

WYOMING OFFICE OF STATE LANDS AND INVESTMENTS

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POLICY

Effective Date
March 1, 2014

Rental/Minimum Annual Royalty Payment Requirements

Prior to the discovery of oil or gas in paying quantities, the lessee must pay the lessor in advance, beginning with the effective date of the lease, an annual rental as set out in the terms of the lease at \$0.50 - \$1.00 per acre or fraction thereof (depending on the vintage of the lease). After the discovery of oil or gas in paying quantities, the lessee is required to pay the State in advance beginning with the first day of the lease year succeeding the lease year in which actual discovery was made (i.e., by the lease anniversary date upcoming), an annual rental of \$1.00-\$2.00 per acre or fraction thereof (depending on the vintage of the lease), unless changed by agreement. These rentals shall be credited on the royalty for that year. Finally, annual rentals on all leases shall be payable in advance for the first year and each year thereafter.

Until a lease has established production in paying quantities, the annual rental is a “delay” rental and once a discovery of paying quantities has been made, the rental serves as a minimum annual royalty. Chapter 18 of the Rules of the Board of Land Commissioners, Leasing of Oil and Gas, at Section 6 (c) Rentals, states “After the initial submission of the increased annual rental required by the lease upon the discovery of oil and gas in paying quantities, lessees are exempt from submission of subsequent annual creditable lease annual rentals for so long as annual royalties paid meet or exceed the required annual rental amount. The Office shall notify lessees of any minimum royalty amount due 60 days after the lease anniversary for which a shortfall occurs.”

The only other way to retain a lease beyond its primary term in non-producing status is to receive a Board approval for an extension of the lease term, in which case the rental required by the lease is as for a lease upon which discovery has been made, i.e., the \$1.00 - \$2.00 per acre based on the lease vintage/issue date, or statutorily, by drilling over the expiration term, in which case, again, the rental of \$1.00 or \$2.00 per acre is due for the extra year(s) authorized by statute.

The lease also allows for a request for and grant of suspension of operations where any well drilled upon the lease obtains hydrocarbon production in paying quantities and the lessee is unable to establish a satisfactory market for the production. A rental at the increased lease rental rate is required where these events occur.

The advent of coal bed methane exploration and production techniques and procedures necessitated a process whereby lessees who drilled their leases in one or more coal beds could hold leases beyond the primary term which they were attempting to develop, while not actually having discovered paying quantity production as required by the lease. As such, and in concert with lease language indicating lease rental rates are as set out unless otherwise changed by agreement, the Office has allowed and the Board has approved, suspensions of operations for CBM leases in the de-watering stage of development, or, awaiting available gas transmission infrastructure based on an increased rental structure.

Lease Suspension of Operations Rental Payment Schedule

ALL LEASES ISSUED AFTER MARCH 1, 1982 PROVIDE FOR A FIVE (5) YEAR PRIMARY TERM AND ALLOW FOR A SUSPENSION OF OPERATIONS WHERE A WELL CAPABLE OF PRODUCING IN PAYING QUANTITIES EXISTS ON THE LEASE BUT A SATISFACTORY MARKET IS NOT YET DEVELOPED, AS LONG AS LEASE RENTALS ARE PAID YEARLY BY THE LEASE ANNIVERSARY DATE. LEASE TERMS PROVIDE THAT RENTALS FOR ANY YEAR AFTER DISCOVERY IS MADE WILL BE AT \$2.00/ACRE UNLESS CHANGED BY AGREEMENT. IN GRANTING A REQUESTED SUSPENSION OF OPERATIONS, THE OFFICE OF STATE LANDS AND INVESTMENTS AND THE PETITIONER ARE AGREEING ON THE RENTAL SCHEDULE SHOWN HEREIN BELOW (CHANGING BY AGREEMENT) AS A CONDITION OF THE GRANT OF SUSPENSION.

- SUSPENDED DURING PRIMARY TERM \$2.00 PER ACRE
- UNDER 1st SUSPENSION OF OPERATIONS \$2.00 PER ACRE
- UNDER 2nd SUSPENSION OF OPERATIONS \$5.00 PER ACRE
- UNDER 3rd SUSPENSION OF OPERATIONS \$10.00 PER ACRE
- UNDER 4th & 5th SUSPENSION OF OPERATIONS \$20.00 PER ACRE
- UNDER 6th or GREATER SUSPENSION OF OPERATIONS \$50.00 PER ACRE

<u>Effective Date:</u> March 1, 2014	<u>Revision/Review Date:</u> March 1, 2019
<u>Summary of Revision/Review:</u> To be completed in 2019	<u>Supersedes Existing Policy:</u> Any policy and/or documentation prior to March 1, 2014