

# OIL AND GAS AND GEOHERMAL TRANSFERS OF OPERATING RIGHTS

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## Course Objective

Adjudicate a sample transfer of operating rights for compliance with regulations and guidance.

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- ## Course Route
- Define operating rights.
  - Explain the history
  - Discuss issues that result when transfers are not adjudicated.
  - Discuss the impacts of severing operating rights.
  - Review New Guidance.
  - Review the Regulations and Requirements
  - Adjudicate a sample transfer of operating rights

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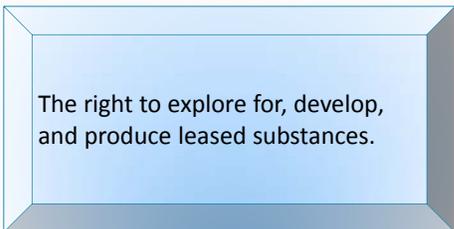
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## What are Operating Rights?

AKA – Working Interest



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## What is an Operating Rights Transfer?

A sublease that:

- Is a private agreement
- Doesn't affect the contractual agreement between the lessee and the U.S.

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## Why is it important to know who holds an interest in Operating Rights?

- The Holder has responsibilities.
- The BLM and ONRR have mutual responsibilities.
- A lessee (record title holder) may also have responsibilities.

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## History – Why did we stop processing lease operating rights transfers?

1985 Solicitors Determined:

- No legal requirement to adjudicate operating rights.
- An operating rights transfer is an agreement between private parties.

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## History – Why did we stop processing lease operating rights transfers?

• WO IM 86-175, Processing Oil and Gas Lease Operating Rights Transfer (December 30, 1985)

- Guidance with respect to processing transfers.
- Discontinue abstracting transfers.
- Disclaimer statement to be added:

**"Approval does not warrant that either party to this transfer holds legal or equitable title to this lease."**

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## Issues

- Drainage
- Royalty Simplification and Fairness Act of 1996 (RSFA)

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## Drainage – 43 CFR 3162.2-7

Record title interest owners and operating rights interest owners are jointly and severally liable for drainage for the area and the period they hold these interests.

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## Federal Oil and Gas Royalty Simplification and Fairness Act of 1996

Payment obligations of the operating rights and the record title holders.

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## Operating Rights – Problems of Severance

Once approved –  
Record title and operating rights are severed forever  
and  
Must file both record title and operating rights forever

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## Scenario

Which form(s) Record Title Assignment or Transfer of Operating Rights or both would need to be filed for the following scenario?

Company A wants to assign 25% of all their interest to Company C.

<u>Record Title</u>		<u>Operating Rights</u>	
Company A	50%	Company A	75%
Company B	50%	Company B	25%

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## History-Why are we now Adjudicating Operating Rights Transfers?

WO IM 2013-105: Adjudication of Oil & Gas and Geothermal Operating Rights Assignments, issued April 4, 2013

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## WO IM 2013-105 (continued)

### Policy/Action

- Leases on which production began on or after October 1, 2012
- Leases on which production began prior to October 2, 2012
- Adjudicate all remaining unadjudicated operating rights transfers

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## Requirements to Process Transfers

### Regulations and Guidance

- 43 CFR 3106
- Handbook H-3106-1
- WO IM-2013-105 additional requirements:
  - Lease Interest Worksheet
  - LR2000 Entries

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## Steps to Adjudicating Transfers of Operating Rights

- Acceptable Form filed in triplicate
  - June 1988 and later
  - 3000-3a – Transfer of Operating Rights
    - Specific Depths
    - Specific Formation
- Include only a Portion of the Lease

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## Steps to Adjudicating Transfers of Operating Rights

- Verify
  - Required Filing fee paid
    - Check federal register for current fee
  - 3 copies originally signed and dated by Transferor
  - 1 copy originally signed and dated by Transferee
  - Form is Date-Time Stamped
  - Interest box has been checked
  - Lease Number
  - Legal description
  - Percentage of interest of transferor

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## Steps to Adjudicating Transfers of Operating Rights

- Filed within 90 days of execution by Transferor
  - Full Force and Effect Statement signed by All Parties
- Status of lease
  - Is lease terminated/expired
  - Is rental/royalty paid
    - Determine if bonding is required
      - Lease held by production
    - Bond Adequacy Review Needed
      - WO IM 2010-161
      - WO IM 2013-151

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## Requirements met, Process transfer

- Prepare lease interest worksheet
- Prepare transfer for signature by the Authorized Officer (AO)
  - Effective first day of month following date of filing
- Update LR2000
  - Action Code 933, Action Remarks: EFF MM/DD/YY;
  - If more than one approval with the same date, enter a number after the semicolon. EFF 02/01/13; 2
  - Update Customer on the Interest Relation Screen
- File document in case file on top of the approved transfer

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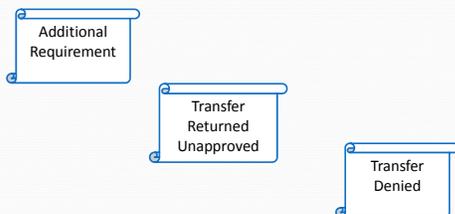
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## Actions taken by BLM if requirements are not met?



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## Exercises

**If you haven't already done so,  
please print the exercise  
documents found in the student  
materials folders**

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## Class Exercise

Documents needed to process this transfer

Assumptions:

- The required numbers of copies and original signatures have been submitted.
- The lease is in a non-producing status.

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## Exercise 1

Documents needed to process this transfer

Assumptions:

- The required numbers of copies and original signatures have been submitted.
- The lease is in a non-producing status.

**Pause session and complete Exercise  
Restart when you're ready to view the answers**

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## Exercise 2

Documents needed to process this transfer

Assumptions:

- The required numbers of copies and original signatures have been submitted.
- The lease is in a non-producing status.

**Pause session and complete Exercise**

**Restart when you're ready to view the answers**

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## Exercise 3

Documents needed to process this transfer

Assumptions:

- The required numbers of copies and original signatures have been submitted.
- The lease is in a non-producing status.

**Pause session and complete Exercise**

**Restart when you're ready to view the answers**

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## Example of a Complex Lease Interest Worksheet

680 Acre Lease

- 9 different tracts of ownership
- Different Depths
- Different Parties
- Different Percentages

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## Mass Transfers – 43 CFR 3106.4-3

Similar to requirements for filing a single transfer

• Differences:

- Provide a Complete Exhibit
- Processing Fees
- Filing of Approved Original and File Copies
- Each Transfer Processed Separately
- Unapproved Transfers - Deny

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## UNADJUDICATED LEASES

**Conflicts:**

- Missing transfers
- Percentages not correct
- Companies no longer in business

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## UNADJUDICATED LEASES

**Resolving Conflicts:**

Stipulation of Interest Letter

- Company provides documentation to support current ownership or sworn statements
- BLM issues an acceptance letter

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## Course Routes

- Defined operating rights
- Explained the history of adjudicating operating rights
- Reviewed impacts that may occur when transfers are not adjudicated
- Reviewed the New Guidance
- Discussed severing of operating rights
- Reviewed adjudication requirements
- Processed sample transfers of operating rights

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## Thank You

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