

WYOMING OFFICE OF STATE LANDS AND INVESTMENTS

122 West 25th Street
Cheyenne, WY 82002
Phone: 307.777.7331
Fax: 307.777.3524
slfmail@wyo.gov



MATTHEW H. MEAD
Governor

BRIDGET HILL
Director

POLICY

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March 1, 2014

Units, Communitization Agreements and Off-Lease Production Activities

Pursuant to Section 1 of the State of Wyoming Oil and Gas Lease (Lease) form, a lessee is given the right of ingress and egress and the right to use so much of the surface of said lands as is necessary to construct and maintain works, buildings and facilities necessary to the proper conduct of operations. On all leases, “said lands” is referring to the noted parcel and legal description on each particular lease. Further, leases issued after August 4, 2011 state “LESSEE must obtain a Special Use Lease pursuant to Chapter 5 of the Rules of the Board of Land Commissioners for any equipment and facilities placed on this leasehold which do not solely benefit State interests.” The rights granted in Section 1 do not extend past the particular parcel noted on each particular lease nor do they extend the rights to an adjacent lease held by the same lessee.

Off-Lease Production Activities

The lease is clear regarding the right to use the surface for production activities and, by inverse, the exclusion of all other activities (such as any post-production activities or facilities, and those which handle off-lease minerals). Accordingly, in order for the Wyoming Board of Land Commissioners (Board) to grant permission for the use of the surface and for the Board to receive proper payment, non-production activities or facilities, and those which handle off-lease minerals must be addressed through some other means.

- The only means available to address non-production activities under the Wyoming Board of Land Commissioners’ Rules and Regulations are a Temporary Use Permit or a Special Use Lease or a combination thereof. The Director of OSLI has the discretion to determine whether a Temporary Use Permit or a Special Use Lease is more appropriate based on the proposed surface activities. Generally, it has been determined that those operations of a long-term nature should be allowed under a Special Use Lease which benefits the lessee by increased lease rights as compared to a Temporary Use Permit, and to benefit the State’s Trust Beneficiaries by ensuring possible liabilities are mitigated and market values are received.
- Implications or costs of a Temporary Use Permit or Special Use Lease shall not be considered by a lessee or OSLI staff when determining the potential negative impacts to the resource due to topography, habitat or multiple use conflicts of site and infrastructure placement. In other words, proper and responsible placement of pad sites and additional infrastructure shall

dominate over any consideration of costs or terms related to required Temporary Use Permits or Special Use Leases.

Units and Communitization Agreements

Unit and communitization agreements are designed to maximize the production of a given area by combining multiple leases into a single lease under a single operator. These agreements should provide, on a landscape scale, environmental benefits by constructing fewer well pads and fewer roads with less surface disturbance. Oil and gas reservoirs benefit by only drilling wells where needed without the constraint of lease lines and ultimately a reduction of waste with higher ultimate recovery. Lessees benefit from lease term extensions without production past primary terms and an automatic two (2) year extension upon termination of the unit.

Many federal units and communitization agreements have the same provisions within them, however, they may have variations depending on case-by-case additions to each agreement. The majority have a simple clause within the Rights and Obligations of Unit Operator section which states something similar to;

“Except as otherwise specifically provided herein, the exclusive right, privilege and duty of exercising and all rights of the parties hereto, including surface rights, which are necessary or convenient for prospecting for, producing, storing, allocating and distributing the unitized substances are hereby delegated to and shall be exercised by the unit operator as herein provided...”

In the event that an operator within a unit wishes to place facilities for the purpose of prospecting for, producing, storing, allocating, and distributing the unitized substances, OSLI shall review the specific unit or communitization agreement to ensure allowance for these facilities exist. However, should the operator wish to place facilities on State Trust Lands which are outside the allowable purposes noted above, OSLI shall require the appropriate Special Use Lease or Temporary Use Permit application be submitted. In any case, OSLI shall pay careful consideration to the language within each particular unit or communitization agreement before determining whether additional permitting is required. Neither the Lease nor the unit or communitization agreements give authority to operate on State Trust Lands without compensation for surface disturbance or impacts.

Authority/Justification

W.S. 36-6-101(b)(d)(e) and (k)
Wyoming Board of Land Commissioners’ Rules and Regulations
Chapter 18, Section 9

<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