QUESTION AND ANSWERS RELATED TO THE EMERGENCY TEMPORARY SHUT-IN OF OIL WELLS DUE TO SEVERE REDUCTION IN THE PRICE OF OIL RULE (RULE 19.2.100.71 NMAC)

1. How does the State Land Office determine if a well is an oil or gas well under this rule?

The State Land Office follows the Oil Conservation Division's well classification. If the OCD has classified the well as a gas well, the SLO also considers the well a gas well. Lessees should contact the State Land Office if they need to shut in a gas well.

2. How long is a shut-in effective under this rule?

The temporary rule is in effect for a period of 120 days from April 21. Once a regular rule is in effect, a well subject to this rule is shut in for one year from the date the well was first shut in. However, this rule, or any rule adopted under the normal rulemaking, relating to the temporary shut-in of oil wells due to severe reduction in the price of oil, must be in effect for the well to continue to be shut in. Thus, if the rule ends, the protections of the shut-in rule also end, 90 days later. Further, if a well has been shut in for a year, an additional shut-in royalty payment must be made in order to continue the protections of the shut-in rule for each subsequent year.

3. Do you pay a shut-in royalty for every well in the lease?

Yes. Once the last well on the lease is shut in, a shut in royalty payment must be paid for every well on the lease.

4. When do I pay the shut-in royalty?

A shut-in royalty must be paid within 90 days from the date the last well on a lease capable of producing oil was shut-in. All future shut-in royalties must be made *before* the anniversary date of the shut-in well holding the lease. If a shut-in royalty is made early, the shut-in royalty will be applied to the date the well was shut in. Therefore, SLO recommends submitting shut-in royalty early in order to avoid missing the deadline.

5. What royalty must I pay if my well is part of a communitization agreement?

If a lease or leases are held by a communitization agreement, the SLO will require the lessee of the largest lease in the communitization agreement to pay the shut-in royalty. Shut-in royalty is due for each well within the communitization agreement that is shut in. The shut-in royalty will be the larger of either $320 or twice the annual rental on the lease. See example below.

6. What royalty must I pay if my well is part of a unit?

For shut-in wells on state leases, shut-in royalty is paid for each well and calculated by multiplying the base shut-in royalty that would be due for that well under the lease terms by the percentage of the acreage that lease constitutes within the Unit, but in no event less than $320 per well. See example below.

7. What other requirements must be met?

The lease must be in good standing with the SLO, and the lessee must continue to maintain the lease in good standing with SLO. In order to be in good standing, a lease must be in compliance with all lease terms, rules, and laws of the State of New Mexico. A lessee must continue to comply with bonding requirements, as the bonding requirements may change during the duration of the rule. In the event the SLO's bonding requirements change, a lessee must comply with any applicable bonding changes.

8. What happens if I don't shut my well soon after this rule takes effect?

The emergency rule is in effect for 120 days, since the Commissioner has begun the regular rulemaking process. Upon shutting in within this time period, any lessee can then continue to avail itself of the emergency rule's provisions for the duration of the emergency rule (that is, up to 120 days). After the emergency rule expires, a person can then shut in a well under the regular shut-in rule adopted under the normal rulemaking process.

9. Will I get a refund of my shut-in royalty if my well comes back online or the rule ends before my well has been shut in for one year?

No.

10. When do I have to produce my well again?

A well must begin producing within 90 days after the temporary shut-in of oil wells rule expires.

11. Can I submit one check and one form for all wells I shut-in?

No. A separate check and a separate form must be submitted to SLO for each well.

12. Will an oil well shut-in payment on a well within a unitization extend my drilling obligations within a unit?

No – the Unit Agreement is separate from an oil well shut-in royalty. The operator of the unit must abide by all terms and drilling obligations of the unit agreement. Contact the State Land Office units manager for information pertaining to extensions.

Examples

Communitized Area Shut-In Royalty Calculation

Example 1:

- Communitized Area is 240 acres. State Lease A is 320 acres, with $1.00/acre rental. State Lease B is 80 acres, with $0.75/acre rental. Federal Lease B is 160 acres. Two wells in the Communitized Area are shut in.
    - The shut-in royalty is paid by State Lease A, in twice the amount of annual rental for State Lease A, or $2 *320 acres = $640 per well.

Example 2:

- Communitized Area is 640 acres. State Lease A is 40 acres, with $.50/acre rental. Federal Lease B is 600 acres. Three wells in Communitized Area are shut in.
    - The shut-in royalty is twice the amount of State Lease A, or $1 * 40 acres = $40. However, since this is less than the statutory minimum of $320 per well, the minimum payment is $320 per well.

Unitized Area Shut-In Royalty Calculation

Example 1:

- Federal Exploratory Unit is 13,383.35 acres, containing 4 SLO leases with wells on each lease. State Lease 1 contains 105.45 acres and rent is $.50/acre. All the acres of this lease are in the unitized area. This lease constitutes 0.78% of the unitized area, so the shut in royalty is $1.00* 105.45 acres* 0.0078 = $.82. However, since this is less than the statutory minimum of $320 per well, the minimum payment is $320 per well.