§ 203.32 What other requirements or restrictions apply to royalty relief for a qualified phase 2 or phase 3 ultra-deep well?

(a) If a qualified ultra-deep well on your lease is within a unitized portion of your lease, the RSV earned by that well under this section applies only to your lease and not to other leases within the unit or to the unit as a whole.

(b) If your qualified ultra-deep well is a directional well (either an original well or a sidetrack) drilled across a lease line, then either:

(1) The lease with the perforated interval that initially produces earns the RSV or

(2) If the perforated interval crosses a lease line, the lease where the surface of the well is located earns the RSV.

(c) Any RSV earned under § 203.31 is in addition to any royalty suspension supplement (RSS) for your lease under § 203.45 that results from a different wellbore.

(d) If your lease earns an RSV under § 203.31 and later produces from a deep well that is not a qualified well, the RSV is not forfeited or terminated, but you may not apply the RSV earned under § 203.31 to production from the non-qualified well.

(e) You owe minimum royalties or rentals in accordance with your lease terms notwithstanding any RSVs allowed under paragraphs (a) and (b) of § 203.31.

(f) Unused RSVs transfer to a successor lessee and expire with the lease.

§ 203.33 To which production do I apply the RSV earned by qualified phase 2 and phase 3 ultra-deep wells on my lease or in my unit?

(a) You must apply the RSV allowed in § 203.31(a) and (b) to gas volumes produced from qualified wells on or after May 18, 2007, reported on the Oil and Gas Operations Report, Part A (OGOR-A) for your lease under 30 CFR 1210.102.
All gas production from qualified wells reported on the OGOR-A, including production not subject to royalty, counts toward the total lease RSV earned by both deep or ultra-deep wells on the lease.

(b) This paragraph applies to any lease with a qualified phase 2 or phase 3 ultra-deep well that is not within a BSEE-approved unit. Subject to the price conditions of §203.36, you must apply the RSV prescribed in §203.31 as required under the following paragraphs (b)(1) and (b)(2) of this section.

(1) You must apply the RSV to the earliest gas production occurring on and after the later of May 18, 2007, or the date the first qualified phase 2 or phase 3 ultra-deep well that earns your lease the RSV begins production (other than test production).

(2) You must apply the RSV to only gas production from qualified wells on your lease, regardless of their depth, for which you have met the requirements in §203.35 or §203.44.

(c) This paragraph applies to any lease with a qualified phase 2 or phase 3 ultra-deep well where all or part of the lease is within a BSEE-approved unit. Under the unit agreement, a share of the production from all the qualified wells in the unit participating area would be allocated to your lease each month according to the participating area percentages. Subject to the price conditions of §203.36, you must apply the RSV prescribed in §203.31 as follows:

(1) You must apply the RSV to the earliest gas production occurring on and after the later of May 18, 2007, or the date that the first qualified phase 2 or phase 3 ultra-deep well that earns your lease the RSV begins production (other than test production).

(2) You must apply the RSV to only gas production:

(i) From qualified wells on the non-unitized area of your lease, regardless of their depth, for which you have met the requirements in §203.35 or §203.44; and

(ii) Allocated to your lease under a BSEE-approved unit agreement from qualified wells on unitized areas of your lease and on other leases in participating areas of the unit, regardless of their depth, for which the requirements in §203.35 or §203.44 have been met. The allocated share under paragraph (a)(2)(ii) of this section does not increase the RSV for your lease.

Example: The east half of your lease A is unitized with all of lease B. There is one qualified phase 2 ultra-deep well on the non-unitized portion of lease A that earns lease A an RSV of 35 BCF under §203.31, one qualified deep well on the unitized portion of lease A (drilled after the ultra-deep well on the non-unitized portion of that lease) and a qualified phase 2 ultra-deep well on lease B that earns lease B a 35 BCF RSV under §203.31. The participating area percentages allocate 40 percent of production from both of the unit qualified wells to lease A and 60 percent to lease B. If the non-unitized qualified phase 2 ultra-deep well on lease A produces 12 BCF, and the unitized qualified well on lease A produces 18 BCF, and the qualified well on lease B produces 37 BCF, then the production volume from and allocated to lease A to which the lease A RSV applies is 34 BCF \[12 + (18 + 37)(0.40)\]. The production volume allocated to lease B to which the lease B RSV applies is 33 BCF \[(18 + 37)(0.60)\]. None of the volumes produced from a well that is not within a unit participating area may be allocated to other leases in the unit.

(d) You must begin paying royalties when the cumulative production of gas from all qualified wells on your lease, or allocated to your lease under paragraph (b) of this section, reaches the applicable RSV allowed under §203.31 or §203.41. For the month in which cumulative production reaches this RSV, you owe royalties on the portion of gas production from or allocated to your lease that exceeds the RSV remaining at the beginning of that month.

§ 203.34 To which production may an RSV earned by qualified phase 2 and phase 3 ultra-deep wells on my lease not be applied?

You may not apply an RSV earned under §203.31:

(a) To production from completions less than 15,000 feet TVD SS, except in cases where the qualified well is re-perforated in the same reservoir previously perforated deeper than 15,000 feet TVD SS;

(b) To production from a deep well or ultra-deep well on any other lease, except as provided in paragraph (c) of §203.33;

(c) To any liquid hydrocarbon (oil and condensate) volumes; or