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AN ACT

RELATING TO PUBLIC LANDS; SETTING THE ROYALTY RATE ON FUTURE
OIL AND GAS DEVELOPMENT LEASES ON CERTAIN STATE TRUST LANDS
TO ENHANCE REVENUE FOR BENEFICIARIES; REQUIRING THE MANNER OF
POSTING OF CERTAIN INFORMATION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

SECTION 1. Section 19-10-4.3 NMSA 1978 (being Laws
1985, Chapter 195, Section 5) is amended to read:

"19-10-4.3. DEVELOPMENT FORM OF LEASE--PREMIUM
RESTRICTED LAND.--

A. The commissioner shall not cancel leases except
upon failure or default of the lessee to comply with any of
the provisions or covenants within the lease described in
Subsection B of this section.

B. The following form is designed as the
"Development Form". It may be used by the commissioner for
oil and gas leases on lands classified as restricted lands
and categorized as Premium and issued on or after July 1,
2025:

"LEASE NO. _____ APPLICATION NO. _____

OIL AND GAS LEASE

(Development Form)

This agreement, dated _____, 20___,
between the state of New Mexico, acting by and through its

1 commissioner of public lands, hereinafter called the
2 "lessor", and _____,
3 whose address is _____
4 _____,
5 hereinafter called the "lessee",

6 WITNESSETH:

7 WHEREAS, the lessee has filed in the office of the
8 commissioner of public lands an application for an oil and
9 gas lease covering the lands hereinafter described and has
10 tendered therewith the required first payment; and

11 WHEREAS, all of the requirements of law relative to the
12 application and tender have been duly complied with;

13 THEREFORE, in consideration of the premises as well as
14 the sum of _____
15 dollars (\$ _____), the same being the amount of the
16 tender above mentioned, and the further sum of \$ _____
17 filing fee, and of the covenants and agreements hereinafter
18 contained, the lessor does hereby grant, demise, lease and
19 let unto the lessee, exclusively, for the sole and only
20 purpose of exploration, development and production of oil or
21 gas (including carbon dioxide and helium), or both thereon
22 and therefrom with the right to own all oil and gas so
23 produced and saved therefrom and not reserved as royalty by
24 the lessor under the terms of this lease, together with
25 rights of way, easements and servitudes for pipelines,

1 telephone lines, tanks, power houses, stations, gasoline
 2 plants and fixtures for producing, treating and caring for
 3 such products and housing and boarding employees and any and
 4 all rights and privileges necessary, incident to or
 5 convenient for the economical operation of the land, for oil
 6 and gas, with right for such purposes to the free use of oil,
 7 gas, casing-head gas or water from the lands, but not from
 8 the lessor's water wells, and with the rights of removing
 9 either during or after the term hereof, all and any
 10 improvements placed or erected on the premises by the lessee,
 11 including the right to pull all casing, subject, however, to
 12 the covenants and conditions hereinafter set out, the
 13 following described land situated in the county of _____,
 14 state of New Mexico, and more particularly described as
 15 follows:

16	<u>Line</u>	<u>SUBDIVISION</u>	<u>Sec.</u>	<u>Twp.</u>	<u>Rge.</u>	<u>Acres</u>	<u>Institution</u>
17	1	_____					
18	2	_____					
19	3	_____					
20	4	_____					
21	5	_____					
22	6	_____					
23	7	_____					

24 The lands having been awarded to the lessee and
 25 designated as Tract No. _____ at a public sale held by

1 the commissioner of public lands on _____,
2 20__.

3 To have and to hold the land, and all the rights and
4 privileges granted hereunder, to and unto the lessee for a
5 primary term of five years from the date hereof, and as long
6 thereafter as oil and gas, or either of them, is produced in
7 paying quantities from the land by the lessee, subject to all
8 of the terms and conditions as hereinafter set forth.

9 In consideration of the premises, the parties covenant
10 and agree as follows:

11 1. Subject to the free use without royalty, as
12 hereinbefore provided, the lessee shall pay the lessor as
13 royalty _____ (not less than three-sixteenths nor more
14 than one-fifth, or alternatively, not less than one-fifth nor
15 more than one-fourth if the leased premises is located in
16 whole or in part within the following portions of the
17 restricted districts established pursuant to Section 19-10-16
18 NMSA 1978: townships 8 to 10 south inclusive, ranges 31 to 38
19 east inclusive; townships 11 to 15 south inclusive, ranges
20 31 to 38 east inclusive; townships 16 to 20 south inclusive,
21 ranges 21 to 39 east inclusive; township 20.5 south, ranges
22 21 to 23 east inclusive; or townships 21 to 26 south
23 inclusive, ranges 21 to 38 east inclusive, N.M.P.M.) part of
24 the oil produced and saved from the leased premises or the
25 cash value thereof, at the option of the lessor, such value

1 to be the price prevailing the day oil is run into a
2 pipeline, if the oil be run into a pipeline, or into storage
3 tanks, if the oil is stored.

4 2. Subject to the free use without royalty, as
5 hereinbefore provided, at the option of the lessor at any
6 time and from time to time, the lessee shall pay the lessor
7 as royalty _____ (not less than three-sixteenths nor more
8 than one-fifth, or alternatively, not less than one-fifth nor
9 more than one-fourth if the leased premises is located in
10 whole or in part within the following portions of the
11 restricted districts established pursuant to Section 19-10-16
12 NMSA 1978: townships 8 to 10 south inclusive, ranges 31 to 38
13 east inclusive; townships 11 to 15 south inclusive, ranges
14 31 to 38 east inclusive; townships 16 to 20 south inclusive,
15 ranges 21 to 39 east inclusive; township 20.5 south, ranges
16 21 to 23 east inclusive; or townships 21 to 26 south
17 inclusive, ranges 21 to 38 east inclusive, N.M.P.M.) part of
18 the gas produced and saved from the leased premises,
19 including casing-head gas. Unless the option is exercised by
20 the lessor, the lessee shall pay the lessor as royalty
21 _____ (not less than three-sixteenths nor more than
22 one-fifth, or alternatively, not less than one-fifth nor more
23 than one-fourth if the leased premises is located in whole or
24 in part within the following portions of the restricted
25 districts established pursuant to Section 19-10-16 NMSA 1978:

1 townships 8 to 10 south inclusive, ranges 31 to 38 east
2 inclusive; townships 11 to 15 south inclusive, ranges
3 31 to 38 east inclusive; townships 16 to 20 south inclusive,
4 ranges 21 to 39 east inclusive; township 20.5 south, ranges
5 21 to 23 east inclusive; or townships 21 to 26 south
6 inclusive, ranges 21 to 38 east inclusive, N.M.P.M.) of the
7 cash value of the gas, including casing-head gas, produced
8 and saved from the leased premises and marketed or utilized,
9 such value to be equal to the net proceeds derived from the
10 sale of such gas in the field; provided, however, the cash
11 value for royalty purposes of carbon dioxide gas and of
12 hydrocarbon gas delivered to a gasoline plant for extraction
13 of liquid hydrocarbons shall be equal to the net proceeds
14 derived from the sale of such gas, including any liquid
15 hydrocarbons recovered therefrom.

16 Notwithstanding the foregoing provisions, the lessor may
17 require the payment of royalty for all or any part of the gas
18 produced and saved under this lease and marketed or used at a
19 price per m.c.f. equal to the maximum price being paid for
20 gas of like kind and quality and under like conditions in the
21 same field or area or may reduce the royalty value of any
22 such gas (to any amount not less than the net proceeds of
23 sale thereof, in the field) if the commissioner of public
24 lands shall determine such action to be necessary to the
25 successful operation of the lands for oil or gas purposes or

1 to encouragement of the greatest ultimate recovery of oil or
2 gas or to the promotion or conservation of oil or gas or in
3 the public interest.

4 3. This lease shall not expire at the end of the
5 primary term hereof if there is a well capable of producing
6 gas in paying quantities located upon some part of the lands
7 embraced herein, or upon lands pooled or communitized
8 herewith, where such well is shut-in due to the inability of
9 the lessee to obtain a pipeline connection or to market the
10 gas therefrom, and if the lessee timely pays an annual
11 royalty on or before the annual rental paying date next
12 ensuing after the expiration of ninety days from the date the
13 well was shut-in and on or before the rental date thereafter.
14 The payment of the annual royalty shall be considered for all
15 purposes the same as if gas were being produced in paying
16 quantities and upon the commencement of marketing of gas from
17 the well or wells the royalty paid for the lease year in
18 which the gas is first marketed shall be credited upon the
19 royalty payable hereunder to the lessor for such year. The
20 provisions of this section shall also apply where gas is
21 being marketed from the leasehold premises and through no
22 fault of the lessee, the pipeline connection or market is
23 lost or ceases, in which case this lease shall not expire so
24 long as the annual royalty is paid as herein provided. The
25 amount of any annual royalty payable under this section shall

1 equal twice the annual rental due by the lessee under the
2 terms of this lease but not less than three hundred twenty
3 dollars (\$320) per well per year; provided, however, that any
4 such annual royalty for any month beginning on or after ten
5 years from the date hereof shall equal four times the annual
6 rental due by the lessee under the terms of this lease but
7 not less than two thousand dollars (\$2,000) per well per
8 year; provided further, that no annual royalty shall be
9 payable under this section if equivalent amounts are timely
10 paid pursuant to another lease issued by the lessor and if
11 such other lease includes lands communitized with lands
12 granted hereunder for the purpose of prorationally sharing in
13 the shut-in well. Notwithstanding the provisions of this
14 section to the contrary, this lease shall not be continued
15 after five years from the date hereof for any period of more
16 than ten years by the payment of the annual royalty unless,
17 for good cause shown, the commissioner of public lands, in
18 the commissioner's discretion, grants such a continuance.

19 4. The lessee agrees to make full settlement on the
20 twentieth day of each month for all royalties due the lessor
21 for the preceding month, under this lease, and to permit the
22 lessor or its agents, at all reasonable hours, to examine the
23 lessee's books relating to the production and disposition of
24 oil and gas produced. The lessee further agrees to submit to
25 the lessor annually upon forms furnished by the lessor,

1 verified reports showing the lessee's operations for the
2 preceding year.

3 5. An annual rental at the rate of \$_____ per
4 acre shall become due and payable to the lessor by the
5 lessee, upon each acre of the land above described and then
6 claimed by such lessee and the same shall be due and payable
7 in advance to the lessor on the successive anniversary dates
8 of this lease, but the annual rental on any assignment shall
9 in no event be less than forty dollars (\$40.00).

10 In the event the lessee shall elect to surrender any or
11 all of the acreage, the lessee shall deliver to the lessor a
12 duly executed release thereof and in event the lease has been
13 recorded then the lessee shall upon request furnish and
14 deliver to the lessor a certified copy of a duly recorded
15 release.

16 6. The lessee may at any time by paying to the lessor
17 all amounts then due as provided herein and the further sum
18 of forty dollars (\$40.00), surrender and cancel this lease
19 insofar as the same covers all or any portion of the lands
20 herein leased and be relieved from further obligations or
21 liability hereunder, in the manner as hereinbefore provided.
22 Provided, this surrender clause and the option herein
23 reserved to the lessee shall cease and become absolutely
24 inoperative immediately and concurrently with the institution
25 of any suit in any court of law or equity by the lessee,

1 lessor or any assignee, to enforce this lease, or any of its
2 terms expressed or implied.

3 7. All payments due hereunder shall be made on or
4 before the day such payment is due, at the office of the
5 commissioner of public lands in Santa Fe, New Mexico.

6 8. The lessee with the consent of the lessor shall have
7 the rights to assign this lease in whole or in part.
8 Provided, however, that no assignment of an undivided
9 interest in the lease or in any part thereof nor any
10 assignment of less than a legal subdivision shall be
11 recognized or approved by the lessor. Upon approval in
12 writing by the lessor of an assignment, the assignor shall
13 stand relieved from all obligations to the lessor with
14 respect to the lands embraced in the assignment and the
15 lessor shall likewise be relieved from all obligations to the
16 assignor as to such tracts, and the assignee shall succeed to
17 all of the rights and privileges of the assignor with respect
18 to such tracts and shall be held to have assumed all of the
19 duties and obligations of the assignor to the lessor as to
20 such tracts.

21 9. In the event a well or wells producing oil or gas in
22 paying quantities should be brought in on adjacent land that
23 is draining the leased premises, the lessee shall drill such
24 offset well or wells as a reasonably prudent operator would
25 drill under the same or similar circumstances, provided that

1 no such offset well shall be required if compensatory
2 royalties are paid pursuant to an agreement between the
3 lessor and the lessee.

4 10. The lessee agrees to notify the lessor of the
5 location of each well before commencing drilling thereon, to
6 keep a complete and accurate log of each well drilled and to
7 furnish a copy thereof, verified by some person having actual
8 knowledge of the facts, to the lessor upon the completion of
9 any well, and to furnish the log of any unfinished well at
10 any time when requested to do so by the lessor.

11 If any lands embraced in this lease shall be included in
12 any deed or contract of purchase outstanding and subsisting
13 issued pursuant to any sale made of the surface of such lands
14 prior to the date of this lease, it is agreed and understood
15 that no drilling operation shall be commenced on any such
16 lands so sold unless and until the lessee shall have filed a
17 good and sufficient bond with the lessor as required by law,
18 to secure the payment for such damage to the livestock,
19 range, water, crops or tangible improvements on such lands as
20 may be suffered by the purchaser holding such deed or
21 contract of purchase, or the purchaser's successors, by
22 reason of the developments, use and occupation of such lands
23 by such lessee. Provided, however, that no such bond shall
24 be required if such purchaser shall waive the right to
25 require such bond to be given in the manner provided by law.

1 11. In drilling wells, all water-bearing strata shall
2 be noted in the log, and the lessor reserves the right to
3 require that all or any part of the casing shall be left in
4 any nonproductive well when the lessor deems it to the
5 interest of the beneficiaries of the lands granted hereunder
6 to maintain the well or wells for water. For such casing so
7 left in wells the lessor shall pay to the lessee the
8 reasonable value thereof.

9 12. The lessee shall be liable and agree to pay for all
10 damages to the range, livestock, growing crops or
11 improvements caused by the lessee's operations on the lands.
12 When requested by the lessor, the lessee shall bury pipelines
13 below plow depth.

14 13. The lessee shall not remove any machinery or
15 fixtures placed on the premises, nor draw the casing from any
16 well unless and until all payments and obligations due the
17 lessor under the terms of this agreement shall have been paid
18 or satisfied. The lessee's right to remove the casing is
19 subject to the provision of Paragraph 11 above.

20 14. Upon failure or default of the lessee to comply
21 with any of the provisions or covenants hereof, the lessor is
22 hereby authorized to cancel this lease and such cancellation
23 shall extend to and include all rights hereunder as to the
24 whole of the tract so claimed, or possessed by the lessee,
25 but shall not extend to, nor affect the rights of any other

1 lessee or assignee claiming any portion of the lands upon
2 which no default has been made; provided, however, that
3 before any such cancellation shall be made, the lessor shall
4 mail to the lessee so defaulting, by registered or certified
5 mail, addressed to the post office address of such lessee as
6 shown by the records of the state land office, a notice of
7 intention of cancellation specifying the default for which
8 cancellation is to be made, and if within thirty days from
9 the date of mailing the notice the lessee shall remedy the
10 default specified in the notice, cancellation shall not be
11 made.

12 15. If this lease shall have been maintained in
13 accordance with the provisions hereof and if at the
14 expiration of the primary term provided for herein oil or gas
15 is not being produced on the land but the lessee is then
16 engaged in bona fide drilling or reworking operations
17 thereon, this lease shall remain in full force and effect so
18 long as such operations are diligently prosecuted and, if
19 they result in the production of oil or gas, so long
20 thereafter as oil and gas in paying quantities, or either of
21 them, is produced from the land; provided, however, such
22 operations extending beyond the primary term shall be
23 approved by the lessor upon written application filed with
24 the lessor on or before the expiration of the term, and a
25 report of the status of all of such operations shall be made

1 by the lessee to the lessor every thirty days and a cessation
2 of such operations for more than twenty consecutive days
3 shall be considered as an abandonment of such operations and
4 this lease shall thereupon terminate.

5 If during the drilling or reworking of any well under
6 this section, the lessee loses or junks the hole or well and
7 after diligent efforts in good faith is unable to complete
8 the operations, then within twenty days after the abandonment
9 of the operations, the lessee may commence another well
10 within three hundred thirty feet of the lost or junked hole
11 or well and drill the same with due diligence.

12 Operations commenced and continued as herein provided
13 shall extend this lease as to all lands as to which the same
14 is in full force and effect as of the time the drilling
15 operations are commenced; provided, however, this lease shall
16 be subject to cancellation in accordance with Paragraph 14
17 hereof for failure to pay rentals or file reports that may
18 become due while operations are being conducted hereunder.

19 16. Should production of oil and gas or either of them
20 in paying quantities be obtained while this lease is in force
21 and effect and should thereafter cease from any cause after
22 the expiration of five years from the date hereof, this lease
23 shall not terminate if the lessee commences additional
24 drilling or reworking operations within sixty days after the
25 cessation of such production and shall remain in full force

1 and effect so long as such operations are prosecuted in good
2 faith with no cessation of more than twenty consecutive days,
3 and if such operations result in the production of oil or gas
4 in paying quantities, so long thereafter as oil or gas in
5 paying quantities is produced from the land; provided,
6 however, written notice of intention to commence such
7 operations shall be filed with the lessor within thirty days
8 after the cessation of such production, and a report of the
9 status of such operations shall be made by the lessee to the
10 lessor every thirty days, and the cessation of such
11 operations for more than twenty consecutive days shall be
12 considered as an abandonment of such operations and this
13 lease shall thereupon terminate.

14 17. Lessees, including their heirs, assigns, agents and
15 contractors, shall at their own expense fully comply with all
16 laws, regulations, rules, ordinances and requirements of the
17 city, county, state and federal authorities and agencies, in
18 all matters and things affecting the premises and operations
19 thereon that may be enacted or promulgated under the
20 governmental police powers pertaining to public health and
21 welfare, including but not limited to conservation,
22 sanitation, aesthetics, pollution, cultural properties, fire
23 and ecology. Such agencies are not to be deemed third party
24 beneficiaries hereunder, however this clause is enforceable
25 by the lessor in any manner provided in this lease or by law.

1 18. Should the lessor desire to exercise its rights to
2 take in-kind its royalty share of oil, gas or associated
3 substances or purchase all or any part of the oil, gas or
4 associated substances produced from the lands covered by this
5 lease, the lessee hereby irrevocably consents to the lessor
6 exercising its right. Such consent is a consent to the
7 termination of any supplier/purchaser relationship between
8 the lessor and the lessee deemed to exist under federal
9 regulations. The lessee further agrees that it will require
10 any purchaser of oil, gas or associated substances to
11 likewise waive any such rights.

12 19. The lessor reserves a continuing option to purchase
13 at any time and from time to time, at the market price
14 prevailing in the area on the date of purchase, all or any
15 part of the minerals (oil and gas) that will be produced from
16 the lands covered by this lease.

17 20. The lessor reserves the right to execute leases for
18 geothermal resource development and operation thereon; the
19 right to sell or dispose of the geothermal resources of such
20 lands; and the right to grant rights of way and easements for
21 these purposes.

22 21. All terms of this agreement shall extend to and
23 bind the heirs, executors, administrators, successors and
24 assigns of the parties hereto.

25 In witness whereof, the party of the first part has

1 signed and caused its name to be signed by its commissioner
2 of public lands duly authorized, with the seal of office
3 affixed, and the lessee has signed this agreement the day and
4 year first above written.

5 STATE OF NEW MEXICO

6 By _____

7 Commissioner of Public Lands, Lessor

8 _____

9 _____ (Seal)

10 Lessee". "

11 SECTION 2. Section 19-10-17 NMSA 1978 (being Laws 1929,
12 Chapter 125, Section 8, as amended) is amended to read:

13 "19-10-17. PUBLIC SALE OF RESTRICTED DISTRICT LEASES--
14 TIME--REGULATIONS--NOTICE--MINIMUM BONUS--SEALED BIDS OR
15 PUBLIC AUCTION AUTHORIZED--SITE OF SALE--PUBLICATION OF
16 NOTICE--REJECTION OF BIDS--COMPLETION OF TRANSACTION.--

17 A. The commissioner shall hold a public sale of
18 oil and gas leases upon lands that may be open to lease and
19 embraced within the restricted district or districts created
20 and that may be created under Section 19-10-16 NMSA 1978 on
21 the third Tuesday of each month or on the next business day
22 following, where the third Tuesday falls on a legal holiday,
23 and shall offer for lease such lands in designated tracts to
24 the highest and best bidder. All sales of leases upon
25 competitive bidding or a public auction shall be governed by

1 regulations issued by the commissioner not in conflict with
2 the provisions of Chapter 19, Article 10 NMSA 1978. Notice
3 of such sales shall be given by posting in a conspicuous
4 place in the state land office, not less than ten days before
5 the date of sale, a notice of the sale specifying the day and
6 hour when and the place where the sale will be held and
7 specifying the following for each tract to be offered for
8 lease:

- 9 (1) a description of the lands;
- 10 (2) the form of lease to be used;
- 11 (3) the royalty rate; and
- 12 (4) the annual rental per acre to be paid.

13 B. The commissioner may, when it is deemed to be
14 for the best interests of the beneficiaries of such lands,
15 also specify a minimum bonus to be paid for the leases upon
16 the respective tracts, and, when so specified, the bonus
17 shall be paid in addition to the first year's rental. The
18 notice shall also contain such other information as the
19 commissioner may deem advisable or necessary. Sales may be
20 conducted through sealed bids or at public auction or by both
21 methods combined, but the method of conducting each sale
22 shall be stated in the notice of sale required pursuant to
23 this section. Sales may be held at the option of the
24 commissioner either in the office of the commissioner or at
25 the county seat of the county in which the lands, or the

1 greater part thereof, are situated or such other place within
2 the state as the commissioner may designate in the notice of
3 public auction provided for in this section. The
4 commissioner is authorized to give such additional notice of
5 the sales, either by publication in newspapers or by mailing
6 copies of the notice of sale to interested persons, firms or
7 corporations, as the commissioner may deem necessary to give
8 proper publicity thereto. The commissioner shall have the
9 right to reject all bids received at any sale for the lease
10 upon any tract but shall not reject any bids made in
11 conformity with the regulations and provisions of Chapter 19,
12 Article 10 NMSA 1978 without rejecting all bids applicable to
13 the same tract of land. Leases sold at sales as provided in
14 this section shall be awarded to the respective bidders
15 offering the largest bonus, which shall be paid in addition
16 to the first year's rental, or, where a minimum bonus is not
17 specified and no offer of a bonus is received, to the bidder
18 offering the rental specified in the notice of sale that, for
19 the first year, shall not be less than one hundred dollars
20 (\$100) for each lease as provided in Section 19-10-15 NMSA
21 1978. Where two or more sealed bids making the same offer
22 for the same tract are received, the commissioner shall award
23 the lease in accordance with such regulations as the
24 commissioner may prescribe. The successful bidders shall
25 file proper applications for the leases purchased and shall

1 complete the payment of any balance due on their bids before
2 the closing of the office of the commissioner on the day of
3 the sale.

4 C. The individual percentages and total percentage
5 for each factor, pursuant to Section 19-10-3 NMSA 1978, shall
6 be posted in conjunction with the lease notice for each
7 individual tract nomination in a manner that keeps
8 confidential the identity of the nominating company."

9 SECTION 3. EFFECTIVE DATE.--The effective date of the
10 provisions of this act is July 1, 2025. _____

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