

WEXPRO CO.

IBLA 84-924

Decided February 28, 1986

Appeal from a decision of the Wyoming State Office, Bureau of Land Management, holding that lease W-87875 is continued in effect for a 2-year term and so long thereafter as oil or gas is produced in paying quantities.

Reversed.

1. Oil and Gas Leases: Communitization Agreements–Oil and Gas Leases: Extensions–  
-Oil and Gas Leases: Unit and Cooperative Agreements

Where a producing unit agreement terminates after the conclusion of the primary term of the parent lease and part of the lands in the parent lease are simultaneously committed to a second producing unit, thereby effecting a segregation of the parent lease, the term of the nonunitized lease without production shall be for so long as oil and gas is produced in paying quantities upon the unitized lease, but not less than 2 years, and so long thereafter as oil and gas is produced in paying quantities on the nonunitized lease.

APPEARANCES: J. L. Healey, Director, Lands and Leasing, Wexpro Company, Salt Lake City, Utah.

OPINION BY ADMINISTRATIVE JUDGE IRWIN

Wexpro Company appeals from a decision of the Wyoming State Office, Bureau of Land Management (BLM), dated August 23, 1984, holding that lease W-87875 is continued in effect through September 1, 1985, and so long thereafter as oil and gas is produced in paying quantities. This decision amended an earlier BLM decision of March 7, 1984, holding that lease

W-87875 is extended for so long as oil or gas is produced in paying quantities under unitized lease W-32235 or through September 1, 1985, if production ceases prior thereto on W-32235.

Although lease W-87875 is the subject of this appeal, an understanding of the issue in this case must begin with lease W-32235. <sup>1/</sup> Lease W-32235

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<sup>1/</sup> This lease was first issued to Milton Cades on Dec. 15, 1971, with an effective date of Jan. 1, 1972. The lease was then assigned to Mountain Fuel Supply Co. and thereafter to Wexpro Co., approved effective June 1, 1977.

was issued for a 10-year term with an effective date of January 1, 1972. During its primary term, the lease was partially committed to the Spearhead Ranch Unit, effecting a segregation of this lease into two leases. The lands so unitized retained serial number W-32235; those lands not unitized form no part of this appeal.

In March 1978, appellant Wexpro, the owner of lease W-32235 by virtue of an assignment the previous year, received notice from BLM that the Spearhead Ranch Unit was a producing unit and that all or part of this lease was within an undefined know geologic structure.

Pursuant to section 2(e) of the unit agreement, the Spearhead Ranch Unit was contracted in size during 1981. Those lands eliminated were outside the Frontier formation participating areas A and B. Though the record is unclear, it appears that the NW 1/4 and W 1/2 SE 1/4 sec. 33, T. 40 N., R. 74 W., 6th Principal Meridian, were eliminated from the unit; the E 1/2 SE 1/4 sec. 33 and all of sec. 34, T. 40 N., R. 74 W., remained within the unit.

Lease W-32235 was apparently extended beyond its primary term by production within the Spearhead Ranch Unit agreement. The record next reveals that effective September 1, 1983, this unit was terminated as to all lands and formation covered by participating area B for the Frontier formation and the initial participating area A for the third bench of the Frontier formation. <sup>2/</sup> Lands so described were simultaneously committed to the Powell Pressure Maintenance (Powell) Unit, <sup>3/</sup> a producing unit.

BLM's decision of March 7, 1984, indicates that only a part (720 acres) of lease W-32235 was committed to the Powell Unit, specifically, the E 1/2 SE 1/4 sec. 33 and all of sec. 34. This partial commitment caused a segregation of this lease into two lease: the present lease, W-32235, consisting of the above-described 720 acres and lease W-87875, consisting of the NW 1/4, W 1/2 SE 1/4 sec. 33 (240 acres). It is the term assigned to this latter lease by BLM that caused the instant appeal.

<sup>2/</sup> By letter dated Aug. 31, 1983, BLM approved the termination of the Spearhead Ranch Unit agreement as it applies to all lands and formation covered by participating area B for the Frontier formation and the initial participating area A for the third bench of the Frontier formation. File documents addressing unit termination are inconsistent as to what lands were within these participating areas. Appellant's request for termination includes all of sec. 34 (640 acres) but none in sec. 33. A BLM letter of Mar. 7, 1984 addressed to lessees in the Spearhead Ranch Unit states that 960 acres in lease W-32235 were affected by unit termination. On the basis of BLM's original decision, dated Mar. 7, 1984, it appears that all of sec. 34 and the E 1/2 SE 1/4 sec. 33 (720 acres) were within the above described participating areas.

<sup>3/</sup> This unit is known more formally as the Powell (First Branch of the First Frontier Formation) Pressure Maintenance Unit. Sec. 39 of the Powell Unit agreement is quoted in the record as providing for the simultaneous merger into the Powell Unit of those lands described in the preceding note.

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BLM's decision of August 23, 1983, states in part:

Decision of March 7, 1984, Amended  
Lease Account Transferred from Producing to Non-Producing Status

Oil and gas lease W-32235 issued with an effective date of January 1, 1972, was committed to the Spearhead Ranch Unit on August 9, 1974, and held by production in that unit until eliminated from the unit effective September 1, 1983, thereby extending the lease through September 1, 1985. Therefore, the lease was not extended by production on September 1, 1983, when segregated by the Powell Pressure Maintenance Unit—the lease had a fixed term, September 1, 1985. Therefore, the lease was not extended by production on September 1, 1983, when segregated by the Powell Pressure Maintenance Unit—the lease had a fixed term, September 1, 1985.

Consequently, lease W-87875 (segregated out of W-32235) will continue in effect unless relinquished, through September 1, 1985, and so long thereafter as oil and gas is produced in paying quantities, but not so long as oil or gas is produced under the unitized lease.

According to our records, there is no production on, or allocated to, the segregated lease.

Therefore, the account for W-87875 has been transferred from a producing to a non-producing status. [Emphasis in original.]

Appellant take exception to BLM's decision and notes that a well capable of production was present in the SW 1/4 NE 1/4 sec. 34 in lease W-32235 and/or the aforesaid well.

The result in this case is governed by its comparison case, Conoco, Inc., 90 IBLA 388 (1986), in which we held that where a producing unit is terminated, and simultaneously part of the lands of that lease are committed to another producing unit, thus segregating the lease into two leases, the term of the lease for the nonunitized, nonproducing lands is for so long as oil or gas is produced in paying quantities on the unitized lands lease, but not less than 2 years, and so long thereafter as oil or gas is produced in paying quantities on the nonunitized lands. It make no difference when after the end of the primary term a producing unit is terminated. In Conco it was immediately after; in this case it was well into the extended term. At any time in that term simultaneously partial commitment and unit termination will cause the term of the nonunitized, nonproducing lease to be coextensive with that of the unitized lease. If production is established on the nonunitized lease and continues beyond the life of the unitized lease, the term of the nonunitized lease will run so long as there is production in paying quantities.

Thus, the term of lease W-87875 shall be so long as oil and gas is produced in paying quantities under unitized lease W-32235, but for not

less than 2 years, and if before the expiration of this term production is obtained on lease W-97875, for so long thereafter as oil or gas is produced thereon in paying quantities.

Therefore, pursuant to the authority delegated to the Board of Land Appeals by the Secretary of the Interior, 43 CFR 4.1, the decision of the Wyoming State Office, dated August 23, 1984, is reversed.

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Will A. Irwin  
Administrative Judge

We concur:

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Bruce R. Harris  
Administrative Judge

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Franklin D. Amess  
Administrative Judge

