or minimum royalty.

SUSPENSION OF OPERATIONS AND PRODUCTION - SECTION 39

A suspension of operations and production under Section 39 is allowed for leases soon to expire that are in areas where the adjacent Federal tracts needed to conduct logical exploration and development are not yet available for lease due to delays in completing the land use planning and associated comprehensive environmental analysis. This BLM policy allows such a lease suspension when the efficient exploration and development of the lease or leases cannot occur due to their proximity, or commingling, with the Federal lands needed to complete lease blocks on a geologic play. The lessee requesting a lease suspension must submit a proposal for the designation of a logical area subject to exploration and development that includes all acreage (leased or otherwise) needed to properly drill and explore the target play. The lessee has the burden of proving that, in order to obtain the greatest ultimate recovery of the oil or gas, it is not logical to proceed with exploration activities on the existing leases without the neighboring unleased Federal tracts. The proposal must contain supporting geologic information, including the results of any geophysical surveys, and other pertinent information.

SUSPENSION OF OPERATIONS AND PRODUCTION FOR LEASES AFFECTED BY LEASING DELAYS

Keywords

A suspension of operations or a suspension of production under Section 17(i) of the MLA may be approved or directed by the authorized officer where the lessee, despite the exercise of due care and diligence, is prevented from producing or operating by reason of force majeure, i.e., by matters beyond the reasonable control of the lessee. This includes events such as acts of God and an unforeseeable administrative delay that would not qualify the lease for a Section 39 suspension of operations and production in the "interest of conservation." A suspension of operations or a suspension of production also stops the running of the lease term. However, an important distinction between a Section 39 suspension and a Section 17(i) suspension is that a Section 17(i) suspension of operations or suspension of production does not suspend the payment of rental, royalty, or minimum royalty.

SUSPENSION OF OPERATIONS OR SUSPENSION OF PRODUCTION - SECTION 17(i)

The Reform Act requires that an Application for Permit to Drill (APD) cannot be approved until after a 30-day posting period. The policy in Manual Section 3160-10 provides that lease suspensions shall be given only in the interest of conservation of natural resources or in a force majeure situation, and when the lessee has diligently pursued lease development and has timely filed an application for suspension. Therefore, a lease is not eligible for a suspension of operations and/or production until the end of the 30-day posting period of the APD as required by the Reform Act.

SUSPENSION OF LEASE NOT ALLOWED UNTIL END OF 30-DAY APD POSTING PERIOD UNDER REFORM ACT

The authorized officer may deny a request for a suspension of operations and production where an APD was filed less than 30 days prior to the lease expiration date, but the APD was processed expeditiously and approved prior to the lease expiration date, and thus, there is no basis to conclude that a suspension was necessary in the interest of conservation (NevDak Oil and Exploration, Inc., 104 IBLA 133 (1988)).

If a suspension of operations and/or production is granted for a lease in a unit and the unit is subsequently declared invalid, the suspension of the lease is valid only for the period prior to the unit being declared invalid even if the application for suspension is executed only by the unit operator and not by the lessee. When the unit is declared invalid, the lessee must be notified that the suspension will be ended as of the date the unit is declared invalid, unless the lessee provides justification for continuation of the suspension. The lessee is to be given a reasonable period of time to submit such a justification.

LEASE SUSPENSION WHEN UNIT DECLARED INVALID

Keywords

When an oil and gas lease located within a wilderness study area (WSA) was issued after enactment of the Federal Land Policy and Management Act of 1976 (but prior to the statutory prohibition for leasing such WSA lands), and is subject to the wilderness protection stipulation that prohibits impairment of wilderness suitability, when the lessee is denied approval of an APD for failure to meet the nonimpairment standard, the denial is not a restriction tantamount to a suspension of operations and production under 30 U.S.C. 209 (Beartooth Oil and Gas Co., 94 IBLA 115 (1986)).

SUSPENSION PROVISION NOT APPLICABLE WHEN APD NOT APPROVED DUE TO WILDERNESS IMPAIRMENT RESTRICTION

The existence of litigation involving whether a lease was issued in violation of the National Environmental Policy Act (NEPA) and Section 7 of the Threatened and Endangered Species Act does not amount to the denial of beneficial use of the lease, absent an injunction against activity under the lease. In such a case, the authorized officer properly may deny a request for a lease suspension (Paul C.Kohlman, 111 IBLA 107 (1989)). However, a suspension of operations and production may be granted by the authorized officer for the time needed to comply with NEPA (Stephen G.Moore, 111 IBLA 326 (1989)).

APPEAL MADE ON DENIAL OF REQUEST FOR LEASE SUSPENSION DOES NOT PREVENT LEASE EXPIRATION

When an appeal is filed on a decision denying a request for a suspension of operations and production, only the effect of the BLM's decision is suspended under 43 CFR 4.21(a), but the lease is not suspended. Although the regulation 43 CFR 4.21(a) provides that the timely filing of a notice of appeal will suspend the effect of the decision under appeal (if a stay is timely requested and granted), this provision does not require the agency to take positive action for the benefit of an appellant. Thus, the pendency of such an appeal does not preclude the BLM from issuing a notice that the lease will expire if the lessee fails to place a well in producing status within 60 days, because the notice will be mooted if the appeal is successful (Prima Exploration, Inc., 96 IBLA 80 (1987)).

A suspension of operations and/or production may be granted by the authorized officer after the lease expiration date, however, the application for such a suspension must be filed prior to the lease expiration date. Failure to timely file the request for lease suspension results in there being no lease in existence that may be suspended (Mobil Producing Texas and New Mexico, Inc., 99 IBLA 5 (1987).

B. Suspension of Operations and Production (Section 39) - Suspension of Lease Term and Rental

Responsible Official	Step	Action	Keywords
SO Fluid Minerals or Field Office Operations	1.	Provide the SO Lease Adjudication a copy of the letter sent to the lessee that a suspension of all operations and production has been granted (see Illustration 14).	NOTIFICATION OF SUSPENSION GRANTED
Adjudication	2.	Prepare a decision to officially inform all record titleholder(s) that the lease term is suspended on the BLM records and no rental will be due until the lease suspension has been lifted (see Illustration 15). NOTE: This official decision to the lessee is required even though the Field Office fluid mineral operations staff may already have sent a letter of notification granting the suspension.	NOTIFY LESSEE OF SUSPENSION
ALMRS Entry	3.	Update ALMRS Entry using the current data standards. 3a. Enter Action Date (MANDATORY ACTION CODE): Effective date of suspension of operations and production with no payment required; DE 1775 Action Code 315/DE 2910 Action Code 676; Action Remarks: Reason for suspension. 3b. Remove DE 1775/2910 Action Code 763. When a lease goes into suspension, the lease expiration date is to be removed.	AUTOMATED NOTATION
Adjudication	4.	Prepare accounting advice to notify the MMS-DMD of the lease suspension and clearly indicate that no rental is due during the period of the suspension (see Illustration 16). Transmit the accounting advice to the MMS-DMD within 5 working days of completing the action.	MMS NOTIFIED OF LEASE SUSPENSION

C. Suspension of Operations and Production (Section 39) - Lifting of Lease Suspension and Adjustment of Lease Term and Rental

Responsible Official	Step	Action	Keywords
SO Fluid Minerals or Field Office Operations	1.	Notify the SO Lease Adjudication that the suspension of operations and production on the lease has been ended or lifted (see Illustration 17).	NOTIFICATION OF LIFTING OF SUSPENSION
Adjudication	2.	Prepare a decision officially notifying all lessees of record that the lease suspension has been lifted (see Illustration 18). Indicate the revised lease expiration date and, as appropriate, reconciliation of the rental amount due, prorating as necessary (see Illustration 19) to take the rental due up to the next regular lease anniversary date, since the lease anniversary date never changes (see C.W. Trainer, 69 I.D. 81 (1962)).	LESSEE NOTIFICATION OF LIFTING OF SUSPENSION OF OPERATIONS AND PRODUCTION
	3.	For the lease year in which the suspension was granted, credit the rental paid to the balance of the months that remain in that same lease year, after the suspension is lifted, since the rental has already been paid for that full lease year period.	SUSPENSION LIFTED - CREDIT RENTAL FOR REMAINDER OF LEASE YEAR
	4.	For those leases requiring an escalating rental beginning with the 6th lease year, when a lease is suspended any time during its first 5 years, this 5-year time period does not include those calendar months that elapsed during the period of the lease suspension, i.e., the rental rate remains at $1.50 per acre for the first full 60 months of the lease term, even though this may occur over more than 5 years of actual elapsed calendar time.	RENTAL CREDIT DURING FIRST 5 YEARS FOR LEASES WITH ESCALATING RENTAL TERMS

Responsible Official	Step	Action	Keywords
	5.	Rental amounts for the suspended portion of any lease year are **NOT** to be refunded, but are to be retained by the MMS to be applied for the months that remain in that lease year during which the suspension was granted. EXAMPLE: Lease issued 3-1-89, for a 10-year primary term, to expire 2-28-99. Rental was timely paid for the 5th lease year of 3-1-93 to 2-28-94. A suspension of operations and production was granted effective 6-1-93. The suspension was lifted effective 10-1-94. The revised expiration date of the lease is now 6-30-2000, i.e., the expiration date of the lease is extended an additional 16 months to make up for the time the lease was in suspension. The rental paid for the 1993-94 (5th lease year) covers the remaining period of 10-1-94 to 6-30-95 at the $1.50 per acre rental rate, and the escalating rental for the 8-month period of 7-1-85 through 2-28-96 (to bring the regular rental due date back to the lease anniversary date) is prorated at the $2 per acre rental rate.	RENTAL CREDIT NOT TO BE REFUNDED

Responsible Official	Step	Action	Keywords
		EXAMPLE: Lease issued 7-1-90, for a 5-year primary term, to expire 6-30-95. Rental was timely paid for the 4th lease year of 7-1-93 to 6-30-94. A suspension of operations and production was granted effective 4-1-94. The suspension was ended effective 9-1-94. The revised expiration date of the lease is 11-30-95, i.e., the expiration date of the lease is extended an additional 5 months to make up that portion of the primary term while the lease was in suspension. The rental paid for the 1993-94 lease year covers the remaining 3-month period of the 4th lease year from 9-1-94 to 11-30-94. The prorated rental for the 7 months from 12-1-94 through 6-30-95 (to bring the regular rental due date back to the lease anniversary date) is to be requested from the lessee. A full year's rental is due on or before 7-1-95 even though the lease expiration date is 5 months later on 11-30-95.	
	6.	In the decision notifying the lessee of the lifting of the suspension, if it is appropriate, also request the next full year's rental to be remitted to the MMS within 30 days. Such a request will depend on the timing of the lifting of the suspension in relation to the lease anniversary date. Also, send a copy of the decision to the MMS-DMD. On the accounting advice sent to the MMS-DMD notifying it of the lifting of the suspension, enter a statement in the Remarks Section that the annual rental of $_____ for the next lease year was requested by a decision dated (Date) to be paid to the MMS.	SUSPENSION LIFTED - REQUEST NEXT FULL YEAR'S ANNUAL RENTAL ACCOUNTING ADVICE - NOTIFY MMS-DMD OF LIFTING OF SUSPENSION AND ANNUAL RENTAL PAYMENT REQUEST

Responsible Official	Step	Action	Keywords
	7.	Provide the lessee notice of the changed status of the lease, giving 30 days to remit the rental obligation that has accrued, following the principles in Husky Oil Company of Delaware, Depco, Inc., 5 IBLA 7 (1972), That is, the automatic termination provisions of 30 U.S.C. 188 does not apply in this case. Further, the automatic termination of a lease does not apply where, due to other contingencies, additional rental may become due on a date other than the lease anniversary date (see Solicitor's Opinion, M-36458, 64 I.D. 333 (1957)).	
	8.	If, in the above case, the suspension had been lifted sufficiently in advance of the July 1 lease anniversary date, i.e., if suspension was lifted on 1-1-95, the accounting advice to the MMS-DMD is to request the MMS to issue the billing notice for the next annual rental due for the full lease year. This procedure is to be used when sufficient time exists, i.e., at least 120 days, between the MMS receipt of the accounting advice and the next lease anniversary date to ensure adequate time for the MMS lease status to be updated for issuance of the rental billing notice on the normal schedule for the lease. NOTE: The MMS normally issues rental courtesy notices 75 days prior to the lease anniversary date. To expedite processing by the MMS, the party making rental payments needs to be advised to indicate the lease serial number on the rental remittance.	SUSPENSION LIFTED - REQUEST MMS TO ISSUE RENTAL BILLING NOTICE

Responsible Official	Step	Action	Keywords
	9.	If the suspended lease is eliminated or contracted from a unit, or receives an extension due to drilling over the expiration date, the rental may have to be prorated for those months remaining prior to the next regular anniversary date that are during the remainder of the 2-year extension period. EXAMPLE: Lease issued 1-1-83, for 10 years, to expire 12-31-92. The lease is in a unit agreement. The lease was granted a suspension of operations and production effective 12-1-92, that was lifted on 6-1-94. The unit also was terminated on 6-1-94. The revised lease expiration date is now 6-30-94, i.e., 1 month after lifting of the suspension. But, due to the unit termination, the lease is granted a 2-year extension to 6-1-96. Rental paid for the 1992 lease year covers the remaining month in the 10th lease year, through 6-30-94. Rent for the period from 7-1-94 to 12-31-94 is to be requested in the decision notifying the lessee of the lifting of the suspension. The next rental period is to be billed by the MMS that begins 1-1-95 through 12-31-95. NOTE: If the lease remains in a rental status for the remainder of its extended term, a full year's rental for the 1-1-96 to 6-1-96 period would be due and payable to the MMS, even though this last year is less than a full year.	SUSPENSION LIFTED - LEASE ALSO SUBJECT TO 2-YEAR LEASE EXTENSION

Responsible Official	Step	Action	Keywords
	10.	If a lease is suspended shortly before its expiration date and, after the suspension was lifted, no drilling occurred over the expiration date, if the 6th or 11th year rental has been paid (either before the suspension had been granted or after the suspension had been lifted), such rental is to be authorized for refund. However, if drilling was occurring over the lease expiration date, the 6th or 11th year's rental payment is retained and fully applied.	SUSPENSION LIFTED - REFUND 6TH/11TH YEAR RENTAL IF LEASE NOT EXTENDED DUE TO DRILLING
	11.	Prepare accounting advice to notify the MMS-DMD of the lifting of the suspension and provide appropriate billing notice instructions (see Illustration 20). Transmit accounting advice to the MMS-DMD within 5 working days of completing the action.	NOTIFY MMS-DMD OF LIFTING OF SUSPENSION
ALMRS Entry	12.	Update ALMRS Entry using current data standards.	AUTOMATED NOTATION

Enter Action Date (MANDATORY ACTION CODE): Date suspension of operations and production lifted (using first day of the month in which the suspension was lifted); DE 1775 Action Code 316/DE 2910 Action Code 678.

Enter Action Date (MANDATORY ACTION CODE): Revised date of lease expiration; DE 1775/2910 Action Code 763.

D. Suspension of Operations Only (Section 17(i)) - Action on Leases

Responsible Official	Step	Action	Keywords
SO Fluid Minerals or Field Office Operations	1.	Notify the SO Lease Adjudication of the approval of a suspension of operations based on a formal application made under Section 17(i) of the MLA. If the lease is producing, send a copy of the letter to the MMS (see Illustration 21).	NOTIFICATION OF SUSPENSION OF OPERATIONS UNDER SECTION 17(i) OF MLA
ALMRS Entry	2.	Enter Action Date (MANDATORY ACTION CODE): Effective date of suspension of operations only, with payment required; DE 1775 Action Code 314/DE 2910 Action Code 677; Action Remarks: Reason for suspension; General Remarks Indicate suspension of operations only	AUTOMATED NOTATION
Adjudication	3.	File a copy of the notification of lease suspension approval in the case file.	
	4.	Prepare a decision notifying all lessees of record that the suspension of lease operations has been granted.	
	5.	For leases in their extended term by production, the suspension stops the running of the lease term and adds the period of suspension to the term of the lease. No adjustment of the lease term is necessary. The lease simply does not expire or terminate during the period of the suspension of operations. However, any royalty or minimum royalty must continue to be paid.	SUSPENSION OF OPERATIONS - LEASES EXTENDED BY PRODUCTION
	6.	For leases not extended by production, the suspension stops the running of the lease term, and the lease term is adjusted upon the lifting of the suspension. Any payment of rental or minimum royalty must continue to be made.	SUSPENSION OF OPERATIONS - LEASES NOT EXTENDED BY PRODUCTION

Responsible Official	Step	Action	Keywords
	7	No accounting advice is necessary if the lease is producing. However, if the lease is not producing, prepare an accounting advice to the MMS-DMD to place the lease in suspended status (see Illustration 22). Transmit the accounting advice to the MMS-DMD within 5 working days of completing the action.	SUSPENSION OF OPERATIONS - NOTIFY MMS-DMD

E. Suspension of Operations - Adjustment of Lease Term When Suspension Lifted

Responsible Official	Step	Action	Keywords
SO Fluid Minerals or Field Office Operations	1.	Notify the SO Lease Adjudication when the suspension of operations is lifted. If the lease is producing, also send a copy of the approval notification to the MMS-DMD (see Illustration 23).	NOTIFICATION OF LIFTING OF SUSPENSION OF OPERATIONS
ALMRS Entry	2.	Enter Action Date (MANDATORY ACTION CODE): Date suspension of operations was lifted (using first day of the month in which the suspension was lifted); DE 1775 Action Code 316/DE 2910 Action Code 678.	AUTOMATED NOTATION
Adjudication	3.	File a copy of the notification of lifting of the suspension in the case file.	
	4.	Prepare a notice to all lessees of record to provide the official notification that the lease suspension has been lifted.	
	5.	If the lease is in its extended term by production, no further action is necessary. If the lease is not in its extended term by production, include a paragraph in the notice to the lessee indicating the adjusted lease term (see Illustration 24).	SUSPENSION OF OPERATIONS LIFTED - NOTIFY LESSEE
	6.	If the lease is not producing, prepare an accounting advice to the MMS-DMD indicating the new expiration date (see Illustration 25). Transmit the accounting advice to the MMS-DMD within 5 working days of completing the action.	SUSPENSION OF OPERATIONS LIFTED - NOTIFY MMS-DMD

Responsible Official	Step	Action	Keywords
	7.	If a lease with the rental escalation to a higher rate after the 5th year is in a rental (terminable) status, and a suspension of only operations is granted during the first 5 years of the primary term, the remainder of the 5-year lease period continues at the lower rental rate when the suspension is lifted. In such cases, the lower rental payment is required to continue during the period of the suspension of operations, and shall continue through the revised date that will end the 5th year of the lease term.	LEASE IN RENTAL STATUS WHEN SUSPENSION GRANTED - REMAINDER OF FIRST 5-YEAR LEASE PERIOD CONTINUES AT LOWER RENTAL RATE WHEN SUSPENSION LIFTED

F. Suspension of Production Only (Section 17(i)) - Action on Leases

Responsible Official	Step	Action	Keywords
SO Fluid Minerals or Field Office Operations	1.	Notify the SO Lease Adjudication of the approval of a suspension of production based on formal application made under Section 17(i) of the MLA. Also send a copy of the approval notification to the MMS-DMD (see Illustration 26).	NOTIFICATION OF SUSPENSION OF PRODUCTION UNDER SECTION 17(i) OF MLA
ALMRS Entry	2.	Enter Action Date (MANDATORY ACTION CODE): Effective date of suspension of production only, with payment required; DE 1775 Action Code 314/DE 2910 Action Code 677; Action Remarks: Reason for suspension; General Remarks: Indicate suspension of production only.	AUTOMATED NOTATION
Adjudication	3.	File a copy of the notification of lease suspension approval in the case file.	
	4.	Prepare a decision notifying all lessees of record that the suspension of production on the lease has been granted. NOTE: No accounting advice is needed since the lease is in producing (nonterminable) status.	
	5.	If the lease is in its extended term by production, the suspension stops the running of the lease term. No adjustment of the lease term is necessary. The lease simply does not expire or terminate during the period of the suspension of production. However, any royalty or minimum royalty must continue to be paid.	SUSPENSION OF PRODUCTION - LEASES EXTENDED BY PRODUCTION
	6.	If the lease is not in its extended term due to production, the suspension stops the running of the lease term and the lease term is adjusted upon the lifting of the suspension. Any payment of rental or minimum royalty must continue to be made during the suspension period.	SUSPENSION OF PRODUCTION - LEASES NOT IN EXTENDED TERM DUE TO PRODUCTION

G. Suspension of Production - Adjustment of Lease Term When Suspension Lifted

Responsible Official	Step	Action	Keywords
SO Fluid Minerals or Field Office Operations	1.	Notify the SO Lease Adjudication when the suspension of production is lifted. Send a copy of the notification to the MMS-DMD (see Illustration 27).	NOTIFICATION OF LIFTING OF SUSPENSION OF PRODUCTION
ALMRS Entry	2.	Enter Action Date (MANDATORY ACTION CODE): Date suspension of production was lifted (using the first day of the month in which the suspension was lifted); DE 1775 Action Code 316/DE 2910 Action Code 678.	AUTOMATED NOTATION
Adjudication	3.	File a copy of the notification of lifting of the suspension in the case file.	
	4.	If the lease is in its extended term by production, no further action is necessary.	
	5.	If the lease is not in its extended term by production, prepare a notice to all lessees of record adjusting the lease term (see Illustration 28). Provide a copy of this notification to the MMS-DMD.	SUSPENSION OF PRODUCTION LIFTED - NOTIFY LESSEE

Keywords

IX. Suspension of Excess Overriding Royalties or Payments out of Production

A. Background

SUSPENSION OF EXCESS OVERRIDING ROYALTIES OR PAYMENTS OUT OF PRODUCTION

Prior to August 22, 1983, the oil and gas leasing regulations at 43 CFR 3103.3-6 provided that an agreement creating overriding royalties or payments out of production of oil in excess of 17½ percent (when added to the Federal Government royalty) shall be deemed a violation of the lease terms unless the agreement expressly provided that the excess shall be suspended when average production per well per day averaged on a monthly basis is 15 barrels or less. The limitation applied to oil only and specifically excluded gas.

Effective August 22, 1983, however, the regulations were amended at 43 CFR 3103.3-3 (regulation section was renumbered) to provide that the Secretary of the Interior could suspend an agreement creating overriding royalties or payments out of production of oil and gas in excess of 17½ percent (when added to the Federal Government royalty) upon a determination that such excess constituted a burden on the lease operations to the extent that (1) properly and timely development may be retarded, or (2) continued operation of the lease may be impaired, or (3) premature abandonment of the wells may be caused.

The 1983 regulation change eliminated the 15-barrel guideline, and no longer deemed it a violation of the lease terms if the assignment instrument did not provide for automatic suspension of excess overrides. This 1983 regulation provision took precedence at the time, even though it conflicted with the provision in the assignment Forms 3106-5 and 3106-14 then in use, i.e., the agreement that created the excess could be suspended by the Secretary at any time that the excess was determined to constitute a burden on lease operations. The lease assignment/transfer Forms 3000-3 and 3000-3a, prior to the June 1988 editions, contained this provision. However, no such provision is included in the June 1988 or more current editions of the assignment/transfer forms.

Keywords

B. Current Policy

The current BLM policy is that the Secretary of the Interior will no longer become involved in any request to suspend the payment of excess overriding royalties or payments out of production. This policy was implemented by the May 16, 1988, revision of the oil and gas leasing regulations that completely removed the language at 43 CFR 3103.3-3 concerning the limitation of excess overriding royalties.

EXCESS OVERRIDING ROYALTIES NO LONGER SUSPENDED BY SECRETARY OF THE INTERIOR

This policy was adopted in the regulations since such agreements are voluntarily entered into by the lessee with other parties. Further, the United States is not required to approve such agreements. Although the agreements are required to be filed in the proper BLM office, they are simply placed in the lease case file as a matter of record. Accordingly, the Federal Government will not become involved in any request to suspend excess overrides or any dispute between lessees and such interest owners, but must know the total burden of overriding royalties and payments out of production only when a request for a reduction in the Federal rental or royalty rate under 43 CFR 3103.4-1 is filed. When such a rental/royalty reduction request occurs, the effect of all outstanding private payments must then be considered. Prior to the Government granting any rental or royalty reduction, the signatory parties to the documents creating the excess overrides are responsible for accomplishing reduction of the outstanding agreements before the authorized officer will consider approval of any reduction in the Federal rental or royalty rate. (See Section VII, above.)

CURRENT POLICY ON OVERRIDING ROYALTY PROVISIONS

For leases that are still in effect, the inclusion of the excess overriding royalty provisions on the Federal lease and assignment/transfer forms prior to May 1988 does not mean that the Federal Government still upholds the provision after it has been removed from the regulations. The standard lease form states that the lease is issued subject to the rules and regulations now or hereafter in force, which means that a lease is subject to any future regulations promulgated that affect the terms of the lease. Thus, the removal of the excess overriding royalties limitation requirement from the regulations means that the Federal Government is no longer involved in any attempt to enforce this provision. However, the removal of the provision does not nullify any separate private agreements entered into between parties above and beyond that indicated on the Federal forms. The BLM shall not intervene or be a party to any disputes or negotiations concerning such private agreements.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Table of Leases Affected by Secretarial Rental Reduction

of January 19, 1989

Rental Rate Table for Oil and Gas Leases in Accordance with
Secretary of the Interior Rental Rate Reduction
Under 30 U.S.C. 209, Announced January 19, 1989

	Annual Rental Rate Under Current Rules Eff. 6/17/88	Annual Rental Rate Under Secretarial Rental Reduction
Noncomp. OTC (3111) leases issued from applications filed prior to 12/22/87	$1.00	$1.00 through 2/29/96
Simultaneous leases issued prior to 2/19/82	$1.00	$1.00 through 2/29/96
Simultaneous leases issued on or after 2/19/82	$1.00 for first 5 yrs. and $2.00 for 6th and subsequent years after 2/1/89	$1.00 through 2/29/96
Noncomp. leases determined to be in KGS on or before 12/22/87	$2.00 on next anniversary date after notice of KGS determination	$1.00 through 2/29/96
Noncomp. leases determined to be in KGS after 12/22/87	$1.00	$1.00 through 2/29/96
Comp. leases issued under sales held prior to Reform Act	$2.00	$1.00 through 2/29/96
Exchange leases	$2.00	$1.00 through 2/29/96
Renewal leases	$2.00	$1.00 through 2/29/96
Comp. leases issued under Reform Act of 12/22/87	$1.50 for first 5 yrs. and $2.00 for subsequent yrs.	NOT APPLICABLE
Noncomp. leases issued under Reform Act from applications filed on or after 12/22/87	$1.50 for first 5 yrs. and $2.00 for subsequent yrs.	NOT APPLICABLE
Noncomp. leases issued prior to 2/1/77	$0.50 or other rate less than $1.00 as specified in the lease terms	NOT APPLICABLE

H-3103-1 - FEES, RENTALS, AND ROYALTY

Table of Leases Affected by Secretarial Rental Reduction

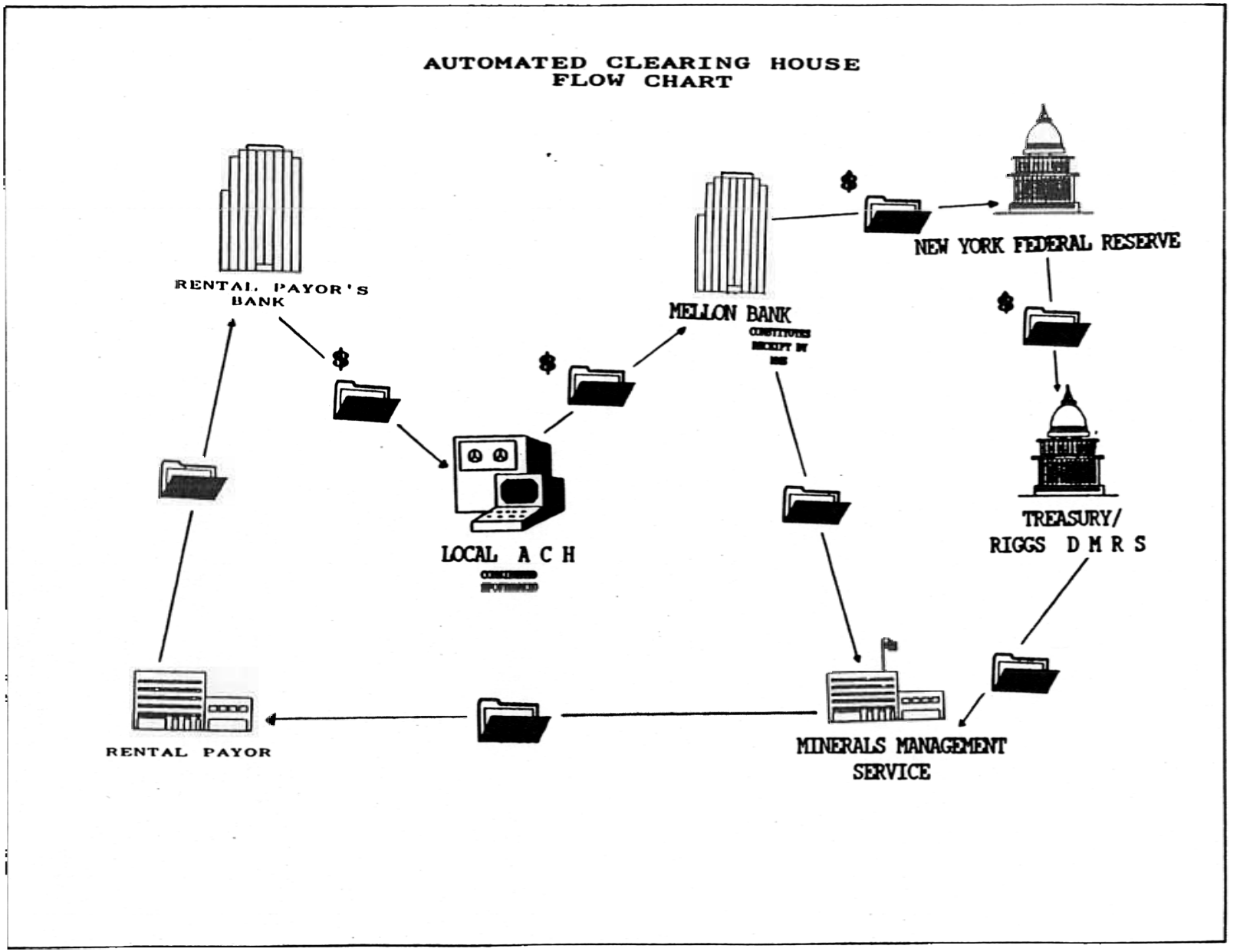
of January 19, 1989

	Annual Rental Rate Under Current Rules Eff. 6/17/88	Annual Rental Rate Under Secretarial Rental Reduction
Reinstated competitive leases	$10.00	NOT APPLICABLE
Reinstated noncompetitive leases not determined to be in KGS	$5.00	NOT APPLICABLE
Reinstated noncompetitive leases determined to be in KGS	$7.00	NOT APPLICABLE
Right-of-way leases (3109) under 1930 Act issued prior to 6/17/88	$1.00	NOT APPLICABLE
Right-of-way leases (3109) under 1930 Act issued on or after 6/17/88	$1.50 for first 5 yrs. and $2.00 thereafter	NOT APPLICABLE
NPR-A (Alaska) leases under 43 CFR 3130	$3.00	NOT APPLICABLE
Combined hydrocarbon leases under 43 CFR 3141	$2.00	NOT APPLICABLE

Illustration 2
(II.A)

H-3103-1 - FEES, RENTALS, AND ROYALTY

Automated Clearing House Payment Procedures Flow Chart



H-3103-1 - FEES, RENTALS, AND ROYALTY

Lease Rental Rate Provisions

Noncompetitive and Competitive Leases Issued Under the Federal Oil and Gas Leasing Reform Act of December 22, 1987

A. Unitized Participating Lease.

1. Acreage within and outside participating area - minimum royalty in an amount not less than the rental which would be required for the lease year ($1.50 per acre or fraction thereof for the first 5 years and $2.00 for all subsequent lease years.)

B. Nonunitized Lease.

1. Rental at the rate of $1.50 per acre or fraction thereof for the first 5 years and $2.00 for all subsequent lease years; minimum royalty at the same rate as annual rental.

II. Noncompetitive Leases Issued Under the Act of September 2, 1960

A. Unitized Participating Lease.

1. Acreage within participating area - minimum royalty of $1.00 per acre or fraction thereof.

2. Acreage outside participating area - rental of $1.00 per acre or fraction thereof for leases issued on and after February 1, 1977 (50 cents per acre or fraction thereof for leases issued prior to February 1, 1977) regardless of KGS status.

NOTE: The 1977 amendment to the regulations increasing the rental rate to $1.00 per acre for noncompetitive leases issued on and after February 1, 1977, did not address leases issued between September 2, 1960, and February 1, 1977. Therefore, the rental rate for lands outside the participating area of a unit are at the rate specified in the lease terms for such lands.

B. Nonunitized Lease.

1. Wholly outside KGS - rental of $1.00 per acre or fraction thereof for leases issued on and after February 1, 1977 (50 cents per acre or fraction thereof for leases issued prior to February 1, 1977).

2. Wholly or partly within KGS - rental of $2.00 per acre or fraction thereof.

3. Lease subject to minimum royalty of $1.00 per acre or fraction thereof if it contains a well capable of producing oil or gas in paying quantities.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Lease Rental Rate Provisions

III. Competitive Leases Issued Under the Act of September 2, 1960

A. Unitized Participating Lease

1. Acreage within participating area - minimum royalty of $1.00 per acre or fraction thereof.

2. Acreage outside participating area - rental of $2.00 per acre or fraction thereof.

B. Nonunitized Lease.

1. Productive - minimum royalty of $1.00 per acre or fraction thereof

2. Nonproductive - rental of $2.00 per acre or fraction thereof.

IV. Noncompetitive Leases Issued Under the Act of August 8, 1946

A. Unitized Participating Lease

1. Acreage within participating area - minimum royalty of $1.00 per acre or fraction thereof.

2. Acreage outside participating area - rental of 50 cents per acre or fraction thereof regardless of KGS status.

B. Nonunitized Lease.

1. Wholly outside KGS - rental of 50 cents per acre or fraction thereof.

2. Wholly or partly within KGS - rental of $1.00 per acre or fraction thereof.

V. Competitive Leases Issued Under the Act of August 8, 1946

A. Unitized Participating Lease

1. Acreage within participating area - minimum royalty of $1.00 per acre or fraction thereof.

2. Acreage outside participating area - rental of $1.00 per acre or fraction thereof.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Lease Rental Rate Provisions

B. Nonunitized Lease.

1. Productive - minimum royalty of $1.00 per acre or fraction thereof.

2. Nonproductive - rental of $1.00 per acre or fraction thereof.

Noncompetitive Leases Issued Under the Act of August 21, 1935, and an Election Filed to be Governed by the Act of August 8, 1946

A. Unitized Participating Lease.

1. Acreage within participating area - minimum royalty of $1.00 per acre or fraction thereof.

2. Acreage outside participating area - rental of 25 cents per acre or fraction thereof regardless of KGS status.

B. Nonunitized Lease.

1. Wholly outside KGS - rental of 25 cents per acre or fraction thereof.

2. Wholly or partly within KGS - rental of 25 cents per acre or fraction thereof.

Competitive Leases Issued Under the Act of August 21, 1935, and an Election Filed to be Governed by the Act of August 8, 1946

A. Unitized Participating Lease.

1. Acreage within participating area - minimum royalty of $1.00 per acre or fraction thereof.

2. Acreage outside participating area - rental of 25 cents per acre or fraction thereof.

B. Nonunitized Lease.

1. Productive - minimum royalty of $1.00 per acre or fraction thereof.

2. Nonproductive - rental of 25 cents per acre or fraction thereof.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Lease Rental Rate Provisions

VIII. Noncompetitive Leases Issued Under the Act of August 21, 1935

A. Unitized Participating Lease

1. Acreage within participating area - rental of $1.00 per acre or fraction thereof.

2. Acreage outside participating area - rental of 25 cents per acre or fraction thereof.

3. Sum of rentals on (1) and (2) to be credited against royalties.

B. Nonunitized Lease.

1. Rental of 25 cents per acre or fraction thereof regardless of KGS status.

IX. Competitive Leases Issued Under the Act of August 21, 1935

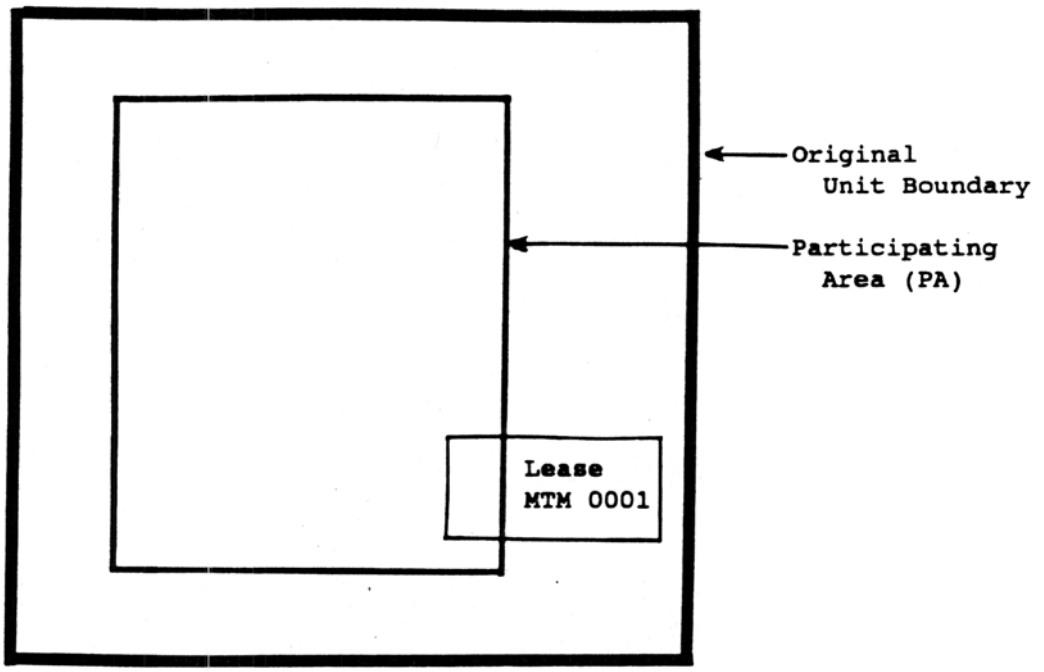
A. Rental of 25 cents per acre to be credited against royalties.

X. Leases Issued Prior to August 21, 1935

A. Oil and gas leases issued prior to August 21, 1935, generally require rental of $1.00 per acre which is credited against royalties.

NOTE: The 1983 amendment to the leasing regulations, effective August 22, 1983, required an annual rental of $2.00 per acre or fraction thereof for exchange and renewal leases issued after that date. This rental rate remained the same in the 1988 amendments to the regulations.

H-3103-1 - FEES, RENTALS, AND ROYALTY



Unit Agreement approved.
Lease MTM 0001 committed - lease not segregated since entire lease is inside the unit.
Well drilled - Participating Area (PA) established.
PA includes portion of lease MTM 0001

Acreage in MTM 0001 inside PA is subject to minimum royalty.
Acreage in MTM 0001 outside PA is subject to rental at the non-KGS rate.

NOTE: If the lands outside the PA are included in a KGS, the rental rate is not increased, but remains at the non-KGS rate.

Unit Agreement automatically contracts to PA.
Lease MTM 0001 is now part in and part outside the unit. The lease is not segregated.

Acreage in MTM 0001 inside unit remains subject to minimum royalty.
Acreage in MTM 0001 outside unit is subject to rental at the non-KGS rate (same as if it were still nonparticipating unit lands).

NOTE: If the entire lease acreage had been eliminated from the unit by contraction, rental would be charged at the non-KGS rate if lease is not in a KGS, and at the KGS rate if any portion of the lease is in a KGS.

If MTM 0001 contains a well capable of production in paying quantities on the acreage outside the PA, that acreage would be subject to minimum royalty rather than rental.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Accounting Advice Waiving Additional Rental

Resulting from Lease Segregation/Partial Assignment

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE NO. 1420163 43

Subject: LEASE SEGREGATION

Applicant: GHI OIL CORP.
999 First St.
Antwhere, UT 84729

NOTE: Full rental of $127.50 at $1.50 per acre for original lease of 85.00 acres was paid timely prior to lease anniversary date. Due to the segregation, the incremental acreage difference results in a shortage of $1.50 that is waived until the next courtesy rental billing cycle.

Remitter:

Assignor:

LEASE MANAGEMENT DATA ☐NEW ☒UPDATE ☐PAYMENT

ORIGINAL SERIAL NO.	ASG.	TYPE		ST.	CTY.	FUND SYMBOL				ACRES/UNITS	RATE
UTU 89899		ON	P	43	047		14	5003		42.75	1.50

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
64.50	8/1/91	7/31/2001			UT08				

ASSIGNMENT SERIAL NO.	ASG.	TYPE		ST.	CTY.	FUND SYMBOL				ACRES/UNITS	RATE
UTU 94581		ON	P	43	047		14	5003		42.25	1.50

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
64.50	8/1/91	7/31/2001			UT08				

APPLY REMITTANCE

ACTION	FUND SYMBOL	CTY.	AMOUNT
FILING FEE			
RENTAL			
UNEARNED			
REFUND			
TOTAL			
AMOUNT DUE			

Remarks:

Lease Segregation effective 5/5/95.
Full $127.50 rent for 8/1/94 paid on UTU 89899.
Rental difference of $1.50 due to lease segregation waived until next courtesy billing cycle.

BY: Chris Good DATE: 5/25/95

☐ Lease in Escrow?
☐ KGS?
☒ Auto Escalates?
☐ Auto Renew?

Of Interest?
Operating Rights?
Operator
Bond Filed?

FOR MMS USE ONLY

BILLEE NUMBER		FOREST REFUGE
OCS SECTION CODE		

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Accounting Advice for BLM Authorization of

MMS Refund Action

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE NO. 1420165 43

Subject: REFUND - RENTAL/State Code

Applicant:

Remitter:

Assignor:

LEASE MANAGEMENT DATA ☐NEW ☒UPDATE ☐PAYMENT

ORIGINAL SERIAL NO.	ASG.	TYPE	ST.	CTY.	FUND SYMBOL	ACRES/UNITS	RATE
UTU 67891							

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
640.00	5/1/85			O					

ASSIGNMENT SERIAL NO.	ASG.	TYPE	ST.	CTY.	FUND SYMBOL	ACRES/UNITS	RATE

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS

APPLY REMITTANCE

ACTION	FUND SYMBOL	CTY.	AMOUNT
FILING FEE			
RENTAL			
UNEARNED			
REFUND			640.00
TOTAL			
AMOUNT DUE			

Remarks:

Refund 11th year rental.
Lease expired 4/30/95.
Payment reference no. _____

Documentation supporting this request for refund is on file in BLM.

BY: Chris Good DATE: 6/6/95

☐ Lease in Escrow?
☐ KGS?
☐ Auto Escalates?
☐ Auto Renew?

Of Interest?
Operating Rights?
Operator
Bond Filed?

FOR MMS USE ONLY

BILLEE NUMBER		FOREST REFUGE
OCS SECTION CODE		

Table Showing Royalty Schedule Provisions and Related Action Codes

ROYALTY SCHEDULES

DE 2910	Action Code 530	Action Code 532	Action Code 533	Action Code 536	Action Code 549	Action Code 534
Schedule	A	B	B	C*	C	D
Applicability	Noncomp. leases issued after 8/8/46 and comp. leases under Reform Act of 12/22/87	Leases issued between 5/3/45 and 8/8/46 and all competitive leases issued subsequent to 8/8/46 except Reform Act leases	Certain leases issued between 8/21/35 and 5/3/45, except 5% leases (see action codes 536 and 549)	20-year leases with a 5% royalty rate when lease exchanged or renewed, effective 8/5/40	20-year leases with a 5% royalty rate when lease exchanged or renewed, subsequent to 5/3/45	20-year leases with other than 5% royalty when lease exchanged or renewed, except Section 18 leases
Royalty Rate (Oil)	12 1/2%	12 1/2% to 25% (Step Scale)	12 1/2% to 32% (Step Scale)	12 1/2 - 18 - 32% (Step Scale)	12 1/2 - 18 - 25% (Step Scale)	12 1/2% to 33 1/3% or 12 1/2% to 25% based on the oil's gravity (Sliding Scale)
		Based on average prod. per well per day (total days in month, not days produced)	Based on average prod. per well per day (total days in month, not days produced)	Based on average prod. per well per day (total days in month, not days produced)	Based on average prod. per well per day (total days in month, not days produced)	Based on average prod. per well per day with a specific rate applied to portions of the average production (total days in month, not days produced)
		Well count per 43 CFR 3162.7-4	Well count per 43 CFR 3162.7-4	Well count per 43 CFR 3162.7-4	Well count per 43 CFR 3162.7-4	Well count per 43 CFR 3162.7-4
Royalty Rate (Gas)	12 1/2%	12 1/2% or 16 2/3%	12 1/2% or 16 2/3%	12 1/2% or 16 2/3%	12 1/2% or 16 2/3%	12 1/2% or 16 2/3%
		Rate changes at 5000 Mcf/well/day	Rate changes at 5000 Mcf/well/day	Rate changes at 5000 Mcf/well/day	Rate changes at 5000 Mcf/well/day	Rate changes at 3000 Mcf/lease/day
		Each well that produced is counted	Each well that produced is counted	Each well that produced is counted	Each well that produced is counted	Well count not required
Other	-----	Includes only production from the lease or agreement	Includes only production from the lease or agreement	Includes only production from the lease or agreement	Includes only production from the lease or agreement	Includes oil and gas production from the lease and all gas production allocated from all sources
		Casinghead gas separate from gas well gas	Casinghead gas separate from gas well gas	Casinghead gas separate from gas well gas	Casinghead gas separate from gas well gas	Casinghead gas and gas well gas combined
				May be eligible for 12 1/2% determination	May be eligible for 12 1/2% determination	May be eligible for 12 1/2% determination

* Some royalty schedules for certain exchange or renewal leases may be incorrectly labeled as Schedule "B;" they are properly Schedule "C" leases.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Table Showing Royalty Schedule Provisions and Related ALMRS

Action Codes

H-3103-1 - FEES, RENTALS, AND ROYALTY

Table Showing Royalty Schedule Provisions and Related ALMRS

Action Codes

533 - RLTY STEP 12.5-32% Enter effective date of lease. Applies to certain leases issued between 8/21/35 and 5/3/45. Do not use this code on old Schedule C leases for 12.5-18-32%. Use code "536" RLTY RATE - OTHER for 12.5-18-32% leases. Use on case group 31.	**105 - RLTY STEP 12.5-32%** Same as DE 2910, except use code "108" RLTY RATE - OTHER for 12.5-18-32% leases.
534 - RLTY RATE-SLIDING-SCH D Enter effective date of lease. Includes 12 1/2% - 33 1/3% or 12 1/2% - 25% based on oil's gravity for oil, and 12 1/2% or 16 2/3% for gas on 20-year leases with other than 5% royalty rate at the time lease was exchanged or renewed (Schedule D). Use on case group 31.	**106 - RLTY RATE-SLIDING-SCH D** Same as DE 2910.
535 - RLTY RATE - 5% Enter date royalty rate becomes effective. Applies to certain leases subsequent to 2/25/20. Use for 20-year O&G leases which were never renewed or exchanged due to unitization. Use on case groups 31 & 35. Also use on case group 32 when lease is in actual production with optional entry of the by-product being produced in Action Remarks. If applicable, enter / / for old royalty rate in Action Remarks. In General Remarks, tie with same alpha indicator and enter old royalty rate and dates date was effective.	**107 - RLTY RATE - 5%** Same as DE 2910.
536 - RLTY RATE - OTHER Enter effective date of royalty rate. Includes all other royalty rates (e.g., reinstated more than once under Class II provisions, old Schedule C 12.5-18-32% leases, etc.). Delete any prior royalty rate code as it is no longer applicable. Use on case groups 31, 32, 34 and 35. In Action Remarks, enter new royalty rate and semicolon followed by an alpha indicator / / to identify previous royalty rate. EX: 20 2/3%;/A/ or 12 1/2-33 1/3%;/B/ In General Remarks, tie with same alpha indicator and enter old royalty rate and dates rate was effective.	**108 - RLTY RATE - OTHER** Same as DE 2910.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Table Showing Royalty Schedule Provisions and Related ALMRS

Action Codes

549 - RLTY RATE 12.5-25% SCH C
Enter effective date of lease. Use on 20-year leases with a 5% royalty rate at the time the lease was exchanged or renewed. Schedule C provides royalty rate for oil 12.5%-18%-25% (step scale) and royalty rate for gas 12.5% or 16 2/3% depending on amount of production. Use on case group 31.

109 - RLTY RATE 12.5-25% SCH C
Same as DE 2910.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Synopsis of Rental and Royalty Schedules

A, B, C, and D

Prior to the Federal Onshore Oil and Gas Leasing Reform Act of December 22, 1987, four general rental and royalty rate schedules existed for calculating royalties on Federal public domain leases.

"A" SCHEDULE

Schedule "A" is applicable to noncompetitive leases issued subsequent to the 1946 Act. It provides for a 12 1/2 percent royalty on production. Competitive leases issued under the Federal Onshore Oil and Gas Leasing Reform Act (Reform Act) of December 22, 1987, also require a 12 1/2 percent royalty on production removed or sold.

"B" SCHEDULE

The Schedule "B" applicable to all leases issued between May 3, 1945, and August 8, 1946, and all competitive leases issued after the 1946 Act, except competitive leases issued under the Reform Act of 1987, carries a step-scale royalty of 12 1/2 percent to 25 percent on oil, and 12 1/2 percent or 16 2/3 percent on gas.

Leases issued between August 21, 1935, and May 3, 1945, also use a "B" royalty schedule, except that the maximum royalty rate for oil is 32 percent when daily production exceeds 2,000 barrels per day per well per calendar month.

"C" SCHEDULE

Prior to the June 17, 1988, regulation change, when a 20-year lease with a 5 percent royalty rate was exchanged or renewed, the "C" Schedule became applicable for royalties. The "C" schedule approved May 3, 1945, limited the step-scale royalty rates to 25 percent for oil. Prior to that date, the step-scale royalty under the "C" schedule was 32 percent when daily production exceeded 2,000 barrels per well per day. The "C" schedule has a royalty rate of 12 1/2 percent on gas when production does not exceed 5,000 Mcf per well per day per calendar month and 16 2/3 percent when production exceeds 5,000 Mcf per well per day. Under schedule "C" leases may be eligible for a 12 1/2 percent determination. The June 17, 1988, regulations now provide for a 12 1/2 percent royalty rate for renewal and exchange leases.

"D" SCHEDULE

When a 20-year lease with a royalty other than 5 percent was renewed or exchanged prior to June 17, 1988, the "D" schedule became applicable for royalties. This schedule provided a sliding-scale royalty on oil of 12 1/2 percent to 33 1/3 percent or 12 1/2 percent to 25 percent depending on the oil's gravity. The schedule "D" royalty rate on gas is either 12 1/2 percent or 16 2/3 percent and escalates to 16 2/3 percent when the lease production from all sources exceeds 3000 Mcf of gas per day. Well count is not a factor in determining the royalty rate for gas. The royalty rate for Section 18 leases for oil is 12 1/2 percent to 25 percent or 12 1/2 percent to 20 percent depending on the gravity of the oil. The same provisions exist for a 12 1/2 percent royalty determination as discussed above for schedule "C."

H-3103-1 - FEES, RENTALS, AND ROYALTY

Synopsis of Rental and Royalty Schedules

A, B, C, and D

Occasionally, an older lease may be found with royalty provisions other than those discussed above. Further, the royalty rate schedule attached to some exchange and renewal leases was inadvertently labeled as Schedule "D" when, actually, the royalty rate schedule was a "C." Accordingly, the royalty schedule attached to a specific lease should always be reviewed prior to making any royalty calculations. Additionally, several of the older unit agreements contain a provision that any 20-year lease committed to the unit shall continue in effect for the term of the unit. This has the effect of continuing the 5 percent royalty rate since a renewed or exchanged lease is not needed. The Bureau of Land Management will not issue a renewal or exchange lease when a lease is effectively committed to a producing unit. Most new unit agreements provide that the 5 percent royalty rate will cease at the end of 20 years and go to the rate that would be in effect if leases were renewed even though no renewal takes place.

ROYALTY RATE SCHEDULE "B" - STEP SCALE

For leases (competitive, noncompetitive, exchange, and renewal) issued subsequent to the August 21, 1935, amendment, implemented by the regulations contained in the General Land Office (GLO) circular No. 1386, approved May 7, 1936, the royalty rate was based on the average production in barrels of oil per day per well per calendar month.

OVER	NOT OVER	ROYALTY RATE	OVER	NOT OVER	ROYALTY RATE	OVER	NOT OVER	ROYALTY RATE
0	50	12.5%	130	150	19%	450	500	26%
50	60	13%	150	200	20%	500	750	27%
60	70	14%	200	250	21%	750	1,000	28%
70	80	15%	250	300	22%	1,000	1,250	29%
80	90	16%	300	350	23%	1,250	1,500	30%
90	110	17%	350	400	24%	1,500	2,000	31%
110	130	18%	400	450	25%	2,000	-	32%

GLO Circular No. 1595, approved May 3, 1945, limited the step-scale royalty rates to 25 percent. This royalty rate schedule applied to all leases issued between May 3, 1945, and August 8, 1946, and for all competitive leases issued thereafter until the Leasing Reform Act of 1987.

OVER	NOT OVER	ROYALTY RATE	OVER	NOT OVER	ROYALTY RATE
0	50	12.5%	130	150	19%
50	60	13%	150	200	20%
60	70	14%	200	250	21%
70	80	15%	250	300	22%
80	90	16%	300	350	23%
90	110	17%	350	400	24%
110	130	18%	400	-	25%

Royalty on Gas

The royalty rate for gas under both schedules is 12½ percent when the average production does not exceed 5,000 Mcf gas per well per day per calendar month and 16⅔ percent when the average production exceeds 5,000 Mcf of gas per well per day per calendar month. This royalty rate schedule was in the GLO Circular No. 1386.

ROYALTY RATE SCHEDULE "C" - STEP SCALE

GLO circular No. 1476, approved August 5, 1940, provided a new royalty rate schedule for 5 percent leases that were renewed or exchanged. The new royalty rate was based on the average production in barrels of oil per well per day per calendar month.

OVER	NOT OVER	ROYALTY RATE	OVER	NOT OVER	ROYALTY RATE
0	110	12.5%	400	450	25%
110	130	18%	450	500	26%
130	150	19%	500	750	27%
150	200	20%	750	1,000	28%
200	250	21%	1,000	1,250	29%
250	300	22%	1,250	1,500	30%
300	350	23%	1,500	2,000	31%
350	400	24%	2,000	-	32%

GLO Circular No. 1595, approved May 3, 1945, limited the step-scale royalty rates to 25 percent. By regulation in 43 CFR 3100 (35 F.R. 9670,dated June 13, 1970), on and after August 8, 1946, the following royalty rate would apply to all 5 percent leases exchanged or renewed.

OVER	NOT OVER	ROYALTY RATE
0	110	12.5%
110	130	18%
130	150	19%
150	200	20%
200	250	21%
250	300	22%
300	350	23%
350	400	24%
400	-	25%

Royalty on Gas

The royalty rate for gas remained unchanged and is 12½ percent when the average daily production does not exceed 5,000 Mcf gas per well per day per calendar month, and 16⅔ percent when the average production exceeds 5,000 Mcf of gas per well per day per calendar month.

ROYALTY RATE
SCHEDULE "D" - SLIDING SCALE

For leases issued under Section 18 of the MLA of 1920, the royalty rate is based on the barrels per day per well for the calendar month. The royalty rate was established by regulation and is contained in the General Land Office Circular No. 672 (Sec. 19(c)), approved March 11, 1920, as amended to October 29, 1920.

For oil 30° Baumé or over			For oil less than 30° Baumé		
On that portion		Royalty Rate	On that portion		Royalty Rate
Over	Not over		Over	Not over	
0	20	12½%	0	20	12½%
20	50	16⅔%	20	50	14⅔%
50	100	20%	50	100	16⅔%
More than 100		25%	More than 100		20%

For preferential right leases (other than 5% leases) issued under Section 14 of the MLA, established by regulation contained in the GLO Circular No. 672, Section 8. The following royalty rate schedule also applies to those leases issued pursuant to sections 19, 20, and competitive leases issued pursuant to Section 17.

For oil 30° Baumé or over			For oil less than 30° Baumé		
On that portion		Royalty Rate	On that portion		Royalty Rate
Over	Not over		Over	Not over	
0	20	12½%	0	20	12½%
20	50	16⅔%	20	50	14⅔%
50	100	20%	50	100	16⅔%
100	200	25%	100	200	20%
More than 200		33⅓%	More than 200		25%

Royalty on Gas

The royalty rate on gas is not based on well count but on the total volume of gas produced or allocated to a lease from all sources on a Mcf per day per calendar month basis. The royalty for less than 3,000 Mcf of gas per day per calendar month is 12½ percent and escalates to 16⅔ percent when the gas production is 3,000 Mcf or more of gas per day per calendar month. The royalty rate schedule was contained in the Operating Regulations, 1st Edition, April 1923.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Schedule A - Rental and Royalty Rate Schedule for

Noncompetitive Lease

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RENTALS AND ROYALTIES FOR OIL AND GAS LEASES

SCHEDULE "A" - NONCOMPETITIVE

RENTALS. To pay the lessor in advance on or before the first day of the month in which the lease issues a rental at the following rates:

a. If the lands are wholly outside the known geologic structure of a producing oil or gas field: 50 cents per acre or fraction thereof for each lease year.

b. On leases wholly or partly within the geologic structure of a producing oil or gas field:

1. If not committed to a cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production beginning with the first lease year after 30 days' notice that all or part of the land is included in such a structure and for each year thereafter, prior to a discovery of oil or gas on the lands herein, $2 per acre or fraction thereof.

2. On the lands committed to an approved cooperative or unit plan which includes a well capable of producing oil or gas and contains a general provision for allocation of production, for the lands not within the participating area an annual rental of 50 cents per acre or fraction thereof each lease year following discovery.

MINIMUM ROYALTY. To pay the lessor in lieu of rental at the expiration of each lease year after discovery a minimum royalty of $1 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of $1 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

ROYALTY ON PRODUCTION. To pay the lessor 12 1/2 percent royalty on the production removed or sold from the leased lands.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Schedules B and C - Rental and Royalty Rate Schedules

SCHEDULE "B" - COMPETITIVE

ROYALTY ON PRODUCTION. To pay the lessor the following royalty on production removed or sold from the leased lands.

1. When the average production for the month in barrels per well per day is:

Over	Not Over	Percent of Royalty	Over	Not Over	Percent of Royalty
	50	12.5	130	150	19
50	60	13	150	200	20
60	70	14	200	250	21
70	80	15	250	300	22
80	90	16	300	350	23
90	110	17	350	400	24
110	130	18	400		25

2. On gas, including inflammable gas, helium, carbon dioxide, and all other natural gases and mixtures thereof, and on natural or casinghead gasoline and other liquid products obtained from gas; when the average production of gas per well per day for the month does not exceed 5,000,000 cubic feet, 12 1/2 percent; and when said production of gas exceeds 5,000,000 cubic feet 16 2/3 percent of the amount or value of the gas and liquid products produced, said amount or value of such liquid products to be net after an allowance for the cost of manufacture.

MINIMUM ROYALTY. To pay the lessor in lieu of rental at the expiration of each lease year after discovery a minimum royalty of $1 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of $1 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

RENTALS. To pay the lessor in advance on or before the first day of the month in which the lease issued and for each lease year thereafter prior to a discovery of oil or gas on the lease lands, an annual rental of $2 per acre of fraction thereof.

NOTICE

The average production per well per day for oil and gas shall be determined pursuant to 30 CFR, Part 221, "Oil and Gas Operating Regulations."[1/]

In determining the amount or value of gas and liquid products produced, the amount or value shall be net after an allowance for the cost of manufacture. The allowance for cost of manufacture may exceed two-thirds of the amount or value of any product only on approval by the Secretary of the Interior.

1/ 30 CFR Part 221 superseded by operating regulations under 43 CFR 3160, specifically 43 CFR 3162.7-4.

SCHEDULE "C" - RENTALS AND ROYALTIES

RENTALS. To pay the lessor in advance an annual rental of $1 per acre prior to a discovery of oil or gas on the leased lands.

MINIMUM ROYALTY. To pay the lessor in lieu of rental at the expiration of each lease year after discovery a minimum royalty of $1 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of $1 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

ROYALTY ON PRODUCTION. To pay the lessor the following royalty on production removed or sold from the leased lands:

1. A royalty of 12 1/2 percent on the production removed or sold from:

   a. Land determined by the Director, Geological Survey, not to be within the productive limits of any oil or gas deposit on August 8, 1946;

   b. An oil or gas deposit which was discovered after May 27, 1941, by a well or wells drilled on the leased land and which is determined by the Director, Geological Survey, to be a new deposit; or

   c. Allocated to the lease pursuant to an approved unit or cooperative agreement from an oil or gas deposit which was discovered on unitized land after May 27, 1941, and determined by the Director, Geological Survey, to be a new deposit, but only if at the time of discovery the lease was committed to the agreement or was included on a duly executed and filed application for approval of the agreement.

2. On production of oil removed or sold from lands not subject to subsection 1 hereof, where a flat royalty rate of 5 percent was fixed on the original lease:

   When the average production for the calendar month in barrels per well per day is:

Over	Not Over	Percent of Royalty	Over	Not Over	Percent of Royalty
	110	12.5	200	250	21
110	130	18	250	300	22
130	150	19	300	350	23
150	200	20	350	400	24
			400		25

Schedules B and C - Rental and Royalty Schedules

Schedule "D" - Rental and Royalties Schedule

RENTALS. To pay the lessor in advance an annual rental of $1 per acre prior to discovery of oil or gas on the leased lands.

MINIMUM ROYALTY. To pay the lessor in lieu of rental at the expiration of each lease year after discovery a minimum royalty of $1 per acre or, if there is production, the difference between the actual royalty paid during the year and the prescribed minimum royalty of $1 per acre, provided that on unitized leases, the minimum royalty shall be payable only on the participating acreage.

ROYALTY ON PRODUCTION. To pay the lessor the following royalty on production removed or sold from the leased lands: To and including September 24, 1963, the royalties to be paid hereunder shall be computed and paid on the basis of the royalties prescribed in the original lease.

1. A royalty of 12 1/2 percent on the production removed or sold from:

   a. Land determined by the Director, Geological Survey, not to be within the productive limits of any oil or gas deposit on August 8, 1946;

   b. An oil or gas deposit which was discovered after May 27, 1941, by a well or wells drilled on the leased land and which is determined by the Director, Geological Survey, to be a new deposit; or

   c. Allocated to the lease pursuant to an approved unit or cooperative agreement from an oil or gas deposit which was discovered on unitized land after May 27, 1941, and determined by the Director, Geological Survey, to be a new deposit but only if at the time of discovery the lease was committed to the agreement or was included in a duly executed and filed application for approval of the agreement.

2. On production of oil removed or sold from lands not subject to subsection 1 hereof:

   a. For all oil produced of 30° Baume or over:

      (1) On that portion of the average production per well not exceeding 20 barrels per day for the calendar month----------12 1/2%

      (2) On that portion of the average production per well of more than 20 barrels and not more than 50 barrels per day for the calendar month----------16 2/3%

      (3) On that portion of the average production per well of more than 50 barrels and not more than 100 barrels per day for the calendar month----------20%

(4) On that portion of the average production per well of more than 100 barrels and not more than 200 barrels per day for the calendar month----------25%

(5) On that portion of the average production per well of more than 200 barrels per day for the calendar month----------33 1/3%

b. For all oil produced of less than 30° Baume:

(1) On that portion of the average production per well not exceeding 20 barrels per day for the calendar month----------12 1/2%

(2) On that portion of the average production per well of more than 20 barrels and not more than 50 barrels per day for the calendar month----------14 2/7%

(3) On that portion of the average production per well of more than 50 barrels and not more than 100 barrels per day for the calendar month----------16 2/3%

(4) On that portion of the average production per well of more than 100 barrels and not more than 200 barrels per day for the calendar month----------20%

(5) On that portion of the average production per well of more than 200 barrels per day for the calendar month----------25%

Only wells which have a commercial production during at least part of the month shall be considered in ascertaining the average production above provided for; and the Secretary of the Interior shall determine which are commercially productive wells under this provision.

c. On gas and casinghead gasoline:

(1) On gas, whether same shall be gas from which the casinghead gasoline has been extracted or otherwise, 12 1/2 percent of the value thereof in the field where produced where the average production per day for the calendar month from the land leased is less than 3,000,000 cubic feet, and 16 2/3 percent where the average daily production is 3,000,000 cubic feet or over.

(2) On casinghead gasoline, 16 2/3 percent of the value of the casinghead gasoline extracted from the gas produced and sold, computed on the basis provided for in the operating regulations.

(3) The value in the field where produced, of gas and casinghead gasoline, for royalty purposes, unless such gas or casinghead gasoline is disposed of under an approved sales contract or other method as provided in subdivision d of this section, shall be fixed by the Secretary of the Interior.

(4) In cases where the gas produced and sold has a value for both casinghead gasoline content and as dry gas from which the casinghead gasoline has been extracted, then the royalties above provided shall be paid on both of such values.

The average production per well per day for oil and gas shall be determined pursuant to 30 CFR, Part 211, "Oil and Gas Operating Regulations."[1/]

In determining the amount or value of gas and liquid products produced, the amount or value shall be net after an allowance for the cost of manufacture. The allowance for cost of manufacture may exceed 2/3 of the amount of value of any product only on approval by the Secretary of the Interior.

[1/] 30 CFR Part 221 superseded by operating regulations under 43 CFR 3160, specifically 43 CFR 3162.7-4.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Calculation of Sliding Scale Royalty for Production

Above and Below 30° Baume

Calculation of Sliding-Scale Royalty for Production Above and Below 30° Baume

Since industry computes all gravities on the API method, 30° Baume should be considered the same as 30° API for royalty purposes (30° Baume equivalent to 30.2° API). Calculations should be made as follows:

A. Review the individual runs and determine if the average gravity of the run was below or above 30° API.

B. Compute the royalty quantity on total lease production from all runs at the applicable rates for oil less than 30° API gravity.

C. Compute the royalty quantity on the total lease production at the applicable rates for oil 30° API gravity and over.

D. Multiply the royalty quantity obtained under each of the foregoing computations by the percentage of production of each gravity oil (above 30° and below 30°) to the total production.

E. Add the product of each calculation obtained from the above and divide by the total production to obtain the average royalty rate for the month.

F. The computed rate is then applied to the total lease production or, in the case of unitized leases, to the production allocated to the sliding-scale royalty tract.

Example 1:

A sliding-scale (Schedule D) lease with 16 countable wells produced a total of 17,728.65 barrels of crude oil during December. Crude oil gravity of runs was both above and below 30° API.

14,812.98 Barrels over 30° gravity = 83.55391% total production
2,915.67 Barrels under 30° gravity = 16.44609% total production
17,728.65 Barrels total production

20 bbls./day/well x 31 days x 16 wells = 9,920 bbls. @ 1/8 royalty

17,728.65
9,920.00
7,808.65 bbls. at higher than 1/8 royalty

7,808.65 divided by 31 days divided by 16 wells = 15.74 bbls/day/well
Total production = 20 + 15.74 = 35.74 bbls/day/well; therefore, approximate royalty for remaining 7,808.65 bbls. is 16 2/3% or 14 2/7% depending on gravity.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Calculation of Sliding Scale Royalty for Production

Above and Below 30° Baume

@ Royalty 1/8 : 1/8 x 9920.00 = 1240.00 royalty bbls.
@ Royalty 1/6 (30°+) : 1/6 x 7808.65 = 1301.44 royalty bbls.
@ Royalty 1/7 (30°-) : 1/7 x 7808.65 = 1115.52 royalty bbls.

83.55391% x (1240 + 1301.44) = 2123.47 royalty bbls.
16.44609% x (1240 + 1115.52) = 387.39 royalty bbls.
2510.86 total royalty bbls.

2,510.86
17,728.65 = 14.16272% effective royalty rate

Example 2:

Total unit production is 1,273,531.65 bbls. (gravity 30° or over) in August (31 days), 164 wells.

Lease participation factor is 0.0076918

No. Wells		No. Days		Well Days		Bbls.		Bbls/Step		Royalty Rate		Bbls/Royalty Rate
164	x	31	=	5084	x	20	=	101,680	x	12 1/2%	=	12,710
164	x	31	=	5084	x	30	=	152,520	x	16 2/3%	=	25,420
164	x	31	=	5084	x	50	=	254,200	x	20%	=	50,840
164	x	31	=	5084	x	100	=	508,400	x	25%	=	127,100
---		--		----		---		256,731.65	x	33 1/3%	=	85,577.22
								1,273,531.65				301,647.22

301,647.22 x .0076918 = 2,320.21 royalty bbls.
1,273,531.65 x .0076918 = 9,795.75 total lease bbls.

Effective royalty rate = 2,320.21 divided by 9,795.75 = 23.6859%

ɪrmat for Decision Approving Royalty Rate Reduction

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee/Address :
:
: Oil and Gas
:
:

Reduction of Royalty Approved

Your application for a royalty rate reduction to 12½ percent for competitive oil and gas lease (Serial number) is hereby approved for the period April 1, 1995, to March 31, 1997.

A royalty rate reduction is subject to an annual submittal of an accounting report. The report should include an annual financial report or financial records that can be used to verify income and expenses with emphasis on the overhead figures. Copies of receipts, invoices, etc., should be submitted for the major expense items. In general, the information required would be similar to that submitted with the original royalty reduction application.

The right is reserved to terminate the reduction of royalty, readjust the amount of reduction, or to restore the royalty rate specified in the lease.

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110
Field Office Fluid Mineral Operations

Format for Decision Rescinding Royalty Rate Reduction

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee/Address :
:
: Oil and Gas
:
:

Royalty Rate Reduction Rescinded

Since April 1, 1987, Federal oil and gas lease (Serial number) has benefitted from a reduction in Federal royalty rates, as set forth in our decision dated (Date).

Due to the increase in oil value from $10.55 per barrel in June 1986, to the present $20.00 per barrel, continuation of the royalty reduction is not justified. Therefore, the royalty rate as provided for under the lease terms, is hereby reestablished in full force and effect, and the reduction in the royalty rate is rescinded.

Standard appeal paragraph (see Handbook-3100-1, Chapter 1).

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110
Field Office Fluid Mineral Operations

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Letter of Notification of Suspension of

Operations and Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

(Date)

Lessee
Address

Dear _____:

Your letter of July 18, 1994, in behalf of ABC Oil Company, requests that a suspension of operations and production be granted for Federal leases (Serial numbers) committed to the Ruby unit agreement should environmental considerations prevent the timely commencement of the initial unit well.

The Ruby unit agreement was approved and became effective on August 1, 1994, and the application for a permit to drill the initial unit well was filed on May 12, 1995. The U.S. Forest Service subsequently advised that it would not be able to complete its environmental study and approve the well location before June 1, 1996. Until the U.S. Forest Service has completed its tasks in this regard, the BLM cannot approve the application for a permit to drill the initial unit well.

Therefore, pursuant to the provisions of 43 CFR 3103.4-2, approval of your application for suspension of operations and production on leases (Serial numbers) is granted. The suspension is effective June 1, 1995, the first day of the month in which the complete application was filed, and shall remain in effect for an indefinite term. The suspension will be lifted upon approval or denial of the application to drill, or when the authorized officer deems the suspension is no longer in the interest of conservation.

Sincerely,

Authorized Officer
Field Office Operations

Distribution:
State Office Lease Adjudication
MMS-DMD, M.S. 3110
SMA (if other than BLM)

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Decision Notifying Lessee of Suspension of

Operations and Production and Suspension of Lease Term and Rental

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee/Address :
:
: Oil and Gas
:
:

Lease Term and Rental Suspended

A suspension of operations and production in accordance with 43 CFR 3103.4-2 has been granted effective (Date), for oil and gas lease (Serial number).

Under the suspension of all operations and production, the lease term and rental payment for this lease also is suspended effective (Date). The rental submitted for the lease year during which the suspension was granted will be retained in its entirety, with the balance applied to the remaining months in the lease year after the suspension has been lifted. The expiration date of the lease will be adjusted at the time the suspension is lifted.

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110
Field Office Fluid Mineral Operations
SMA (if other than BLM)

Format for Decision Notifying Lessee of Suspension of

Operations and Production and Suspension of Lease Term and Rental

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee/Address :
:
: Oil and Gas
:
:

Lease Terms and Rentals Suspended

A suspension of operations and production in accordance with 43 CFR 3103.4-2 has been granted effective (Date), for each of the oil and gas leases listed below, which are committed to the (Name) Unit.

(Serial numbers)

Under the suspension of all operations and production, the lease term and rental payments for each of the leases also are suspended effective (Date). The rentals submitted for each of the leases will be retained, with the balance applied to the remaining months in the lease year for each of the involved leases after the suspension has been lifted. The expiration dates of each of the leases will be adjusted at the time the suspension is lifted.

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110
Field Office Fluid Mineral Operations
SMA (if other than BLM)

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Accounting Advice Showing Suspension of

Lease Term and Rental

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE NO. 1420168 -04

Subject: SUSPENSION OF LEASE TERM AND RENTAL

Applicant:

Remitter:

Assignor:

LEASE MANAGEMENT DATA ☐NEW ☒UPDATE ☐PAYMENT

ORIGINAL SERIAL NO.	ASG.	TYPE		ST	CTY.	FUND SYMBOL				ACRES/UNITS	RATE
CAC 30001		OG	P	04	014	14		5003		160.00	1.00

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
160.00	8/1/87	99/99/9999		S	CA02				

ASSIGNMENT SERIAL NO.	ASG.	TYPE		ST	CTY.	FUND SYMBOL				ACRES/UNITS	RATE

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS

APPLY REMITTANCE

ACTION	FUND SYMBOL	CTY.	AMOUNT
FILING FEE			
RENTAL			
UNEARNED			
REFUND			
TOTAL			
AMOUNT DUE			

Remarks:

Suspension of operations and production effective 4/1/95.

Annual rental suspended.

BY: Sandy Doe DATE: 5/3/95

☐ Lease in Escrow?
☐ KGS? Of Interest?
☐ Auto Escalates? Operating Rights?
☐ Auto Renew? Operator
Bond Filed?

FOR MMS USE ONLY

BILLEE NUMBER		FOREST REFUGE
OCS SECTION CODE		

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Memorandum Notifying State Office Adjudication Section

of Lifting of Suspension of Operations and Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial Nos.

(Date)

Memorandum

To: State Director (Fluid Minerals Adjudication Code)

From: Fluid Office Fluid Mineral Operations

Subject: Lifting of Suspension of Operations and Production and Extension of Leases by Drilling

The suspension of operations and production for the following leases, committed to the (Name) Unit AGreement, was lifted effective August 1, 1994.

(Serial numbers)

Operations were in progress over the expiration date on Lease WYW 89043 which is also committed to the (Name) Unit Agreement. Operations have progressed to the point where the determination can be made that the requirements at 43 CFR 3107.1, extension by drilling, have been met and there are no objections to granting such an extension for leases (Serial numbers).

Any questions may be addressed to (Name) at (Telephone).

Distribution:
State Office Lease Adjudication
SMA (if other than BLM)

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Decisions Notifying Lessee of Lifting of

Suspension of Operations and Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No. NDM 31005-B

February 27, 1990

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee/Address : Oil and Gas

Suspension of Operations and Production Lifted
Lease Term Extended
Additional Rental Due
Lease Account Transferred

Oil and gas lease NDM 31005-B was issued effective March 1, 1979, for a 10-year term ending February 28, 1989. Operations and production under the lease were suspended from February 1, 1989, until November 1, 1989. At the time the suspension was lifted, the lease term and rental resumed with 1 month remaining in the primary term of the lease. As a result, the original expiration date was adjusted to November 30, 1989.

Due to diligent drilling over the expiration date of November 30, 1989, and in accordance with 43 CFR 3107.1, the lease term is extended 2 years through November 30, 1991, and so long thereafter as oil or gas is produced in paying quantities.

The lease account for oil and gas lease NDM 31005-B is being transferred to the jurisdiction of the Minerals Management Service, Royalty Management Program, P.O. Box 5810, Denver, CO 80217-5810.

Well No. Federal 1-8 was completed February 9, 1990, on the SE1/4SE1/4, Sec. 8, T. 139 N., R. 103 W., 5th P.M., Golden Valley County, North Dakota.

Advance rental was paid February 3, 1988, for lease year 1988 which satisfies rental requirements through November 30, 1989. Eleventh year rental was paid February 25, 1989, for lease year 1989. The eleventh year rental has been applied as indicated below:

Lease Period	Date Rental Paid	Amount Due	Amount Paid	Excess Rental
12/01/89 thru 02/28/90	02/25/89	$50.00	$200.00	$150.00

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Decisions Notifying Lessee of Lifting of

Suspension of Operations and Production

NDM 31005-B 2

The excess 11th year rental paid for lease year 1989 is being applied as follows for the lease year beginning March 1, 1990. A full year's rental for 1990 is required because the completion was after the lease anniversary date.

Lease Period	Date Rental Paid	Amount Due	Amount Paid	Rental Due
03/01/90 thru 02/28/91	02/25/89	$200.00	$150.00	$50.00

The additional rental in the amount of $50.00 for the lease year beginning March 1, 1990, is due and payable. The additional rental in the amount of $50.00 must be paid within 30 days from your receipt of this decision. Send rental payments to:

Minerals Management Service
Royalty Management Program
P.O. Box 5640
Denver, CO 80217-5640

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110 (with accounting advice to notify of account change)
Field Office Fluid Mineral Operations
SMA (if other than BLM)

Format for Decisions Notifying Lessee of Lifting of

Suspension of Operations and Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No. MTM 35815

July 31, 1991

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee/Address :
:
: Oil and Gas
:
:

Suspension of Production and Operations Lifted
Unit Agreement Termination Noted
Lease Term Extended - Rental Due

Oil and gas lease MTM 35815 was issued effective January 1, 1981, for a 10-year term ending December 31, 1990. All operations and production under the lease were suspended from December 1, 1990, until the suspension was lifted effective on June 1, 1991. At the time the suspension was lifted, the lease term and rental resumed with 1 month remaining in the primary term of the lease. Therefore, the original lease expiration date was adjusted 6 months to June 30, 1991.

Notification also has been received that the Tendoy Unit Agreement terminated effective June 1, 1991. As a result, oil and gas lease MTM 35815 is no longer committed to the agreement. In accordance with 43 CFR 3107.4, the lease term is automatically extended 2 years through June 1, 1993, and for so long thereafter as oil or gas is produced in paying quantities.

Advance rental was paid December 16, 1989, for lease year 1990 which satisfied rental requirements through June 30, 1991. Rental in the amount of $160.50 is now due for the remaining portion of lease year 1991, beginning July 1, 1991, through December 31, 1991. It must be paid within 30 days from your receipt of this decision.

The rental payment must be sent to: Minerals Management Service, Royalty Management Program, P.O. Box 5640, Denver, Colorado 80217. Failure to pay the rental within the time allowed will result in automatic termination of the lease as of July 1, 1991.

Format for Decisions Notifying Lessee of Lifting of

Suspension of Operations and Production

The next full rental payment in the amount of $321.00 will be due on or before the next anniversary date of January 1, 1992. You will be billed for this rental payment directly by the Minerals Management Service. In accordance with the regulations at 43 CFR 3103.2-2, which require that a full year's rental be submitted even when less than a full year remains in the lease term, the partial lease year beginning January 1, 1993, through June 1, 1993, also will require a full year's rental payment.

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110 (with accounting advice to notify of account change)
Field Office Fluid Mineral Operations
SMA (if other than BLM)

Format for Decisions Notifying Lessee of Lifting of

Suspension of Operations and Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No. UTU-21036-A

October 11, 1991

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee/Address :
:
: Oil and Gas
:
:

Suspension of Production and Operations Lifted
Unit Agreement Termination Noted
Lease Term Extended - Rental Due

Oil and gas lease UTU-21036-A was issued effective January 1, 1976, for a 10-year term ending December 31, 1985. All operations and production under the lease were suspended effective from January 1, 1985, until September 1, 1991. At the time the suspension was lifted, the lease term and rental resumed with 2 full years remaining in the primary term. In view of the suspension, the new expiration date would be August 31, 1993.

The Hatch Canyon Unit Agreement terminated effective September 18, 1991. As a result, oil and gas lease U-21036-A is no longer committed to the agreement. Pursuant to 43 CFR 3107.4, the lease term is automatically extended 2 years through September 18, 1993, and for so long thereafter as oil or gas is produced in paying quantities.

Rental was paid for lease year 1985 which will satisfy the rental due for the 4 months in 1991 (September, October, November, and December) and 8 months of 1992. Rental in the amount of $240.00 is now due for the remaining portion of lease year 1992, being September 1, 1992, through December 31, 1992. This rental amount must be paid within 30 days from receipt of this decision. The rental payment must be made to the:

Minerals Management Service
Royalty Management Program
P.O. Box 5640
Denver, Colorado 80217-5640

Failure to pay the rental within the time allowed will result in automatic termination of the lease as of September 1, 1992.

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110 (with accounting advice to notify of account change)
Field Office Fluid Mineral Operations
SMA (if other than BLM)

Format for Decisions Notifying Lessee of Lifting of

Suspension of Operations and Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No. UTU-54214
et al.

June 6, 1991

CERTIFIED MAIL--RETURN RECEIPT REQUESTED

DECISION

Lessee/Address :
:
: Oil and Gas
:
:

Suspension of Production and Operations Lifted
Lease Terms Extended
Additional Rentals Due

The subject oil and gas leases were issued effective June 1, 1984, for a 5-year term ending May 31, 1989. All operations and production under the leases were suspended in accordance with 43 CFR 3103.4-2 effective from May 1, 1989, until February 1, 1991. At the time the suspension was lifted, the lease terms and rentals resumed with 1 month remaining in the primary term of the leases. As a result, the original expiration dates are adjusted to February 28, 1991.

Due to diligent drilling over the lease expiration dates of February 28, 1991, and in accordance with 43 CFR 3107.1, the lease terms are extended 2 years through February 28, 1993, and so long thereafter as oil or gas is produced in paying quantities.

Advance rentals were paid May 5, 1988, for lease year 1988-1989 which satisfies rental requirements for that lease year, plus 1 month of 1991 (February). Advance rentals were paid May 15, 1989, for the 6th year rental. Rentals were not due at that time because the leases were under suspension; therefore, the 1989 rental payments will be applied to the remainder of the 1991 rental due for the months of March, April, and May. This leaves 9 months of paid rental unapplied. This additional rental amount will be applied to your 1991-1992 lease year payments and the following amounts will be due for the remaining 3 months as indicated below:

Format for Decisions Notifying Lessee of Lifting of

Suspension of Operations and Production

2

Lease Serial Number	Amount Due (3 Months Rental)
UTU-54214	$160.00
UTU-54215	$130.00
UTU-54216	$159.75
UTU-54217	$145.00
UTU-54218	$115.75
UTU-54219	$152.75
UTU-54220	$160.00
UTU-54221	$152.50
UTU-54222	$130.00
UTU-54223	$120.00
UTU-54224	$160.00
UTU-54225	$ 30.00
UTU-54226	$ 60.00
UTU-54227	$160.00
UTU-54228	$160.00
UTU-54229	$140.00
UTU-54232	$ 80.00
UTU-54234	$110.00
TOTAL	$2,325.75

The additional rental in the total amount of $2,325.75 for the remainder of lease year 1991-1992 is due and payable within 30 days from your receipt of this decision. The rental payment must be sent to:

Minerals Management Service
Royalty Management Program
P.O. Box 5640
Denver, Colorado 80217

Failure to pay the additional rental within the time allowed will result in automatic termination of the leases as of June 1, 1991.

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110 (with accounting advices to notify of changes in accounts)
Field Office Fluid Mineral Operations
SMA (if other than BLM)

Charts for Prorating Rental - Computing Daily and Monthly Rental

Charts for Computing Daily and Monthly Rental

OIL AND GAS ACREAGE RENTAL FRACTIONAL FACTORS

MONTHS	FACTOR 50¢ Per Acre	FACTOR $1 Per Acre
1	.04167	.08333
2	.08333	.16666
3	.12500	.25000
4	.16667	.33333
5	.20833	.41667
6	.25000	.50000
7	.29167	.58333
8	.33333	.66667
9	.37500	.75000
10	.41667	.83333
11	.45833	.91667

Multiply factor by number of acres to determine the amount of rental for the period of time less than 1 year.

Round up acres to next acre and multiply by factor.

For $1.50 rate, multiply total by 1.5, $2 rate by 2, etc.

OIL AND GAS RENTAL CHART FOR COMPUTING DAILY RATE

DAY	FACTOR 50¢ Per Acre	FACTOR $1 Per Acre
1	.001389	.002778
2	.002778	.005556
3	.004167	.008334
4	.005556	.011112
5	.006945	.013889
6	.008334	.016667
7	.009723	.019445
8	.011112	.022223
9	.012501	.025001
10	.013889	.027778
11	.015278	.030556
12	.016667	.033334
13	.018056	.036112
14	.019445	.038889
15	.020834	.041667
16	.022223	.044445
17	.023612	.047223
18	.025001	.050001
19	.026389	.052778
20	.027778	.055556
21	.029167	.058334
22	.030556	.061112
23	.031945	.063889
24	.033334	.066667
25	.034723	.069445
26	.036112	.072223
27	.037501	.075001
28	.038889	.077778
29	.040278	.080556
30	.041667	.083334

Multiply factor by number of acres to determine the amount of rental for the day.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Accounting Advices Showing Lifting of Suspension of Operations and Production

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE NO. 1420171 43

Subject: REACTIVATE LEASE FROM SUSPENDED STATUS

Applicant:

Remitter

Assignor:

LEASE MANAGEMENT DATA ☐NEW ☒UPDATE ☐PAYMENT

ORIGINAL SERIAL NO	ASG.	TYPE		ST.	CTY.	FUND SYMBOL				ACRES/UNITS	RATE
UTU 75757		OA	P	43	019	14		5003		360.00	1.50

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
540.00	9/1/89	8/31/96		E	UT04				

ASSIGNMENT SERIAL NO.	ASG.	TYPE		ST	CTY.	FUND SYMBOL				ACRES/UNITS	RATE

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS

APPLY REMITTANCE

ACTION	FUND SYMBOL	CTY	AMOUNT
FILING FEE			
RENTAL			
UNEARNED			
REFUND			
TOTAL			
AMOUNT DUE			

Remarks:

Suspension granted effective 2/1/93.

Suspension lifted 2/1/95.

New expiration date is 8/31/96.

NOTE: No MMS billing notice required. See attached BLM decision dated (Date) that requests 5th lease year rental.

BY Chris Good DATE 4/20/95

☐ Lease in Escrow?
☐ KGS? Of Interest?
☒ Auto Escalates? Operating Rights?
☐ Auto Renew? Operator
Bond Filed?

FOR MMS USE ONLY

BILLEE NUMBER		FOREST REFUGE
OCS SECTION CODE		

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Accounting Advices Showing Lifting of Suspension of Operations and Production

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE NO. 1420173$_{25}$

Subject: REACTIVATE LEASE FROM SUSPENDED STATUS

Applicant:

Remitter:

Assignor:

LEASE MANAGEMENT DATA ☐NEW ☒UPDATE ☐PAYMENT

ORIGINAL SERIAL NO.	ASG	TYPE	ST.	CTY.	FUND SYMBOL				ACRES/UNITS	RATE
MTM 87878		OA	P	25	031	14		5003	120.00	1.50

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
180.00	10/1/88	9/30/95		E	MT02				

ASSIGNMENT SERIAL NO.	ASG	TYPE	ST	CTY.	FUND SYMBOL				ACRES/UNITS	RATE

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS

APPLY REMITTANCE

ACTION	FUND SYMBOL	CTY	AMOUNT
FILING FEE			
RENTAL			
UNEARNED			
REFUND			
TOTAL			
AMOUNT DUE			

Remarks:

Suspension granted effective 2/1/92.

Suspension lifted 2/1/94.

New expiration date is 9/30/95.

Please issue an MMS courtesy billing notice for the lease year 10/1/94 to 9/30/95.

BY Chris Good DATE 3/8/94

☐ Lease in Escrow*
☐ KGS*
☒ Auto Escalates*
☐ Auto Renew*
Of Interest*
Operating Rights*
Operator
Bond Filed*

FOR MMS USE ONLY

BILLEE NUMBER		FOREST REFUGE
OCS SECTION CODE		

Format for Letter of Notification of Suspension of Operations

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

(Date)

Lessee
Address

Dear _____:

Your letter of August 2, 1986, requested a suspension of operations for Federal oil and gas lease __(Serial number)__. This lease is within a black-footed ferret study area.

Your request for a suspension of operations in accordance with 43 CFR 3103.4-2 is hereby granted, subject to the following stipulations:

1. The lease suspension is effective as of September 1, 1986, and will be lifted when the moratorium on the black-footed ferret is lifted, or on September 1, 1987, whichever comes first. You may request an extension if it appears the moratorium will not be lifted by __(Date)__.

2. Upon lifting of the suspension, the period during which the suspension was effective will be credited to your primary lease term.

3. During the suspension, you are required to continue to make annual rental and/or royalty payments, including any minimum royalty payments due.

If you have any questions, please notify __(Name)__ at __(Telephone)__ in this office.

Sincerely,

Authorized Officer
Field Office Operations

Distribution:
State Office Lease Adjudication
MMS-DMD, M.S. 3110 (if lease is in nonterminable status)
SMA (if other than BLM)

Format for Accounting Advice Showing Suspension of Lease Term Only

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE NO. 1420174 25

Subject: SUSPENSION OF LEASE TERM

Applicant:

Remitter:

Assignor:

LEASE MANAGEMENT DATA ☐NEW ☒UPDATE ☐PAYMENT

ORIGINAL SERIAL NO.	ASG.	TYPE		ST.	CTY.	FUND SYMBOL				ACRES/UNITS	RATE
MTM 59103		OG	P	25	008	14		5003		640.00	1.00

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
640.00	5/1/86	99/99/9999		S	MT02				

ASSIGNMENT SERIAL NO.	ASG.	TYPE		ST.	CTY.	FUND SYMBOL				ACRES/UNITS	RATE

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS

APPLY REMITTANCE

ACTION	FUND SYMBOL	CTY.	AMOUNT
FILING FEE			
RENTAL			
UNEARNED			
REFUND			
TOTAL			
AMOUNT DUE			

Remarks:

Suspension of operations approved effective (Date) .

NOTE: Annual rental is NOT suspended and the MMS courtesy billing notices are to continue to be issued by the MMS.

BY: Chris Good DATE: 12/19/94

☐ Lease in Escrow?
☐ KGS?
☐ Auto Escalates?
☐ Auto Renew?

Of Interest?
Operating Rights?
Operator
Bond Filed?

FOR MMS USE ONLY

BILLEE NUMBER		FOREST REFUGE
OCS SECTION CODE		

Format for Memorandum Notifying State Office Adjudication Section of Lifting of Suspension of Operations

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial Nos.

(Date)

Memorandum

To: State Director (Fluid Minerals Adjudication Code)

From: Field Office Fluid Mineral Operations

Subject: Lifting of Suspension of Operations - Lease (Serial number)

A suspension of operations in accordance with the regulations at 43 CFR 3103.4-2 was approved for the subject lease effective April 1, 1993. The suspension has been lifted effective April 1, 1995.

Distribution:
MMS-DMD, M.S. 3110 (if lease is in nonterminable status)
SMA (if other than BLM)

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Notice to Lessee Adjusting Lease Term Upon Lifting of Suspension of Operations

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

(Date)

NOTICE

Lessee/Address :
:
: Oil and Gas
:
:

Lifting of Suspension of Operations Noted
Lease Term Adjusted

Oil and gas lease (Serial number) was issued effective June 1, 1984, for a 10-year term ending May 31, 1994, and so long thereafter as oil or gas is produced in paying quantities.

The lease term for this oil and gas lease was suspended due to approval of a suspension of operations, in accordance with 43 CFR 3103.4-2, effective April 1, 1993. The suspension was lifted effective April 1, 1995.

The lease was in a definite term on the effective date of the suspension, with a lease expiration date of May 31, 1994. In view of the suspension, the new lease expiration date is May 31, 1996.

Authorized Officer

Distribution:
MMS, DMD, M.S. 3110 (with accounting advice lifting suspension if lease is in terminable status)
Field Office Fluid Mineral Operations
SMA (if other than BLM)

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Accounting Advice Showing New Expiration Date

When Suspension of Operations is Lifted

Form 1370-41
(March 1984)

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

RECEIPT AND ACCOUNTING ADVICE NO. 1420176 25

Subject: REACTIVATE LEASE FROM SUSPENDED STATUS

Applicant:

Remitter:

Assignor:

LEASE MANAGEMENT DATA ☐NEW ☒UPDATE ☐PAYMENT

ORIGINAL SERIAL NO.	ASG	TYPE		ST.	CTY.	FUND SYMBOL				ACRES/UNITS	RATE
MTM 38998		OG	P	25	008	14		5003		320.00	1.00

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS
320.00	8/1/84	7/31/95		E	MT02				

ASSIGNMENT SERIAL NO.	ASG.	TYPE		ST.	CTY.	FUND SYMBOL				ACRES/UNITS	RATE

AMOUNT	ANV. DATE	EXP. DATE	BILL CYC.	S/C	DISTRICT	NEXT BILL	MISC. DATA	U of M	ACTUAL UNITS

APPLY REMITTANCE

ACTION	FUND SYMBOL	CTY.	AMOUNT
FILING FEE			
RENTAL			
UNEARNED			
REFUND			
TOTAL			
AMOUNT DUE			

Remarks:

Suspension of operations approved effective 9/1/93.

Suspension lifted effective 9/1/94.
New expiration date is 7/31/95.

BY: Chris Good DATE: 10/3/94

☐ Lease in Escrow?
☐ KGS? Of Interest?
☐ Auto Escalates? Operating Rights?
☐ Auto Renew? Operator
Bond Filed?

FOR MMS USE ONLY

BILLEE NUMBER		FOREST REFUGE
OCS SECTION CODE		

Format for Letter of Notification of Suspension of Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

(Date)

Lessee
Address

Dear _____:

We are in receipt of your request for a suspension of production for leases (Serial number) and (Serial number) and associated wells in accordance with 43 CFR 3103.4-2. Pursuant to current policy, your request is approved subject to the following conditions:

1. The suspension of production is effective October 1, 1994, and will end:

a. On the first day of the month in which production is resumed,

b. Sixty days after notification from this office that the price of oil has risen to a price that makes it economically feasible to resume production, or

c. May 31, 1996, whichever is sooner.

2. The leases and wells will be maintained in such a manner as to prevent any damage to natural resources (surface or subsurface).

3. Lease (Serial number) is in its extended term by production; therefore, tolling of the lease term will not be applicable.

4. Lease (Serial number) is in its primary term; therefore, tolling of the lease term will be applicable.

During the time that the suspension of production is in effect, you are still required to file Monthly Reports of Operation (Form MMS-3160) with the Minerals Management Service. Minimum royalty payments for both leases continue to be required during the period of this suspension of production. This office must be notified within 5 days of resuming production on the leases.

If you need additional information, please notify (Name) at (Telephone) in this office. Your cooperation in this matter is appreciated.

Sincerely,

Authorized Officer
Field Office Operations

Distribution:
MMS-DMD, M.S. 3110
State Office Lease Adjudication
SMA (if other than BLM)

H-3103-1 - FEES, RENTALS, AND ROYALTY

Format for Memorandum Notifying State Office Adjudication

Section of Lifting of Suspension of Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial Nos.

(Date)

Memorandum

To: State Director (Fluid Minerals Adjudication Code)

From: Field Office Fluid Mineral Operations

Subject: Lifting of Suspension of Production for Leases (Serial number) and (Serial number)

A suspension of production was approved effective October 1, 1992, for the subject leases. The suspension was lifted effective April 1, 1994, due to resumption of production on both leases.

Lease (Serial number) was in its primary term when suspended and will require adjustment of the expiration date.

Questions may be addressed to (Name) at (Telephone).

Distribution:
MMS-DMD, M.S. 3110
SMA (if other than BLM)

Format for Notice to Lessee Adjusting Lease Term Upon Lifting of Suspension of Production

IN REPLY REFER TO

United States Department of the Interior

BUREAU OF LAND MANAGEMENT

3103 (Office Code)
Serial No.

(Date)

NOTICE

Lessee/Address :
:
: Oil and Gas
:
:

Lifting of Suspension of Production Noted
Lease Term Adjusted

Oil and gas lease (Serial number) was issued effective May 1, 1985, for a 10-year term ending April 30, 1995, and so long thereafter as oil or gas is produced in paying quantities.

A suspension of production for the lease, in accordance with 43 CFR 3103.4-2, was approved effective October 1, 1992, which suspended the lease term. The suspension was lifted effective April 1, 1994.

In view of the above, the new expiration date of the lease is October 30, 1996.

Authorized Officer

Distribution:
MMS-DMD, M.S. 3110
Field Office Fluid Mineral Operations
SMA (if other than BLM)

H-3103-1 - FEES, RENTALS, AND ROYALTY

Reference List of Decisions Addressing Oil and Gas Lease Rentals

Solicitor's Opinion M-36592, (January 21, 1960)

This opinion concerned the segregation of leases resulting from partial commitments of an oil and gas lease to an approved unit and the Mineral Leasing Act containing no authority for the Department to segregate a unitized lease into separate leases upon partial elimination from a unit plan by reason of contraction of the unit area.

Department of the Interior Decision A-28895, (June 4, 1962)

In the case C. W. Trainer, the automatic termination provision in section 31 of the Mineral Leasing Act, as amended, does not apply to a situation where, due to other contingencies, additional rent may become due on a date other than the anniversary date of a lease.

Solicitor's Opinion M-36629, (June 25, 1962)

A unitized lease shall not be subject to automatic termination under Section 31 of the Mineral Leasing Act if there is a producing or producible well anywhere on the unit.

==========

Department of the Interior Decision A-29849, (June 3, 1964)

An oil and gas lease on land within the known geologic structure of a producing gas field which attains a minimum royalty status because of inclusion in the participating area of a producing gas unit but on which there is no producing or producible well and which is subsequently extended as a consequence of the termination of the unit reverts to a rental status and is subject to the automatic termination provision of the act of July 29, 1954.

Decision of Chief, Office of Hearings and Appeals, Bureau of Land Management, (March 29, 1968)

In the case of W. C. McBride, it was noted that only part of the land covered by the lease in question was unitized, and further, that only specific formations in and under part of the leased lands were unitized. BLM held that two leases were segregated, one from the other, by this unitization. One lease covered only those formations under the land unitized, and the other lease covered only those lands not unitized and those formations under the unit which were not unitized.

Department of the Interior Decision A-30897, (April 2, 1968)

In the case of T. Jack Foster, part of the lands covered by a noncompetitive lease were committed to a unit plan. Of those lands not unitized, part were later determined to be within the limits of a KGS of a producing oil and gas field. Of those lands within the unit, part were included within a participating area and part were not. Later those lands within the unit, but not participating in the production of oil and gas, were excluded from the unit. The Department held that the rate of rental for each acreage was as follows:

a. Acreage without the unit, prior to the determination that part of the same was within the limits of a KGS of a producing oil and gas field, 25 cents per acre per year (non-KGS rate).

b. Acreage without the unit subsequent to the determination that part of the same was within the limits of a KGS of a producing oil and gas field, $1 per acre per year (KGS rate).

c. Acreage within the unit and participating in the production, minimum royalty in lieu of rentals.

d. Acreage within the unit but not participating in the production, 50 cents per acre per year. This acreage was charged rental on the basis of a noncompetitive lease without the limits of a KGS of a producing oil and gas field, but extended beyond its primary term. In the past, the rate of rental increased from 25 cents to 50 cents upon such an extension.

==========

Solicitor's Opinion M-36776, (May 7, 1969)

Whether a partial unitization of less than all formations within the boundaries of a Federal oil and gas lease affects a horizontal segregation, in whole or in part (i.e., as to a particular tract therein), of the patent (sic) lease into two leases, one of which embraces only the unitized formations depends upon (1) the intent of the parties to a unit agreement, (2) the facts and circumstances of the unitization, and (3) the understanding of the Secretary, or his delegate, when approving the agreement as to the reasons for and the goals to be attained pursuant to such unitization.

Standard Oil Company of California vs. Rogers C. B. Morton, et al., (450 F. 2d 493 (9th Cir. 1971))

The court ruled that rental on leases partially eliminated from a unit area remain at the rate specified for nonparticipating unitized acreage and not the rental rate for lands within a KGS. However, had the entire lease been contracted out of the unit, the rental rate for land within a KGS would apply since a portion of the lease was within the boundary of such a structure.

Husky Oil Company of Delaware, Depco, Inc., 5 IBLA 7 (February 18, 1972)

Where a producing lease oil and gas lease is partially committed to a unit agreement and the segregated uncommitted lands do not contain a well capable of producing oil or gas in paying quantities, the segregated lease is subject to payment of annual rental on or before the anniversary date of the lease. Where the lessee is not informed of approval of the unit agreement and segregation of the uncommitted lands into a new lease effective April 1, 1970, and he did not received notice until some five weeks thereafter of such actions and subsequent to anniversary date of the lease, May 1, 1970, the segregated lease is not automatically terminated under 30 U.S.C. 188 (1970) for failure to pay the annual rental on or before the anniversary date of the lease. Congress intended that the automatic termination provision of 30 U.S.C. 188 (1970) apply to the regular, annual rental payment, the necessity for which a lessee had continuous notice and that provision was not intended to apply to a case where a lessee had no way of knowing that the obligation had accrued.

Buttes Gas & Oil Company, 13 IBLA 125 (September 25, 1973)

Where an oil and gas lease has been segregated horizontally, the holder of each resulting lease is liable for payment of rental and royalty based on the entire area included in the segregated lease, notwithstanding this may result in multiple payment of rental or royalty for the same land.

Duncan Miller, 17 IBLA 128 (September 12, 1974)

Rental for Future and Fractional Interest Leases. Where the United States owns 100 percent of the gas and 50 percent of the oil in a tract of acquired land, rental for an oil and gas lease on such land will be based on the larger fractional interest owned by the United States, and not on an average of the separate fractional interests.

Odessa Natural Corp., 30 IBLA 28 (April 11, 1977)

When an oil and gas lease is in royalty status and acreage containing the well is segregated into a new lease by approval of an assignment, the nonproductive lease does not terminate for failure to pay rental timely if the Bureau of Land Management does not inform the lessee of the segregation until after the anniversary date of the lease.

==========

Shell Oil Co., 30 IBLA 290 (June 1, 1977)

The lessee of an oil and gas lease, issued after Sept. 2, 1960, which has reached the end of its primary term, must submit the rental for the first year of an anticipated extended term under 30 U.S.C. 226(e) (1970) on or before the regular anniversary date of the lease. Failure to submit the rental timely will result in the automatic termination of the lease by operation of law under 30 U.S.C. 188(b) (1970). Unless the lessee can show that he is entitled to reinstatement of this lease under 30 U.S.C. 188(c) (1970), the lease must be deemed to have terminated at the end of its stated term.

American Resources Management Corp., 36 IBLA 157 (July 31, 1978)

The automatic termination provision in Sec. 31 of the Mineral Leasing Act, as amended, does not apply to a situation where, due to other contingencies, additional rental may become due on a date other than the anniversary date of a lease.

Funk Exploration, 73 IBLA 111 (May 23, 1983)

Where a lessee represents to BLM that 40 acres of a 48.98 acre lease has been committed to a producing unit and inquires about the rental amount next due, BLM's answer that rental need be paid only on the 8.98 acres outside the unit is correct. But if, in fact, the other 40 acres has not been committed to such a unit on the anniversary date of the lease, the payment of only the fractional rental will result in the automatic termination of the lease.

==========

Walter S. Fees, Jr., 110 IBLA 377 (September 19, 1989)

The automatic termination provisions of 30 U.S.C. 188 (1982), do not apply to an oil and gas lease which has been committed to a unit, where there is production from a unit well anywhere in the unit.

Andrew HeLal, 122 IBLA 325 (March 11, 1992)

Under Sec. 31(b) of the MLA, as amended, oil and gas leases are subject to automatic termination by operation of law for failure to pay the annual rental in advance by the lease anniversary date. 30 U.S.C. 188(b) (1988). The automatic termination provision does not apply to rental charges becoming due at a time other than the anniversary date due to the termination of a suspension of the lease.

H-3103-1 - FEES, RENTALS, AND ROYALTY

Reference List of Decisions Addressing Oil and Gas Lease Minimum Royalties

Solicitor's Opinion M-36405, (June 13, 1957)

The minimum royalty payable by oil and gas lessees under Section 17 of the Mineral Leasing Act, as amended (30 U.S.C. 226), is not subject to proration when such leases are terminated prior to the end of any lease year.

Solicitor's Opinion, (May 8, 1962)

For the lease year in which a partial assignment is effected, there should be credited against the minimum royalty obligation on the assigned land any actual royalties paid thereon during that year, whether they be paid by the assignor or assignee.

Department of the Interior Decision A-29849, 71 ID 233 (June 3, 1964)

An oil and gas lease which attains a minimum royalty status because of inclusion in the participating area of a producing gas unit but on which there is no producing or producible well and which is subsequently extended as a consequence of the termination of the unit reverts to a rental status and is subject to the automatic termination provision of the Act of July 29, 1954.

Department of the Interior Decision A-29816, (September 28, 1964)

An oil and gas lease which converts to a minimum royalty basis during its primary term because of the discovery on it of oil and gas in paying quantities remains in a minimum royalty status even though production ceases, but it reverts back to a rental basis if the lease is extended for a five-year period.

Solicitor's Opinion, (February 6, 1968)

Minimum royalty for leases segregated by unitization should be determined on the total acreage in the base lease at the beginning of the lease year and all production royalty accruing during the lease year from that acreage should be credited against the minimum royalty obligation.

==========

H-3103-1 - FEES, RENTALS, AND ROYALTY

Department of the Interior Decision A-30897, 75 ID 81 (April 2, 1968)

When a producing lease is segregated into two leases upon partial commitment to a unit, the nonunitized portion, which does not contain a producing well, does not remain in a minimum royalty status but reverts to a rental basis which is determined by its own situation.

Buttes Oil & Gas Company, 13 IBLA 125 (September 25, 1973)

Where an oil and gas lease has been segregated horizontally, the holder of each resulting lease is liable for payment of rental and royalty based on the entire area included in the segregated lease, notwithstanding this may result in multiple payment of rental or royalty for the same land.

==========

Gulf Oil Corp. et al., 21 IBLA 1 (June 16, 1975)

The minimum royalty required under an oil or gas lease following discovery, but prior to actual production, of oil or gas, must be satisfied; if advance royalties have been paid on take or pay payments made to a lessee-seller by a buyer in lieu of receiving production from the lease, they may be credited to the amount due for royalties on actual production in subsequent years, but only to the extent they are in any year in excess of the amount of the minimum royalties prior to the actual production.

==========

H-3103-1 - FEES, RENTALS, AND ROYALTY

Listing of ALMRS (Case Recordation) Data Element (DE) 1775 and 2910 Action Codes Applicable to H-3103-1*

DE 1775		DE 2910	
057	Notice Sent-Prod Status#	102	Notice Sent-Prod Status#
058	Notice Sent-Nonprod Stat#	058	Notice Sent-Nonprod Stat#
059	MMS Refund	059	MMS Refund
082	Monies Requested@	106	Monies Requested@
083	Monies Received	106	Monies Received
084	Rental Received by MMS	084	Rental Received by MMS
092	Refund Authorized	379	Refund Authorized
094	Rental Received	111	Rental Received
095	MMS Payment Deleted	112	MMS Payment Deleted
102	Rlty Rate - 12 1/2%#	530	Rlty Rate - 12 1/2%#
103	Rlty Rate - 16 2/3%#	531	Rlty Rate - 16 2/3%#
104	Rlty Rate 12.5-25% Sch B#	532	Rlty Rate 12.5-25% Sch B#
105	Rlty Step 12.5-32%#	533	Rlty Step 12.5-32%#
106	Rlty Rate-Sliding-Sch D#	534	Rlty Rate-Sliding-Sch D#
107	Rlty Rate - 5%#	535	Rlty Rate - 5%#
108	Rlty Rate - Other#	536	Rlty Rate - Other#
109	Rlty Rate 12.5-25% Sch C#	549	Rlty Rate 12.5-25% Sch C#
225	Effective Date#	868	Effective Date#
312	Sus Ops/Prod Apln Filed@	673	Sus Ops/Prod Apln Filed@
313	Sus Ops/Prod Apln Denied	674	Sus Ops/Prod Apln Denied
314	Sus Ops or Prod/Pmt Req#	677	Sus Ops or Prod/Pmt Req#
315	Sus Ops & Prod/No Pmt#	676	Sus Ops & Prod/No Pmt#
316	Susp Lifted#	678	Susp Lifted#
624	Rlty Reduction Filed@#	624	Rlty Reduction Filed@#
625	Rlty Reduction Appv#	625	Rlty Reduction Appv#
626	Rlty Reduction Denied#	626	Rlty Reduction Denied#
630	Rlty Red-Stripper Well#	621	Rlty Red-Stripper Well#
631	Rlty Reduction Lifted#	630	Rlty Reduction Lifted#
649	Lease Paying Min Rlty#	649	Lease Paying Min Rlty#
763	Expires#	763	Expires#
718	Dec Issued	393	Dec Issued

* See official fluid leasing data standards for complete listing.
@ Pending action required.
\# Mandatory use of action code required.

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