

Editor's note: Reconsideration denied by order dated April 27, 1976

DAISY E. HOOK, ET AL.

IBLA 75-362

Decided July 16, 1975

Appeal from January 20, 1975, decision of Nevada State Office, Bureau of Land Management, denying extension of four oil and gas leases, Nev. 065162-065165.

Affirmed.

1. Oil and Gas Leases: Drilling -- Oil and Gas Leases: Extensions

To qualify for a two year extension of an oil and gas lease pursuant to 30 U.S.C. § 226(e) (1970), it must be shown that actual drilling operations were being diligently prosecuted on the leasehold on the last day of the lease term, with good faith intent to complete a producing well as demonstrated by all the circumstances. Where 1) approval of the Geological Survey had not been obtained for any drilling, 2) proper bonds had not been obtained before the expiration date of the leases, and 3) an adequate environmental analysis had not been filed, drilling that did occur on the last day of the leasehold was not diligent in good faith and the lease must be held to have expired.

APPEARANCES: Daisy E. Hook, et al., pro se.

OPINION BY ADMINISTRATIVE JUDGE STUEBING

Daisy L. Hook, et al., 1/ appeal from the January 20, 1975, decision of the Nevada State Office, Bureau of Land Management (BLM), denying extension of four oil and gas leases Nev. 065162-065165. All four leases were held to have expired on November 30, 1974, the last day of the primary term of the leases. Appellants contend that the leases were extended by diligent drilling operations being conducted on the last day. The BLM, however, denied appellants' petitions for extension after finding that the drilling operations were not being conducted in good faith.

Appellants mailed their applications for permits to drill wells on November 26, 1974. The applications were received by the Geological Survey on November 29, 1974. On November 30, 1974, appellants' designated operator, Black Rock Oil Company, moved onto the four leases and began drilling operations without having received any drilling permits. On December 2, 1974, upon learning of the drilling, the Geological Survey ordered that the operations cease. On December 6, 1974, appellants submitted the bonds which are required before one may begin legitimate drilling operations.

[1] Oil and gas leases will be extended beyond their primary term, if, on the expiration date of the leases, diligent drilling operations are being conducted. D. L. Cook, 20 IBLA 315, 317 (1975); Inexco Oil Co., 20 IBLA 134, 139 (1975); Thelma M. Holbrook, 75 I.D. 329 (1968); Hondo Oil and Gas Co., A-30216 (January 11, 1965); 43 CFR 3107.2-3. Diligent drilling operations are defined as an effort made in good faith that one seriously interested in looking for oil and gas in a particular area would be expected to make. D. L. Cook, supra; Solicitor's Opinion, M-36657 (July 17, 1963).

1/ The statement of reasons for appeal states that the appeal is taken on behalf of Daisy E. Hook (nee Piccirelli) and Phillip Piccirelli, as lessees; John C. Treadway, apparent owner of Black Rock Oil Company, Black Rock Oil Company, and Doyle Butler, President, Black Rock Oil Company. There is some confusion as to the correct name of Daisy Hook, as it appears that she is married to Phillip Piccirelli.

However, it is abundantly clear from the evidence that the drilling operations were not undertaken diligently in good faith, but were done principally to obtain extensions of the leases. Good faith is defined in the following manner by Blacks Law Dictionary 822 (4th ed. rev. 1968):

Honesty of intention, and freedom from knowledge of circumstances which ought to put the holder upon inquiry. * * * An honest intention to abstain from taking any unconscientious advantage of another, even through technicalities of law, together with absence of all information, notice, or benefit or belief of facts which render transaction unconscientious. * * * (Citations omitted.)

Bad faith is defined as:

[t]he opposite of 'good faith,' generally implying or involving actual or constructive fraud, or a design to mislead or deceive another, or a neglect or refusal to fulfill some duty or some contractual obligation, not prompted by an honest mistake as to one's rights or duties, but by some interested or sinister motive. (Citations omitted.)

Black's Law Dictionary 176 (4th ed. rev. 1968).

As stated by the Court of Appeals for the Sixth Circuit:

'Bad faith' is a term of variable significance, hence of broad application. In its simplest form, the phrase implies breach of faith, wilful failure to respond to plain, well-understood statutory or contractual obligations. * * *

National Labor Relations Board v. Knoxville Publishing Co., 124 F.2d 875, 883 (6th Cir. 1942).

There can be no doubt that appellants knowingly and intentionally failed to comply with clear statutory and contractual obligations in an attempt to meet the drilling deadlines in order that their leases might be extended. One of the appropriate regulations provides in pertinent part that:

* * * Any written notice of intention to do work or to change plans previously approved must be filed in triplicate unless otherwise directed, and must reach the supervisor and receive his approval before the work is begun. The lessee is responsible for receipt of the notice by the supervisor in ample time for proper consideration and action. * * *

(a) Notice of intention to drill. The notice of intention to drill a well must be filed with the supervisor and approval received before the work is begun. * * *

30 CFR 221.58.

Other regulations, 30 CFR 221.18 and 43 CFR Subpart 3104, as well as section 2 of the lease, require that bonds be submitted before the beginning of any drilling operations. Further, there is no doubt that appellants had actual knowledge of all these requirements. First, the very fact that applications for permission to drill were filed indicates that appellants were aware of the requirement. Second, a letter from the District Engineer of the Geological Survey to the Oil and Gas Supervisor recapitulated a conversation between the District Engineer and Doyle Butler, President of Black Rock Oil Company. On November 26, 1974, Doyle Butler telephoned the Geological Survey office and was informed that bonds would have to be submitted as well as an acceptable environmental analysis before drilling could be permitted.

Nevertheless, with full knowledge of the regulatory and contractual requirements, appellants began drilling without permission. In the process they scraped the earth bare in several spots to create roads. The roads were cut across areas reseeded by the BLM. An adequate environmental analysis would have revealed the reseeded areas. Finally, after drilling was stopped on December 2, appellants obtained bonds dated December 5, 1974.

The evidence clearly shows that the drilling operations were not undertaken diligently in good faith, and, therefore, the leases may not be extended. Solicitor's Opinion, supra; Hondo Oil and Gas Co., supra. Furthermore, where a lessee is required by law to obtain permission before commencing drilling operations and fails to do so, it would be contrary to public policy to reward the lessee's deliberate violation by holding that the lease has been extended by the prohibited drilling operations. Goble v. Goff, 327 Mich. 549, 42 N. W. 2d 845 (1950).

Therefore, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 CFR 4.1, the decision appealed from is affirmed.

Edward W. Stuebing
Administrative Judge

We concur:

Anne Poindexter Lewis
Administrative Judge

Joseph W. Goss
Administrative Judge

