

## 3160-3 - FIRST PRODUCTION/DISCOVERY REPORTS

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.01 Purpose. This Manual Section provides instructions regarding actions that must be taken following the first production/discovery of oil or gas from a well that directly or indirectly affects the Department's leasing, lease management, or royalty management functions.

.02 Objectives. Federal or Indian lands can be affected by the discovery and/or initial production of oil and gas from a well located (a) on a Federal or Indian leasehold; (b) on a committed tract within a unitized or communitized area (CA) that includes Federal and/or Indian lands; or (c) on adjacent nonjurisdictional (State or private-land) leases. The objective to be accomplished by preparing and distributing first production/discovery reports is to ensure that appropriate offices within the Department are notified promptly of each such event, since the extension of leases and agreements beyond their primary terms, drainage determinations, royalty management determinations, and the creation or expansion of known geologic structures (KGS) or unit participating areas may be triggered or affected whenever a well, meeting any of the above circumstances, is completed for oil or gas production.

.03 Authority.

A. 43 CFR Group 3100.

B. Memorandum of Understanding Between the Bureau of Land Management and Minerals Management Service Regarding Working Relationships Affecting Mineral Lease Activities, January 9, 1984.

.04 Responsibility.

A. State Director. The State Director is responsible for making paying well determinations and for reviewing the procedures used by District Managers in reporting discoveries and first production.

B. District Manager. The District Manager, as delegated, is responsible for monitoring all well completions affecting Federal or Indian minerals; preparing first production/discovery reports (memoranda); making paying well determinations; and for notifying the BLM State Director, the Minerals Management Service, and, as appropriate, other BLM offices and the Bureau of Indian Affairs (BIA).

C. Area Managers. The Area Manager is responsible for operations in his/her area, if further delegated.

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.05 References.

- A. Manual Section 3160-2 - Drainage Protection.
- B. Former USGS Conservation Division Manual chapter on extension of leases, R17-CDM 645.6.
- C. Former USGS Conservation Division Manual chapter on unitization, R29-CDM 645.1.
- D. 67 IBLA 246 (September 24, 1982), Yates Petroleum Corp. et al. Appeal from decision of Wyoming State Office, Bureau of Land Management, holding noncompetitive oil and gas lease W-28314 to have terminated by operation of law.

.06 Policy. It is the BLM policy to require preparation of the first production/discovery memorandum in order to accomplish the objectives stated above.

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.1 Guidelines. These instructions apply to wells on (a) Federal public domain and acquired lands, (b) Indian tribal and allotted lands, (c) communitized and unitized areas that include Federal or Indian lands, and (d) nonjurisdictional lands that may affect adjacent Federal or Indian lands.

.11 Reporting Discoveries/First Production on or Affecting Federal Lands. Discovery and/or first production reports must be prepared promptly in all cases where Federal lands are directly involved, i.e., where the well is located on the Federal leasehold or on non-Federal lands communitized or unitized with Federal lands. Accordingly, the authorized officer must monitor all new well completions and recompletions on public domain and acquired land leases and on non-Federal lands within all unitized or communitized areas that include Federal lands. The first production/discovery report should contain the operator's name, well identification and location, geological data, the initial potential test data and, if possible, a paying well determination.

A. First Production/Discovery Memoranda. A first production/discovery memorandum (Illustration 1) must be prepared immediately following first production/discovery on a Federal lease. A memorandum is also required upon completion of the initial well under a communitization action or unitization ~~agreement involving Federal lands, even if previous memoranda have been~~ written for all or some of the individual leases committed to the agreement.

B. Coordination with the Minerals Management Service. At the time each lease or agreement (communitization or unitization) becomes productive, MMS must be provided a copy of all pertinent lease instruments, approved assignments, designations of operator, other relevant documents, and the first production/discovery memorandum. The MMS must be provided copies of unit or communitization agreements and associated documents and exhibits upon approval of the agreements. In those instances where there is nonunitized production within the boundaries of an agreement, MMS must be advised clearly of these circumstances. MMS must also be advised clearly of those circumstances where unitized lands are communitized with nonunit lands, i.e., with lands within the unit area but not committed to the unit plan, or with lands outside but adjacent to the unit area. Also, MMS must be apprised of overlapping or concurrent unit areas, communitized areas, or unit participating areas.

C. Preliminary Determination of Paying Quantities. If the authorized officer cannot initially determine from the initial potential test data and other available information that the well is capable of production in paying quantities, a comment to this effect should be in the "Remarks" section of the memorandum. In that case, a supplemental report must follow as soon as sufficient information is available to determine the capability of the well.

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.12 Reporting First Production/Discoveries on Nonjurisdictional Lands.

First production/discovery reports for nonjurisdictional lands must be submitted only when such well completions may affect adjacent Federal or Indian lands. Accordingly, the authorized officer must monitor drilling wells on nonjurisdictional lands when the completion of such wells may affect nearby Federal or Indian lands. A first production/discovery memorandum (Illustration 2) must be prepared as soon as possible following such completions. Any information that may be of value to the users of such reports should be included in the "Remarks" paragraph of the memorandum.

.13 Reporting First Production/Discoveries on or Affecting Indian Lands.

First production/discovery memoranda for Indian leases are prepared the same as for Federal leases (see Illustration 3).

.14 Reporting Initial Completion in Unit or Communitized Areas.

A Federal oil and gas lease may be extended past its primary term by commitment to a federally approved unit or communitization agreement if a well is completed on a committed tract that is capable of producing unitized/communitized substances in paying quantities prior to the expiration date of the lease. Production in such quantities on any committed tract within the agreement area is considered to be on or for the benefit of each committed lease. Accordingly, a first production/discovery memorandum (Illustration 1) must be prepared as soon as possible after the completion of the first unit or communitized well capable of producing unitized/communitized substances in paying quantities. Even if the first production/discovery in the unit does not qualify as a well capable of producing unitized substances in paying quantities, a first production/discovery memorandum must be prepared if the well is or may be capable of production in paying quantities on a lease basis (see Glossary). This is necessitated by the fact that 67 IBLA 246, dated September 24, 1982 (Yates Petroleum Corp. et al.), concluded that the completion of a unit well that is capable of production in paying quantities on a lease basis is sufficient to extend the term of all Federal leases committed to the unit plan.

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.2 Procedures. The following general procedures must be followed in fulfilling responsibilities and assuring intra- and interagency coordination and cooperation.

.21 Monitoring New Well Completions. The District Manager or Area Manager, if so delegated, monitors new well completions or recompletions on public domain, acquired, and Indian lands leases, on unitized/communitized areas involving Federal or Indian lands, and on State and privately owned leases adjacent to Federal or Indian lands.

.22 Preparation of Memoranda. Immediately following the completion of a well that constitutes first production and/or a discovery, the appropriate memorandum (Illustration 1, 2, or 3) is prepared by the authorized officer. If a paying well determination cannot be made, the memorandum will state that the production is questionable. Such memorandum will be followed by a second memorandum, once sufficient information is available to make the determination.

.23 Distribution of Memorandum. Copies of all first production/discovery memoranda are distributed within the District, to the State Office, MMS, and, as appropriate, to other BLM offices and to the involved office(s) of the BIA. ~~Intra-District (or Intra-State Office, where not delegated)~~ notification of first production/discovery should include all affected organizational entities. Copies of the memorandum also must be forwarded to the bordering State Offices, if the subject well is located within 5 miles of the border with the adjacent States. If the well is located within 5 miles of the border with adjacent Districts within the same State jurisdiction, a copy of the memorandum must also be sent to those District Offices.



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Glossary of Terms

- A -

authorized officer: any employee of the Bureau of Land Management authorized to perform the duties described herein.

- D -

discovery: a well that has been drilled, deepened, or plugged back and completed for oil or gas production in sands, formations, or sources of supply from which hydrocarbons have not previously been produced or tested in the field or area where the well is located.

discovery memorandum: a memorandum prepared after a well has been drilled, deepened, or plugged back and completed for oil or gas production from a sand, formation, or source of supply not previously known to be productive in the field or area in which the well is located. However, where the well also qualifies as the first production from a lease, the memorandum is styled as a first production/discovery memorandum. The well may be located on leased Federal or Indian lands, in a communitized or unitized area that includes committed Federal and/or Indian leases, or on nonjurisdictional lands in close proximity to Federal or Indian lands (leased or unleased). The memorandum should provide the full particulars concerning the well and, if possible, a determination as to whether it is capable of production in paying quantities. If such a determination is not then possible, a subsequent report in that regard must be submitted. The information contained in the report may affect the royalty management program and may relate to lease and agreement extensions, KGS determinations, and drainage reviews.

- F -

first production memorandum: a memorandum prepared after a well has been drilled, deepened, or plugged back and completed for oil and/or gas production from a sand, formation, or source of supply that previously was known to be productive in the field or area in which the well is located, whenever such well represents the first production from that lease. The well may be located on leased Federal or Indian lands, in a communitized or unitized area that includes committed Federal or Indian leases, or on nonjurisdictional lands in close proximity to Federal or Indian lands (leased or unleased). The memorandum should provide the full particulars concerning the well and, if possible, a determination as to whether the well is capable of production in paying quantities. If such a determination is not then possible, a subsequent report in that regard must be submitted. The information contained in the memorandum may affect the royalty management program and may relate to lease and agreement extensions, KGS determinations, and drainage reviews.

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- P -

paying quantities:

1. lease wells: quantities of sufficient value to exceed the direct operating costs (including marketing costs) of the well plus rentals or minimum royalty. Drilling and completion costs and costs of related surface facilities are not considered on a lease basis.
2. unit wells: quantities sufficient to repay the costs of drilling, completing, and producing operations with a reasonable profit. If it is not a paying unit well, then determination of paying quantities is on a lease basis, as in 1, above.
3. communitized wells: see 1, above.

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Format and Distribution for a First Production/Discovery Memorandum  
Where Federal Lands are Directly Involved

Memorandum

To: State Director

From:

Subject: Discovery/First Production, Lease No. (or CA or unit if applicable)

Date of Completion:

Field:

Lessee or Operator/Well Name/Number:

Location:

Total Depth and Surface Elevation:

~~Producing Formation and Intervals:~~ (Show name of formation and top and bottom perforation, or top and bottom of producing interval.)

Initial Daily Production: (Report all production including water, gas from an oil well, distillate, or condensate from a gas well.)

Well Capable of Production in Paying Quantities? (Determine for first production on Federal lease, communitized area, or unit involving Federal lands in accordance with definitions.)

Current Status: (Producing, shut-in, etc.)

Reported Formation Tops:

Remarks: (Include additional information that may be pertinent to the State Office, other BLM offices, MMS, BIA, or BLM geologists, including the identification of other jurisdictional lands, leases, and agreements that may be affected in any manner by the first production/discovery.)

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cc: Minerals Management Service  
Bureau of Indian Affairs (as appropriate)  
BLM Geologist  
District Files  
Bordering State and District Offices (as appropriate)



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Format and Distribution for a  
First Production/Discovery Memorandum on Nonjurisdictional Lands

Memorandum

To: State Director

From:

Subject: First Production/Discovery on Nonjurisdictional Lands

Date of Completion:

Field:

Lessee or Operator/Well Name/Number:

Location:

Total Depth and Surface Elevation:

~~Proximity to Federal Lands:~~

Indian Lands:

Production:

Producing Formation and  
Intervals:

(Show name of formation and top or bottom  
perforation, or top and bottom of producing  
interval.)

Initial Daily Production:

(Report all production, including water, gas from  
an oil well, distillate, or condensate from a gas  
well.)

Well Capable of Production  
in Paying Quantities?

(Apply the same standards as applicable to  
Federal/Indian leases.)

Reported Formation Tops:

Remarks: (Include additional information that may be pertinent to the State  
Office, other BLM offices, MMS, BIA, or BLM geologists, including  
the identification of jurisdictional lands, leases, and agreements  
that may be affected in any manner by the first production/  
discovery.)

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cc: BLM Geologist  
District Files  
Bureau of Indian Affairs (as appropriate)  
Bordering State and District Offices (as appropriate)



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Format and Distribution for a  
First Production/Discovery Memorandum on Indian Lands

Memorandum

To: Area Director

From:

Subject: First Production/Discovery, Lease (or CA or unit if applicable)

Date of Completion: Field:

Lessee or Operator/Well Name/Number:

Location:

Total Depth and Surface Elevation:

Producing Formation and Intervals: (Show name of formation and top and bottom perforation, or top and bottom of producing interval.)

Initial Daily Production: (Report all production, including water, gas from an oil well, distillate, or condensate from a gas well.)

Well Capable of Production in Paying Quantities? (Determine for first production on Indian lease, communitized area, or unit involving Indian lands, in accordance with definitions.)

Reported Formation Tops:

Remarks: (Include additional information that may be pertinent to the State Office, other BLM offices, MMS, BIA, or BLM geologist, including the identification of other jurisdictional lands, leases, and agreements that may be affected in any manner by the first production/discovery.)

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cc: Minerals Management Service  
State Office  
District Files  
Other Bureau of Indian Affairs Offices (as appropriate)  
BLM Geologist  
Bordering State and District Offices (as appropriate)

