

## H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

KeywordsIV. Termination of Unit/Communitization AgreementA. General

When a unit or CA terminates, any lease committed to the agreement is entitled to a 2-year extension of the lease term from the effective date of the agreement termination unless the fixed term of the lease (i.e., lease has a definite expiration date) surpasses the length of that extension or the lease has expired, terminated, been relinquished, or cancelled before the agreement terminated. The AO for fluid mineral operations is responsible for notifying the SO fluid lease adjudication of the agreement termination. This notification must include a statement that the agreement had been validated (public interest requirement met). (See Sections I.A and III, above.) If the unit or CA was producing, the notification must also indicate for each lease involved whether that lease continues to receive production from any other source, i.e., production on the leasehold or from another agreement. The SO fluid lease adjudication is responsible for determining if the lease is entitled to the 2-year extension provided under 43 CFR 3107.4.

AGREEMENT  
TERMINATION

EXAMPLE: Lease issued effective 2-1-85; normal expiration date 1-31-95; unit/CA terminated 7-1-94. New expiration date of lease is 7-1-96.

NOTE: If the PIR is not met, the agreement does not terminate, but rather the approval is invalidated. Thus, no benefits, such as the 2-year extension mentioned above, accrue to leases committed to such agreements. (See Section III.B, above, for action on leases involving invalidation of approval of an agreement.)

PUBLIC  
INTEREST  
REQUIREMENT  
NOT MET

## H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

B. Action on Committed Leases

Responsible Official	Step	Action	Keywords
Adjudication	1.	Receive from Field Office fluid mineral operations a copy of the termination letter sent to the unit/CA operator that indicates the unit/CA serial number, effective date of unit/CA termination, that a determination was made that the public interest requirement was met, and, if the agreement was producing, whether the leases involved will continue in production either from the leasehold or from another source (see Illustration 12).	TERMINATION NOTIFICATION
	2.	File termination letter in the unit/CA work file if such a file is maintained in the SO fluid lease adjudication. Determine affected leases and order case files from Docket. <i>use</i>	
Docket	3.	Charge case files to Adjudication.	
Adjudication	4.	Send copy of termination letter to Title Records.	
Title Records	5.	Remove unit/CA notation from oil and gas plat or other appropriate status records.	
Adjudication	6.	File a copy of the termination letter in each lease case file. If the case file jacket has been stamped to indicate the commitment status of the lease to the agreement, those markings either are to be crossed off or another notation is to added to indicate the effective date of the unit or CA termination.	ACTION ON CASE FILES

## E-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

C. Action on Lease Extensions

Responsible Official	Step	Action	Keywords
Adjudication	1.	Determine if a 2-year extension under 43 CFR 3107.4 is applicable to any of the leases involved. Only those leases committed to the agreement that are still in effect on the termination date of the unit/CA are entitled to the extension. (See <u>Aquarius Resources Corp.</u> , 64 IBLA 153 (1982).)	LEASE EXTENSIONS
	2.	Determine whether the lease account remains in producing (nonterminable) status or must be changed back to a nonproducing (terminable) status in the MMS automated system.	LEASE ACCOUNT TRANSFER
	2a.	For units or CA's where there was no preexisting production and operations did not lead to a first production memorandum, normally no transfer of lease account will occur in the MMS automated system, and the lease account will remain in nonproducing ( <del>non</del> terminable) status.	
	2b.	If the terminated unit/CA had established production and the unit/CA termination resulted from discontinuance of such production, determine for each lease committed to the unit/CA whether the lease account remains in producing (nonterminable) status or is to be changed back to a nonproducing (terminable) status in the MMS automated system. Use the guidance in Appendix 4 and the following steps to determine if any change in the lease account status is required.	

## H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Responsible

Official	Step Action	Keywords
	<p>2c. If the leasehold in the terminated unit/CA at any time contained a well capable of producing oil or gas in paying quantities, or continues to produce from a well on the leasehold or from another source, the termination of the unit or CA will not affect the lease account status. The lease account remains on royalty or minimum royalty status in the MMS automated system and is not changed to a nonproducing (terminable) status. (See example paragraphs 3 or 4 of Illustration 13.)</p>	<p>LEASE ACCOUNT REMAINS IN PRODUCING (NONTERMINABLE) STATUS</p>
	<p>2d. If the leasehold does not or did not have a well that has ever been determined to be capable of producing oil or gas in paying quantities, the lease account in the MMS automated system is to be changed to a nonproducing (terminable) status. The rental is considered due as of the next anniversary date after the date the unit or CA terminated, or the date of last production from the unit/CA, whichever is earlier. This is true even if the lease was at one time part of a producing CA or participating area (PA), so long as the CA or PA well was not on this lease. If the rental due is not timely paid within 30 days notice of the change in the lease status, the lease will automatically terminate (see Appendix 4, Article D.)</p>	<p>RETURN LEASE ACCOUNT TO NONPRODUCING (TERMINABLE) STATUS</p>

## H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Responsible Official	Step	Action	Keywords
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NOTE: Occasionally, a well may be directionally drilled from one lease into another. In the event of directional drilling, the bottom hole location within the producible formation determines the lease to which drilling and/or production is attributable, not the surface location of the wellhead.

- 2e. If of a lapse of time occurs between the effective date of the unit/CA termination and the receipt by the SO fluid lease adjudication of the unit/CA termination notification, a lease that formerly was in a (minimum) royalty status in whole or in part may have reverted to a rental status without the lessee being made aware of the change in sufficient time to make the proper annual rental payment to the MMS. In such cases, the SO fluid lease adjudication is to check the MMS Business Information System (BIS) screens to determine whether sufficient rental was paid for the lease.

NOTE: The IBLA has ruled that a lease shall not terminate for nonpayment of rental until the lessee is made aware that the lease has reverted to a rental status and is allowed a reasonable time to tender the rental payment (30 days). (See Husky Oil Co., 79 I.D. 17, 5 IBLA 7 (1972).)

## H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

Responsible

Official	Step	Action	Keywords
	2f.	If annual lease rental for the next anniversary date after termination of the unit/CA has not been paid or is deficient, allow the lessee 30 days from receipt of the decision advising of the unit/CA termination within which to pay the rental to the MMS (see example paragraph 5 of Illustration 13). The decision shall be sent by certified mail.	
	3.	Complete the decision to lessee giving notification of unit/CA termination, any lease extensions, and, if appropriate, the transfer of the lease account from producing (nonterminable) status to rental (terminable) status (see Illustrations 13 and 14).	
	3a.	When an extension is granted on a nonproducing lease, use example paragraph 2 of Illustration 13 and annotate a copy of the decision sent to the MMS-DMD to notify them of any other specific information required in the MMS automated system to change the lease account to a nonproducing (terminable) status.	EXTENSION OF NONPRODUCING LEASES
	3b.	When an extension is granted on a producing lease, use example paragraph 3 of Illustration 13. Send a copy of the decision to the MMS-DMD to advise of the lease extension end date.	EXTENSION OF PRODUCING LEASES
	3c.	If numerous leases are involved, see Illustration 14 for notification to the affected lessees.	MULTIPLE LEASES EXTENDED
	4.	Route decision for signing, mailing, ALMRS Entry, and to Docket.	
Signing Official	5.	Check and sign decision.	

## H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

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ALMRS Entry	6.	Enter appropriate actions in Case Recordation (see Illustration 15):	AUTOMATED NOTATION
	6a.	Enter Action Date (MANDATORY ACTION CODE): Effective date of unit agreement termination; DE 1775 Action Code 684/DE 2910 Action Code 336; Action Remarks: Unit serial number; <u>OR</u>	
	6b.	Enter Action Date (MANDATORY ACTION CODE): Effective date of CA termination; DE 1775 Action Code 642/DE 2910 Action Code 522; Action Remarks: CA serial number.	
	7.	If lease is extended, enter the following, using the current data standards:	
	7a.	Enter Action Date (MANDATORY ACTION CODE): Effective date of lease extension (date of unit/CA termination); DE 1775 Action Code 258/DE 2910 Action Code 235; Action Remarks: THRU <u>(Date to which is lease extended)</u> ; <u>AND</u>	
	7b.	Enter Action Date (MANDATORY ACTION CODE): New expiration date of lease; DE 1775/2910 Action Code 763.	
	8.	If lease remains in nonterminable (producing) status:	
	8a.	Enter Action Date (MANDATORY ACTION CODE): Lease paying minimum royalty; DE 1775/2910 Action Code 649; Action Remarks: Applicable minimum royalty rate per acre.	
	9.	If lease reverts to a rental (terminable) status:	

## H-3105-1 - COOPERATIVE CONSERVATION PROVISIONS

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	9a.	Enter Action Date (MANDATORY ACTION CODE): Date notice sent to MMS that lease account is changed from a producing (nonterminable) status to a nonproducing (terminable) status; DE 1775/2910 Action Code 058.	
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NOTE: See Appendix 5 for a listing of key action codes from the data standards that are to be used in ALMRS Case Recordation and Record System Release 1.0 for the leases that are involved in the various types of agreements and contracts.

Docket	10.	File case file.	
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