

REFERENCE TITLE: oil and gas; shut-in royalty

State of Arizona  
Senate  
Forty-eighth Legislature  
Second Regular Session  
2008

## **SB 1328**

Introduced by  
Senator Flake

AN ACT

AMENDING SECTION 27-555.01, ARIZONA REVISED STATUTES; RELATING TO OIL AND GAS  
LEASES ON STATE LANDS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 27-555.01, Arizona Revised Statutes, is amended to  
3 read:

4 27-555.01. Extension of lease due to lack of transportation,  
5 processing facilities or market

6 A. When the owner of an oil and gas lease issued pursuant to this  
7 chapter has discovered gas on the leased premises or on lands joined  
8 therewith in a cooperative or pooled unit, while the lease is in full force  
9 and effect, but is unable to produce gas IN PAYING QUANTITIES because of lack  
10 of transportation or processing facilities or a market for the gas THAT WOULD  
11 SUPPORT PRODUCTION IN PAYING QUANTITIES, each lease on which there is a gas  
12 well or which is part of the cooperative or pooled unit shall be extended  
13 beyond the primary term, OR ANY EXTENSION OF THE LEASE UNDER SECTION 27-555,  
14 SUBSECTION E, PARAGRAPH 1, from year to year, but not to exceed a period of  
15 five years, by payment of a shut-in gas royalty of one dollar per acre for  
16 the first year, two dollars per acre for the second year and three dollars  
17 per acre for the third, fourth and fifth years, payable in advance annually  
18 on the anniversary date of the lease. If the payment is made it will be  
19 deemed that gas is being procured and produced from the leased premises for  
20 such year.

21 B. TO SUCCESSFULLY ASSERT SHUT-IN STATUS UNDER SUBSECTION A OF THIS  
22 SECTION, THE OWNER OF THE LEASE MUST:

23 1. COMPLETE THE WELL BY INSTALLING AND PERFORATING PRODUCTION CASING,  
24 BY INSTALLING A PRODUCTION LINER AT RESERVOIR DEPTH OR BY OTHER STANDARD  
25 INDUSTRY PRACTICES.

26 2. FILE A STANDARD WELL COMPLETION REPORT WITH THE COMMISSION  
27 INDICATING A GAS DISCOVERY.

28 3. SUBMIT TO THE COMMISSION, AT OR BEFORE TENDERING THE FIRST YEAR'S  
29 SHUT-IN ROYALTIES, INFORMATION DESCRIBED IN EITHER SUBDIVISION (a), (b) OR  
30 (c) AS FOLLOWS. A WELL MEETING ANY OF THE FOLLOWING CRITERIA IS CONSIDERED  
31 TO BE CAPABLE OF PRODUCTION IN PAYING QUANTITIES FOR THE PURPOSES OF THIS  
32 SECTION:

33 (a) WELL TEST RESULTS SHOWING SUSTAINED FLOW RATES FOR AT LEAST SEVEN  
34 DAYS OF AT LEAST ONE HUNDRED FIFTY THOUSAND CUBIC FEET PER DAY, IN WHICH CASE  
35 THE WELL IS CONCLUSIVELY CONSIDERED TO BE CAPABLE OF PRODUCTION IN PAYING  
36 QUANTITIES FOR PURPOSES OF THIS SECTION.

37 (b) A CALCULATION REASONABLY DEMONSTRATING THAT THE MONTHLY PROCEEDS  
38 OF THE WELL WOULD BE EXPECTED TO EXCEED THE WELL'S MONTHLY OPERATING EXPENSES  
39 DURING THE TWELVE MONTHS FOLLOWING THE DATE OF SUBMISSION, IF TRANSPORTATION  
40 AND PROCESSING FACILITIES WERE PRESENT AND A MARKET EXISTED. FOR THE  
41 PURPOSES OF THIS SUBDIVISION, THE OWNER MAY ESTIMATE MONTHLY PRODUCTION  
42 DURING THE FIRST YEAR BASED ON WELL TEST RESULTS AND ANY OTHER DATA THE OWNER  
43 CONSIDERS HELPFUL, ESTIMATE THE MONTHLY VALUE OF THAT PRODUCTION USING  
44 APPROXIMATE THEN-CURRENT PRICING AND ESTIMATE MONTHLY OPERATING EXPENSES FOR

1 THE WELL BASED ON RECENT HISTORY OF COMPARABLE WELLS. COSTS OF DRILLING,  
2 COMPLETING AND EQUIPPING THE WELL SHALL NOT BE CONSIDERED IN THE CALCULATION.

3 (c) INFORMATION SATISFYING ANY OTHER ALTERNATE TEST THAT MAY BE  
4 ADOPTED BY THE COMMISSION FOR DEMONSTRATING CAPABILITY TO PRODUCE IN PAYING  
5 QUANTITIES, IF TRANSPORTATION AND PROCESSING FACILITIES WERE PRESENT AND A  
6 MARKET EXISTED.

7 C. IF THE COMMISSION CONSIDERS THAT THE REQUIREMENTS OF SUBSECTION B  
8 OF THIS SECTION HAVE NOT BEEN MET, IT HAS THIRTY DAYS AFTER RECEIVING THE  
9 COMPLETION REPORT UNDER SUBSECTION B, PARAGRAPH 2 OF THIS SECTION AND THE  
10 SUBMISSION REQUIRED UNDER SUBSECTION B, PARAGRAPH 3 OF THIS SECTION IN WHICH  
11 TO PROVIDE THE OWNER OF THE LEASE WITH A NOTICE OF OBJECTION, WHICH SHALL  
12 CITE THE SPECIFIC CRITERIA THAT HAVE NOT BEEN MET AND THE SPECIFIC GROUNDS  
13 FOR THE OBJECTION. IF THE COMMISSION TIMELY PROVIDES THE NOTICE OF  
14 OBJECTION, THE COMMISSION MAY CALL A HEARING TO EXAMINE THE MATTER. THE  
15 LEASE SHALL REMAIN IN EFFECT PENDING FINAL RESOLUTION, WHETHER  
16 ADMINISTRATIVE, JUDICIAL OR OTHERWISE, AS TO WHETHER THE CRITERIA IN  
17 SUBSECTION B OF THIS SECTION HAVE BEEN MET.

18 D. SUBSECTION B OF THIS SECTION SETS FORTH THE FULL SET OF INFORMATION  
19 THAT AN OWNER OF A LEASE MUST FURNISH THE COMMISSION OR OTHER STATE AGENCIES  
20 TO ASSERT SHUT-IN STATUS, AND NO FURTHER REVIEWS OR ADDITIONAL TESTS OR  
21 AUDITS ARE REQUIRED TO BE CONDUCTED FOR THE OWNER TO BE ENTITLED TO A LEASE  
22 EXTENSION PURSUANT TO THIS SECTION, OR TO BE ENTITLED TO SHUT-IN STATUS UNDER  
23 RULES OF THE COMMISSION.

24 E. WHEN THE OWNER OF THE OIL AND GAS LEASE HAS SATISFIED SUBSECTION B  
25 OF THIS SECTION AND TENDERED PAYMENT AS REQUIRED UNDER SUBSECTION A OF THIS  
26 SECTION, THE LEASE SHALL BE CONSIDERED EXTENDED AS PROVIDED IN SUBSECTION A  
27 OF THIS SECTION.

28 ~~B. F. The provisions of~~ This section shall apply to existing oil and  
29 gas leases in good standing.

30 Sec. 2. Retroactivity; application to pending requests

31 A. Section 27-555.01, Arizona Revised Statutes, as amended by this  
32 act, applies retroactively to all requests for extension pursuant to that  
33 section pending as of or initiated after January 1, 2006.

34 B. In the case of requests for extension pending as of or initiated  
35 after January 1, 2006, the owner of the lease has ninety days after the  
36 effective date of this act to perform any well work, testing and  
37 calculations, as applicable, and submit any information required under  
38 section 27-555.01, subsection B, Arizona Revised Statutes, as amended by this  
39 act.