

Subpart M—Unitization

§ 250.1300 What is the purpose of this subpart?

This subpart explains how Outer Continental Shelf (OCS) leases are unitized. If you are an OCS lessee, use the regulations in this subpart for both competitive reservoir and unitization situations. The purpose of joint development and unitization is to:

- (a) Conserve natural resources;
- (b) Prevent waste; and/or
- (c) Protect correlative rights, including Federal royalty interests.

§250.1301 What are the requirements for unitization?

(a) *Voluntary unitization.* You and other OCS lessees may ask the Regional Supervisor to approve a request for voluntary unitization. The Regional Supervisor may approve the request for voluntary unitization if unitized operations:

- (1) Promote and expedite exploration and development; or
- (2) Prevent waste, conserve natural resources, or protect correlative rights, including Federal royalty interests, of a reasonably delineated and productive reservoir.

(b) *Compulsory unitization.* The Regional Supervisor may require you and other lessees to unitize operations of a reasonably delineated and productive reservoir if unitized operations are necessary to:

- (1) Prevent waste;
- (2) Conserve natural resources; or
- (3) Protect correlative rights, including Federal royalty interests.

(c) *Unit area.* The area that a unit includes is the minimum number of leases that will allow the lessees to minimize the number of platforms, facility installations, and wells necessary for efficient exploration, development, and production of mineral deposits, oil and gas reservoirs, or potential hydrocarbon accumulations common to two or more leases. A unit may include whole leases or portions of leases.

(d) *Unit agreement.* You, the other lessees, and the unit operator must enter into a unit agreement. The unit agreement must: allocate benefits to unitized leases, designate a unit operator, and specify the effective date of the unit agreement. The unit agreement must terminate when: the unit no longer produces unitized substances, and the unit operator no longer conducts drilling or well-workover operations (§250.180) under the unit agreement, unless the Regional Supervisor orders or approves a suspension of production under §250.170.

(e) *Unit operating agreement.* The unit operator and the owners of working interests in the unitized leases must enter into a unit operating agreement. The unit operating agreement must describe how all the unit participants will apportion all costs and liabilities incurred maintaining or conducting operations. When a unit involves one or more net-profit-share leases, the unit operating agreement must describe how to attribute costs and credits to the net-profit-share lease(s), and this part of the agreement must be approved by the Regional Supervisor. Otherwise, you must provide a copy of the unit operating

agreement to the Regional Supervisor, but the Regional Supervisor does not need to approve the unit operating agreement.

(f) *Extension of a lease covered by unit operations.* If your unit agreement expires or terminates, or the unit area adjusts so that no part of your lease remains within the unit boundaries, your lease expires unless:

(1) Its initial term has not expired;

(2) You conduct drilling, production, or well-reworking operations on your lease consistent with applicable regulations; or

(3) BSEE orders or approves a suspension of production or operations for your lease.

(g) *Unit operations.* If your lease, or any part of your lease, is subject to a unit agreement, the entire lease continues for the term provided in the lease, and as long thereafter as any portion of your lease remains part of the unit area, and as long as operations continue the unit in effect.

(1) If you drill, produce or perform well-workover operations on a lease within a unit, each lease, or part of a lease, in the unit will remain active in accordance with the unit agreement. Following a discovery, if your unit ceases drilling activities for a reasonable time period between the delineation of one or more reservoirs and the initiation of actual development drilling or production operations and that time period would extend beyond your lease's primary term or any extension under §250.180, the unit operator must request and obtain BSEE approval of a suspension of production under §250.170 in order to keep the unit from terminating.

(2) When a lease in a unit agreement is beyond the primary term and the lease or unit is not producing, the lease will expire unless:

(i) You conduct a continuous drilling or well reworking program designed to develop or restore the lease or unit production; or

(ii) BSEE orders or approves a suspension of operations under §250.170.

§250.1302 What if I have a competitive reservoir on a lease?

(a) The Regional Supervisor may require you to conduct development and production operations in a competitive reservoir under either a joint Competitive Reservoir Development Program submitted to BSEE or a unitization agreement. A competitive reservoir has one or more producing or producible well completions on each of two or more leases, or portions of leases, with different lease operating interests. For purposes of this paragraph, a producible well completion is a well which is capable of production and which is shut in at the well head or at the surface but not necessarily connected to production facilities and from which the operator plans future production.

(b) You may request that the Regional Supervisor make a preliminary determination whether a reservoir is competitive. When you receive the preliminary determination, you have 30 days (or longer if the Regional Supervisor allows additional time) to concur or to submit an objection with supporting evidence if you do not concur. The Regional Supervisor will make a final determination and notify you and the other lessees.

(c) If you conduct drilling or production operations in a reservoir determined competitive by the BSEE Regional Supervisor, you and the other affected lessees must submit for approval a joint Competitive Reservoir Development Program. You must submit the joint Competitive Reservoir Development Program within 90 days after the Regional Supervisor makes a final determination that the

reservoir is competitive. The joint Competitive Reservoir Development Program must provide for the development and/or production of the reservoir. You may submit supplemental Competitive Reservoir Development Programs for the Regional Supervisor's approval.

(d) If you and the other affected lessees cannot reach an agreement on a joint Competitive Reservoir Development Program, submitted to BSEE within the approved period of time, each lessee must submit a separate Competitive Reservoir Development Program to the Regional Supervisor. The Regional Supervisor will hold a hearing to resolve differences in the separate Competitive Reservoir Development Programs. If the differences in the separate programs are not resolved at the hearing and the Regional Supervisor determines that unitization is necessary under §250.1301(b), BSEE will initiate unitization under §250.1304.

§250.1303 How do I apply for voluntary unitization?

(a) You must file a request for a voluntary unit with the Regional Supervisor. Your request must include:

(1) A draft of the proposed unit agreement;

(2) A proposed initial plan of operation;

(3) Supporting geological, geophysical, and engineering data; and

(4) Other information that may be necessary to show that the unitization proposal meets the criteria of §250.1300.

(b) The unit agreement must comply with the requirements of this part. BSEE will maintain and provide a model unit agreement for you to follow. If BSEE revises the model, BSEE will publish the revised model in the FEDERAL REGISTER. If you vary your unit agreement from the model agreement, you must obtain the approval of the Regional Supervisor.

(c) After the Regional Supervisor accepts your unitization proposal, you, the other lessees, and the unit operator must sign and file copies of the unit agreement, the unit operating agreement, and the initial plan of operation with the Regional Supervisor for approval.

(d) You must pay the service fee listed in §250.125 of this part with your request for a voluntary unitization proposal or the expansion of a previously approved voluntary unit to include additional acreage. Additionally, you must pay the service fee listed in §250.125 with your request for unitization revision.

§250.1304 How will BSEE require unitization?

(a) If the Regional Supervisor determines that unitization of operations within a proposed unit area is necessary to prevent waste, conserve natural resources of the OCS, or protect correlative rights, including Federal royalty interests, the Regional Supervisor may require unitization.

(b) If you ask BSEE to require unitization, you must file a request with the Regional Supervisor. You must include a proposed unit agreement as described in §§250.1301(d) and 250.1303(b); a proposed unit operating agreement; a proposed initial plan of operation; supporting geological, geophysical, and engineering data; and any other information that may be necessary to show that unitization meets the criteria of §250.1300. The proposed unit agreement must include a counterpart executed by each lessee seeking compulsory unitization. Lessees who seek compulsory unitization must simultaneously serve on the nonconsenting lessees copies of:

(1) The request;

(2) The proposed unit agreement with executed counterparts;

(3) The proposed unit operating agreement; and

(4) The proposed initial plan of operation.

(c) If the Regional Supervisor initiates compulsory unitization, BSEE will serve all lessees of the proposed unit area with a proposed unitization plan and a statement of reasons for the proposed unitization.

(d) The Regional Supervisor will not require unitization until BSEE provides all lessees of the proposed unit area written notice and an opportunity for a hearing. If you want BSEE to hold a hearing, you must request it within 30 days after you receive written notice from the Regional Supervisor or after you are served with a request for compulsory unitization from another lessee.

(e) BSEE will not hold a hearing under this paragraph until at least 30 days after BSEE provides written notice of the hearing date to all parties owning interests that would be made subject to the unit agreement. The Regional Supervisor must give all lessees of the proposed unit area an opportunity to submit views orally and in writing and to question both those seeking and those opposing compulsory unitization. Adjudicatory procedures are not required. The Regional Supervisor will make a decision based upon a record of the hearing, including any written information made a part of the record. The Regional Supervisor will arrange for a court reporter to make a verbatim transcript. The party seeking compulsory unitization must pay for the court reporter and pay for and provide to the Regional Supervisor within 10 days after the hearing three copies of the verbatim transcript.

(f) The Regional Supervisor will issue an order that requires or rejects compulsory unitization. That order must include a statement of reasons for the action taken and identify those parts of the record which form the basis of the decision. Any adversely affected party may appeal the final order of the Regional Supervisor under 30 CFR part 290.