



ADMINISTRATIVE RULES OF MONTANA



36.25.217 OPERATIONS ON STATE LEASES

- (1) The lessee shall conduct all operations subject to such inspections as the department shall decide to make and shall carry out at the lessee's expense all reasonable orders and requirements of the department relative to the prevention of waste and preservation of property. On the failure of the lessee to do so, the department shall have the right, together with other recourse herein provided, to enter on the property to repair damages or prevent waste at the lessee's expense.
- (2) In all operations on lands leased pursuant to these rules and regulations, the lessee shall use the highest degree of care and all proper safeguards to prevent pollution of earth, air or water by hydrocarbons or other pollutants, excepting that pollution which is allowed, if any, by these rules and regulations and the rules and regulations relating to oil and gas published by the oil and gas conservation division of the department. In the event of pollution, directly or indirectly caused by lessees operations on lands leased pursuant to these rules, lessee shall use all means at its disposal to recapture escaped hydrocarbons and other pollutants and shall be responsible for all damage to public and private properties, including bodies of water of any sort, whether above or below the surface of the earth.
- (3) To minimize conflicts with the owner or lessee of the surface of the land leased, lessee hereunder shall:
 - (a) provide the surface owner or lessee with a plan for location of all facilities;
 - (b) consult with the surface owner or lessee regarding a reasonable location of access roads. The access roads must be located along section lines and existing roads to the fullest extent possible and they must disturb as little acreage as possible unless the surface owner agrees otherwise. In locating the roads, priority shall be given to minimizing interference with the surface owners or lessees operations. The lessee shall make just payment to the surface owner for all damage done by reason of his entry upon, and use and occupancy of, the surface of the land.
- (4) When any oil or gas well drilling operation is commenced on land leased pursuant to these rules, any topsoil on affected lands shall be removed and stockpiled on the site. The lessee shall take all reasonable, necessary steps to insure the preservation of the stockpiled topsoil including a temporary vegetation cover to prevent erosion. At the completion of oil or gas recovery operations, and upon the final abandonment and completion of the plugging of any well, the lessee shall, unless the owner of the surface requests otherwise and executes a release to that effect, restore the surface of the location to its original contours as far as reasonably possible, redistribute the topsoil, and reseed the land with native grasses and/or native plants as prescribed by the department.

- (5) Each lessee, in conducting his explorations and mining or drilling operations shall use all reasonable precautions to prevent waste of oil or gas developed in the lands and to prevent the entrance of water through wells drilled by him to the oil and gas sands or oil or as bearing strata to the destruction or injury of the oil or gas deposits.
- (6) On or before the last day of each month every holder of a producing oil or gas lease shall make a report to the department for the preceding calendar month on a form the department prescribes. The report shall show the amount of oil or gas produced and saved during the preceding month, the amount of oil and gas sold, the price obtained, the total amount of all sales, and additional information as required on the form. The reports shall be signed by the lessee or some responsible person having knowledge of the facts reported, and shall be accompanied by payment of the amount due the state as royalty for the month covered by the report, unless the state's royalty is being or has been paid direct by the purchaser of the production. When the lessee is required by the oil and gas conservation board to file a completion report (form 4) with that board, he shall also file one copy of the completion report with the department of natural resources and conservation.
- (7) A lessee is required, upon completing a commercially productive oil or gas well upon the lease premises, to proceed with reasonable diligence to drill such additional wells to the depth of the formation found commercially productive, or to such depth as may be necessary to economically test, develop and operate the deposits discovered. As to lands found valuable for oil production, no lessee will be required to drill to completion more than one well under any one lease during any one calendar year, or a total number of wells under any one lease in excess of the total number of 40 acre subdivisions of land held under such lease. As to lands found valuable for gas production only, the drilling obligation of the lessee shall be confined to a total number of wells equal to the total number of tracts comprising 160 acres of land included in the lease, of which total number of wells the drilling on not more than one will be required in any one calendar year. However, notwithstanding the foregoing general rules, if wells drilled on land contiguous to the state lands require, in the discretion of the department, greater diligence in drilling and a greater number of wells to be drilled on the state lands to protect the lease premises and deposits from loss, depletion or uncompensated drainage due to the wells on the contiguous lands, such greater diligence and greater number of wells may be required. All such requirements, however, shall be subject to, and shall not be inconsistent with, applicable rules, regulations and orders of the oil and gas conservation division of the department.
- (8) Performance of well drilling operations as required by the foregoing rule may be suspended only by and with the consent of the board during the time oil or gas previously discovered cannot be marketed at a profit, or for other good cause shown. When such suspension of drilling operations is deemed necessary and desirable by the lessee, the lessee shall submit a written statement of reasons therefor to the board. If the requested suspension of drilling operations is approved by the board, it shall issue to the lessee a statement or certificate authorizing the suspension for a time certain and require the lessee, within such time certain, to make written application to the board for any further extension of the time in which such drilling operations may be suspended.
- (9) Upon the termination for any cause of any lease, the lessee has 6 months after the date of the termination to remove all machinery, fixtures, improvements, buildings and equipment belonging to him on the premises, except casing in any well capable of producing oil or gas and other equipment or apparatus necessary for the preservation of any well capable of producing oil or gas in quantities sufficient to pay for the operation of such well. With respect to any well which has not been completely plugged and abandoned by the lessee prior to the termination date, the

lessee shall not remove casing or equipment from the well nor plug and abandon it without written approval from the department for such action.

- (10) If upon the termination of any lease there is located on the lease a well capable of producing oil or gas and if the succeeding lessee, or in the event there is no succeeding lessee, the state, wishes to have the casing, equipment and apparatus necessary for preservation of the well left upon the premises, that party shall pay to the lessee under the terminated lease the reasonable value of such property. If the succeeding lessee or the department is unable to agree with the former lessee upon the reasonable cash value of such casing, equipment and apparatus, the succeeding lessee or the state, as the case may be, shall pay in cash, to the former lessee a sum fixed as a reasonable price by a board of 3 appraisers, one of whom shall be chosen by the succeeding lessee or the state, one by the former lessee, and the third by the two so chosen. Its appraisal shall be reported to the respective parties in writing, and is final and conclusive. Each party will pay the cost of the appraiser which it selects, and the parties will bear equally the cost of the third appraiser. The former lessee may remain in possession and manage the land and property formerly covered by his lease until the value of the casing, equipment and apparatus which the succeeding lessee or the state desires to have left upon the premises is fixed in the manner provided in this rule and has been paid to him in cash. During the time the former lessee remains in such possession, he may retain the same share of the products of the premises as inured to him during the term of his lease. Should the state or the succeeding lessee not desire any of the lessee's property as provided in these rules, the lessee shall properly plug all wells and remove all of his property from the lands.
- (11) Any casing, machinery, fixtures, improvements, buildings and equipment belonging to any lessee and not removed within 6 months after the date of termination of the lease shall, upon the expiration of the 6 months' period become the property of the state. However, the claiming of such property from the lands, or any of such actions, shall not relieve the lessee of his obligation to properly plug and abandon all wells, to remove all debris and equipment from the lands, and to restore the premises to their condition prior to drilling operations as far as reasonably possible.

Authorizing statute(s): 77-3-402, MCA

Implementing statute(s): 77-3-426, 77-3-428, 77-3-431, and 77-3-442, MCA

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