

State of Arizona
House of Representatives
Forty-eighth Legislature
Second Regular Session
2008

HOUSE BILL 2511

AN ACT

AMENDING SECTIONS 27-555, 27-555.01 AND 27-556, 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, Arizona Revised Statutes, is amended to
3 read:

4 27-555. Lease of state lands not located within known
5 geological structure of producing oil and gas field;
6 application; lease extension; provisions of lease;
7 withdrawal of lands from leasing

8 A. When state lands are not located within any known geological
9 structure of a producing oil and gas field, as determined pursuant to section
10 27-554, the person making the first application for the lease shall be issued
11 a lease covering the lands without competitive bidding.

12 B. The noncompetitive leases shall provide for the payment by the
13 lessee of a royalty of twelve and one-half per cent of **EITHER:**

14 1. The oil, gas and other hydrocarbons produced and saved from the
15 leased premises. ~~or,~~

16 2. At the option of the department, the market value of such products
17 determined **AS FOLLOWS:**

18 (a) At the **ARM'S LENGTH** price prevailing on the day the product is run
19 into a pipeline or otherwise removed from the leased premises **IF THE**
20 **PRODUCTION IS BEING SOLD FOR AN ARM'S LENGTH PRICE.**

21 (b) **IF AN ARM'S LENGTH PRICE IS NOT AVAILABLE FOR THE PRODUCTION, AT**
22 **THE PUBLICLY AVAILABLE ARM'S LENGTH PRICES FOR SALES OF PRODUCTION OF**
23 **COMPARABLE TYPE AND QUALITY, IN GENERALLY COMPARABLE QUANTITIES, IN THE**
24 **VICINITY. FOR THE PURPOSES OF THIS SUBDIVISION, "VICINITY" MEANS THE**
25 **SMALLEST GEOGRAPHICAL LOCAL AREA CONTAINING SUFFICIENT DATA TO ESTABLISH AN**
26 **ARM'S LENGTH PRICE.**

27 (c) **IF AN ARM'S LENGTH PRICE IS NOT AVAILABLE FOR THE PRODUCTION AND**
28 **THERE ARE NO PUBLICLY AVAILABLE ARM'S LENGTH PRICES FOR SALES OF PRODUCTION**
29 **OF COMPARABLE TYPE AND QUALITY, IN GENERALLY COMPARABLE QUANTITIES, IN THE**
30 **VICINITY, THE DEPARTMENT MAY ESTABLISH MARKET VALUE THROUGH APPRAISAL**
31 **COMPLETED BY AN INDEPENDENT LICENSED APPRAISER THAT CONFORMS WITH GENERALLY**
32 **RECOGNIZED APPRAISAL METHODOLOGIES. THE APPRAISAL IS NOT BINDING ON EITHER**
33 **THE DEPARTMENT OR THE LESSEE, BUT MAY SERVE AS EVIDENCE OF MARKET VALUE.**

34 (d) **IF A PRICE IS DETERMINED UNDER SUBDIVISION (b) OR (c) AND A PRICE**
35 **UNDER A HIGHER RANKED ALTERNATIVE BECOMES AVAILABLE, THE PRICE DETERMINED**
36 **UNDER THE HIGHER RANKED ALTERNATIVE SHALL BE USED. IF A PRICE IS DETERMINED**
37 **UNDER SUBDIVISION (b) OR (c) AND THE BASIS FOR DETERMINING THAT PRICE IS NO**
38 **LONGER AVAILABLE, THE PRICE DETERMINED UNDER THE NEXT HIGHEST-RANKING**
39 **ALTERNATIVE THAT IS AVAILABLE SHALL BE USED. IF A PRICE IS DETERMINED BY THE**
40 **LESSEES UNDER SUBDIVISION (a), THE DEPARTMENT MAY REQUIRE THE LESSEE TO**
41 **CERTIFY THAT THE PRICE USED IS AN ARM'S LENGTH PRICE.**

42 (e) **FOR THE PURPOSES OF THIS PARAGRAPH, "ARM'S LENGTH PRICE" MEANS A**
43 **PRICE NEGOTIATED BETWEEN A WILLING BUYER AND A WILLING SELLER, WHERE THE**
44 **BUYER AND SELLER ARE NOT AFFILIATES AND THE SELLER IS NOT RECEIVING PROPERTY**
45 **OR OTHER NON-CASH CONSIDERATION AS PART OF THE TRANSACTION. FOR THE PURPOSES**

1 OF THIS SUBDIVISION, "AFFILIATE" MEANS PARTIES THAT ARE RELATED BY BLOOD OR
2 MARRIAGE, OR, IN THE CASE OF ENTITIES, THAT ARE UNDER DIRECT OR INDIRECT
3 COMMON CONTROL OR ONE OF WHICH CONTROLS THE OTHER.

4 C. Royalties, including shut-in gas royalties, reserved to the state
5 on production from any state lands leased pursuant to this article and
6 committed to a unit plan of development by virtue of a unit agreement shall
7 be paid only on that portion of production allocated to such state lands or
8 any part of the state lands, pursuant to the terms and conditions of the unit
9 agreement.

10 D. The leases shall provide for the payment in advance of an annual
11 rental of one dollar per acre per year for each year of the primary term of
12 the lease. All leases shall provide for a minimum rental of forty dollars
13 per year.

14 E. Each lease issued under this section shall be for a primary term of
15 five years and as long thereafter as oil or gas is produced in paying
16 quantities from the lands covered by the lease, except that:

17 1. If oil or gas is not being produced from the leased premises at the
18 expiration of the primary term of the lease, the lessee shall have a right to
19 an extension of the term of the lease for an additional term of five years
20 and as long thereafter as oil or gas is produced in paying quantities from
21 the leased premises by paying each year in advance double the rental payable
22 during the primary term of the lease, except that the lessee will have no
23 further right to any additional extension for successive terms. In the
24 exercise of such right, the provisions of section 27-556 relating to sales
25 made upon competitive bidding by sealed bid shall not apply in any case, but
26 all such extensions shall be upon the terms and conditions contained in the
27 original lease, except that the rental for the extended term shall be as
28 provided in this paragraph, and except further that the rental for the
29 extended term of any lease amended pursuant to subsection L of this section
30 shall be as provided in that subsection.

31 2. If oil or gas is not being produced from the leased premises at the
32 expiration of the primary term of the lease or any extension of the lease
33 pursuant to paragraph 1, but the owner of the lease is diligently engaged in
34 drilling, completion or reworking operations, the lease continues in force
35 for a period of two years from the date ~~it~~ ON which the lease would have
36 otherwise expired and as long thereafter as oil or gas is produced in paying
37 quantities from the lands. If oil or gas is produced from any such well or
38 any other well drilled during any two year extension, the lease shall
39 continue in force after such two year extension as long as oil or gas is
40 produced in paying quantities from the leased premises, except that rental
41 requirements at the beginning of any lease extension shall be at the rate in
42 existence at that time.

43 3. Oil or gas that is produced from any part of a unit in which state
44 lands are included by virtue of a unit agreement and that is allocated to all
45 or any part of such state lands pursuant to the terms and conditions of the

1 unit agreement is deemed to be produced from the state lands or that part of
2 the state lands to which the production is allocated.

3 4. If for any reason production of oil or gas from the leased lands
4 ceases after the primary term or after extension of the lease, the lease
5 shall not terminate if the lessee commences drilling, completion or reworking
6 operations on the land within ninety days from cessation of production, and
7 if drilling, completion or reworking operations are conducted with reasonable
8 diligence, the lease shall remain in force as long thereafter as such
9 drilling, completion or reworking operations are conducted or as long
10 thereafter as oil or gas is produced in paying quantities from the leased
11 lands, but in no event to extend beyond two years if production is not
12 restored.

13 F. Each lease shall provide that the state's royalties shall be
14 computed after deducting any oil or gas reasonably used in operations on the
15 lease.

16 G. The leases shall contain other terms and provisions, not
17 inconsistent with the provisions of this article or other laws of the state,
18 as in the opinion of the department are for the best interest of the
19 state. The lease shall not contain any provision for a premium, tax, fee or
20 other assessment other than the application fees, rentals and royalties
21 provided in statute. Application fees, rentals, royalties or other charges
22 shall be based upon the application fees, rentals, royalties or other charges
23 as provided in statute in effect at the time that the completed application
24 is received by the department.

25 H. Not more than six miles square shall be included in any one lease.
26 The lands shall be in as compact a body as possible but may include
27 noncontiguous land within the six mile area. A discovery well capable of
28 producing oil and gas in paying quantities will perpetuate a lease of not
29 more than two thousand five hundred sixty acres which must be designated by
30 the lessee within thirty days of completion of the well. The department
31 shall ~~promulgate~~ ADOPT rules ~~which~~ THAT will assure due diligence in the
32 drilling of development wells to fully define the field.

33 I. Each lease shall provide that any combination, understanding or
34 purpose of delaying discovery or development of oil or gas is an illegal
35 practice, and that upon legal determination thereof shall constitute grounds
36 for cancellation of the lease. In the event of such an illegal practice,
37 appropriate proceedings may be instituted by the attorney general against the
38 lessee in the county in which the land or any part thereof is located. A
39 cooperative or unit plan entered into pursuant to this article or any other
40 conservation statute of this state shall not be held to violate this
41 subsection or any other statute of this state prohibiting monopolies or acts,
42 arrangements, contracts, combinations or conspiracies in restraint of trade
43 or commerce on account of operations conducted under such a plan.

44 J. Applications for noncompetitive leases shall be in writing
45 addressed to the department, ~~and~~ shall contain a description of the lands

1 sufficient to identify them, ~~AND~~ the name and address of the applicant, ~~and~~
2 shall be accompanied by a filing fee and the rental payment for the first
3 year. Each application shall be stamped when received by the department with
4 a stamp showing the day and hour when received. If valid applications
5 covering the same lands are filed simultaneously, the department shall
6 ~~provide by general regulation for a drawing between the applicants to~~
7 ~~determine which shall be entitled to a lease of the lands. If the lease is~~
8 ~~not issued, the rental payment shall be refunded to the applicant.~~ OFFER THE
9 LEASE TO THE PARTIES INVOLVED IN THE SIMULTANEOUS APPLICATIONS BY COMPETITIVE
10 BID, AS FOLLOWS:

11 1. THE DEPARTMENT SHALL ISSUE A NOTICE OF THE COMPETITIVE BID
12 CONTAINING A DESCRIPTION OF THE LAND PROPOSED TO BE LEASED AND THE TIME WHEN
13 THE BIDS WILL BE RECEIVED AND OPENED.

14 2. THE DEPARTMENT SHALL OFFER THE LEASE TO THE HIGHEST QUALIFIED
15 BIDDER SUBMITTING A SEALED BID, ON THE BASIS OF A CASH BONUS.

16 3. ALL BIDS, TOGETHER WITH A CERTIFIED CHECK IN THE AMOUNT OF THE
17 BONUS BID, MUST BE SUBMITTED TO THE DEPARTMENT AT THE STATE CAPITOL AND SHALL
18 BE OPENED AT THE OFFICE OF THE DEPARTMENT AT THE TIME SPECIFIED.

19 4. IF IDENTICAL BIDS ARE RECEIVED, WITHIN TEN DAYS OF THE OPENING OF
20 THE BIDS THE DEPARTMENT SHALL REQUEST NEW BIDS FROM THE SUBMITTERS OF THE
21 IDENTICAL BIDS, AND SHALL REPEAT THE PROCESS UNTIL A HIGH BIDDER IS
22 DETERMINED.

23 5. BEFORE ACCEPTING ANY COMPETITIVE BID FOR A LEASE UNDER THIS
24 SUBSECTION, THE DEPARTMENT SHALL ESTABLISH TO ITS SATISFACTION THE
25 RESPONSIBILITY OF THE BIDDER.

26 6. THE DEPARTMENT SHALL RETURN ALL CHECKS ACCOMPANYING REJECTED BIDS.

27 K. The department may withdraw from leasing any specific area of land
28 not located within any known geological structure of a producing oil and gas
29 field when it appears that the withdrawal is in the interest of the state,
30 but no lands shall be withdrawn by the department without the consent of a
31 committee composed of the governor, who shall be chairman, the attorney
32 general, and the dean of the college of mines of the university of Arizona.
33 The committee shall consider the proposed withdrawal presented by the
34 department and determine whether the withdrawal shall be permitted. The land,
35 after being withdrawn from leasing, may again be offered for leasing at any
36 time the department deems in the best interests of the state, subject to the
37 advice and consent of the committee provided for in this section, and
38 pursuant to notice as the committee deems necessary.

39 L. The owner of any state oil and gas lease issued by the department
40 and maintained in good standing according to the terms and conditions of the
41 lease and all applicable statutes and regulations shall have the right to
42 elect at any time to have such lease amended to contain the same term and
43 extension provisions and the same provisions relating to unit operations and
44 unit agreements which have been or may be approved by the state land
45 commissioner as are provided by law for state oil and gas leases upon filing

1 a written notice of such election with the department. Upon such written
2 notice to the department the lease term and extension provisions and the
3 provisions relating to unit operations and unit agreements shall be deemed
4 amended. The lease as amended shall include all other provisions, except
5 those providing for rents, contained in the original lease and shall bear the
6 same commencement date as the original lease. The lease as amended shall
7 require the payment in advance of an annual rental of one dollar fifty cents
8 per acre per year for each year of any extension of the lease beyond the
9 primary term of the lease, except extensions of the primary term based upon
10 the production of oil or gas.

11 Sec. 2. Section 27-555.01, Arizona Revised Statutes, is amended to
12 read:

13 27-555.01. Extension of lease due to lack of transportation,
14 processing facilities or market

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

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

32 1. COMPLETE THE WELL BY INSTALLING AND PERFORATING PRODUCTION CASING,
33 BY INSTALLING A PRODUCTION LINER AT RESERVOIR DEPTH OR BY OTHER STANDARD
34 INDUSTRY PRACTICES.

35 2. FILE A STANDARD WELL COMPLETION REPORT WITH THE COMMISSION
36 INDICATING AN OIL OR GAS DISCOVERY.

37 3. SUBMIT TO THE DEPARTMENT, NOT LATER THAN THIRTY DAYS BEFORE THE
38 EXPIRATION OF THE LEASE, AND AT OR BEFORE TENDERING THE FIRST YEAR'S SHUT-IN
39 ROYALTIES, A COPY OF THE WELL COMPLETION REPORT FILED WITH THE COMMISSION AND
40 THE INFORMATION DESCRIBED IN EITHER SUBDIVISION (a) OR (b) OF THIS PARAGRAPH.
41 A WELL MEETING EITHER OF THE FOLLOWING CRITERIA IS CONSIDERED TO BE CAPABLE
42 OF PRODUCTION IN PAYING QUANTITIES FOR THE PURPOSES OF THIS SECTION:

43 (a) A CALCULATION REASONABLY DEMONSTRATING THAT, AS OF THE DATE OF
44 SUBMISSION, THE MONTHLY PROCEEDS OF THE WELL WOULD BE EXPECTED TO EXCEED THE
45 WELL'S MONTHLY OPERATING EXPENSES, IF TRANSPORTATION AND PROCESSING

1 FACILITIES WERE PRESENT AND A MARKET EXISTED. THE OWNER MAY ESTIMATE MONTHLY
2 PRODUCTION BASED ON WELL TEST RESULTS AND ANY OTHER DATA THE OWNER CONSIDERS
3 HELPFUL, ESTIMATE THE MONTHLY VALUE OF THAT PRODUCTION USING APPROXIMATE
4 THEN-CURRENT PRICING AND ESTIMATE MONTHLY OPERATING EXPENSES FOR THE WELL
5 BASED ON RECENT HISTORY OF COMPARABLE WELLS. COSTS OF DRILLING, COMPLETING
6 AND EQUIPPING THE WELL SHALL NOT BE CONSIDERED IN THE CALCULATION.

7 (b) INFORMATION SATISFYING ANY OTHER ALTERNATE TEST THAT MAY BE
8 ADOPTED BY THE DEPARTMENT FOR DEMONSTRATING CAPABILITY TO PRODUCE IN PAYING
9 QUANTITIES, IF TRANSPORTATION AND PROCESSING FACILITIES WERE PRESENT AND A
10 MARKET EXISTED.

11 C. IF THE DEPARTMENT CONSIDERS THAT THE REQUIREMENTS OF SUBSECTION B
12 OF THIS SECTION HAVE NOT BEEN MET, IT HAS NINETY DAYS AFTER RECEIVING THE
13 SUBMISSION REQUIRED UNDER SUBSECTION B, PARAGRAPH 3 OF THIS SECTION IN WHICH
14 TO DENY SHUT-IN STATUS BY APPEALABLE AGENCY ORDER, WHICH MUST IDENTIFY WITH
15 REASONABLE PARTICULARITY THE BASIS FOR THE DETERMINATION THAT THE
16 REQUIREMENTS OF SUBSECTION B OF THIS SECTION HAVE NOT BEEN MET. THE LEASE
17 SHALL REMAIN IN EFFECT PENDING FINAL RESOLUTION, WHETHER ADMINISTRATIVE,
18 JUDICIAL OR OTHERWISE, AS TO WHETHER THE CRITERIA IN SUBSECTION B OF THIS
19 SECTION HAVE BEEN MET.

20 D. SUBSECTION B OF THIS SECTION SETS FORTH THE FULL SET OF INFORMATION
21 THAT AN OWNER OF A LEASE MUST FURNISH THE DEPARTMENT WITH REASONABLE
22 PARTICULARITY BEFORE THE EXPIRATION OF THE LEASE FOR WHICH SHUT-IN STATUS IS
23 ASSERTED. TO ASSERT SHUT-IN STATUS, FURTHER REVIEWS OR ADDITIONAL TESTS OR
24 AUDITS SHALL NOT BE CONDUCTED FOR THE OWNER TO BE ENTITLED TO A LEASE
25 EXTENSION PURSUANT TO THIS SECTION.

26 ~~B-~~ E. ~~The provisions of~~ This section shall apply to existing oil and
27 gas leases in good standing.

28 Sec. 3. Section 27-556, Arizona Revised Statutes, is amended to read:

29 27-556. Lease of state lands located within known geological
30 structure of producing oil or gas field; sealed bids;
31 call for bids; publication; lease extension;
32 provisions of lease; acreage limitation

33 When state lands are located within a known geological structure of a
34 producing oil or gas field, as determined pursuant to section 27-554, the
35 lands shall be leased only by sealed bids, as follows:

36 1. Upon receipt of an application to lease any of such lands or
37 whenever, in the opinion of the department, there is a demand for the
38 purchase of leases of the lands, the department shall offer the tract or
39 tracts for lease to the highest qualified bidder submitting a sealed bid, on
40 the basis of a cash bonus.

41 2. The department shall publish a call for sealed bids twice in a
42 newspaper of general circulation in the state, the last publication to be not
43 less than fifteen days prior to the date fixed for opening the bids. All
44 bids, together with a certified check in the amount of the bonus bid, shall
45 be submitted to the department at the capitol, and opened at the office of

1 the department at the time specified. On or before December 1 each year, the
2 department shall designate by general order the newspaper in which the
3 publications shall be made during the following calendar year. The successful
4 bidder shall pay the cost of the publication and the reasonable expenses of
5 the sale.

6 3. The publication shall contain a description of the land proposed to
7 be leased, the time when the bids will be received and opened, the royalty to
8 be demanded which the department shall fix prior to call for bids at not less
9 than twelve and one-half per cent, and an annual rental to be demanded in the
10 amount of one dollar per acre for each year.

11 4. The publication shall set forth the form of lease which the
12 successful bidder will be required to execute. In lieu of publishing the
13 form of lease in its entirety the publication may specify the form of lease
14 by designating the form number of lease on file with the department, copies
15 of which shall be furnished any person on request.

16 5. Royalties, including shut-in gas royalties, reserved to the state
17 on production from any state lands leased pursuant to this article and
18 committed to a unit plan of development by virtue of a unit agreement shall
19 be paid only on that portion of production allocated to such state lands or
20 any part of the state lands, pursuant to the terms and conditions of such
21 unit agreement.

22 6. Each lease issued under this section shall be for a primary term of
23 five years and as long thereafter as oil or gas is produced in paying
24 quantities from the lands covered by the lease except that:

25 (a) If oil or gas is not being produced from the leased premises at
26 the expiration of the primary term of the lease, but the owner of the lease
27 is diligently engaged in drilling, completion or reworking operations, the
28 lease continues in force for a period of two years from the date ~~it~~ ON which
29 the lease would have otherwise expired and as long thereafter as oil or gas
30 is produced in paying quantities from the lands. If oil or gas is produced
31 from any such well or any other well drilled during any two year extension,
32 the lease shall continue in force after such two year extension as long as
33 oil or gas is produced in paying quantities from the leased premises.

34 (b) Oil or gas that is produced from any part of a unit in which state
35 lands are included by virtue of a unit agreement and that is allocated to all
36 or any part of such state lands pursuant to the terms and conditions of the
37 unit agreement is deemed to be produced from the state lands or that part of
38 the state lands to which the production is allocated.

39 (c) If for any reason production of oil or gas from the leased lands
40 ceases after the primary term or any extension, the lease shall not terminate
41 if the lessee commences drilling, completion or reworking operations on the
42 land within ninety days from cessation of production, and if drilling,
43 completion or reworking operations are conducted with reasonable diligence,
44 the lease shall remain in force as long thereafter as such drilling,
45 completion or reworking operations are conducted or as long thereafter as oil

1 or gas is produced in paying quantities from the leased lands, but in no
2 event to extend beyond two years if production is not restored.

3 7. The lease may contain other terms and provisions not inconsistent
4 with the provisions of this article or other laws of the state, as in the
5 opinion of the department are for the best interests of the state.

6 8. Each lease shall provide that the state's royalties shall be
7 computed after deducting any oil or gas reasonably used in operations on the
8 lease.

9 9. Each lease shall provide that any combination, understanding or
10 agreement entered into by the lessee, written, verbal or otherwise, for the
11 purpose of delaying the discovery or development of oil or gas is an illegal
12 practice, and that upon legal determination thereof shall constitute grounds
13 for cancellation of the lease. In the event of such an illegal practice,
14 appropriate proceedings may be instituted by the attorney general against the
15 lessee in the county in which the land, or any part thereof, is located. A
16 cooperative or unit plan entered into pursuant to this article or any other
17 conservation statute of this state shall not be held to violate this
18 paragraph or any other statute of this state prohibiting monopolies or acts,
19 arrangements, contracts, combinations or conspiracies in restraint of trade
20 or commerce on account of operations conducted under such a plan.

21 10. The owner of any state oil and gas lease issued by the department
22 and maintained in good standing according to the terms and conditions of the
23 lease and all applicable statutes and regulations shall have the right to
24 elect at any time to have such lease amended to contain the same term and
25 extension provisions and the same provisions relating to unit operations and
26 unit agreements which have been or may be approved by the state land
27 commissioner as are provided by law for state oil and gas leases upon filing
28 a written notice of such election with the department. Upon such written
29 notice to the department the lease term and extension provisions and the
30 provisions relating to unit operations and unit agreements shall be deemed
31 amended. The lease as amended shall include all other provisions, except
32 those providing for rents, contained in the original lease and shall bear the
33 same commencement date as the original lease. The lease as amended shall
34 require the payment in advance of an annual rental of one dollar and fifty
35 cents per acre per year for each year of any extension of the lease beyond
36 the primary term of the lease, except extensions of the primary term based
37 upon the production of oil or gas.

38 11. Before offering any state lands for lease under sealed bids the
39 department shall determine the tract or tracts into which the lands shall be
40 divided for leasing purposes. Each tract shall contain not less than one
41 quarter section of land and not more than two sections of land, but a tract
42 containing less than one quarter section of land may be leased if the tract
43 is segregated from other state lands not then subject to oil and gas lease.
44 All tracts shall be in reasonably compact form.

1 12. ~~Each offer for lease~~ THE DEPARTMENT shall reserve the right ~~in the~~
2 ~~department~~ to reject any and all bids ON EACH OFFER FOR LEASE and to again
3 offer the tract or tracts for lease if the bids received are not acceptable
4 to the department.

5 13. Before acceptance of any bid for a lease under this section, the
6 department shall establish to its satisfaction the responsibility of the
7 bidder.

8 14. The department shall return all checks accompanying rejected bids.