

1 SENATE BILL 23
2 **57TH LEGISLATURE - STATE OF NEW MEXICO - FIRST SESSION, 2025**

3 INTRODUCED BY
4 George K. Muñoz
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10 AN ACT

11 RELATING TO PUBLIC LANDS; SETTING THE ROYALTY RATE ON FUTURE
12 OIL AND GAS DEVELOPMENT LEASES ON CERTAIN STATE TRUST LANDS TO
13 ENHANCE REVENUE FOR BENEFICIARIES.
14

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

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

18 "19-10-4.3. DEVELOPMENT FORM OF LEASE--PREMIUM RESTRICTED
19 LAND.--The following form is designed as the "Development
20 Form". It may be used by the commissioner for oil and gas
21 leases on lands classified as restricted lands and categorized
22 as Premium and issued on or after July 1, 2025:

23 "LEASE NO. _____ APPLICATION NO. _____

24 OIL AND GAS LEASE

25 (Development Form)

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1 This agreement, dated _____, [19] 20____,
2 between the state of New Mexico, acting by and through its
3 commissioner of public lands, hereinafter called the "lessor",
4 and _____,
5 whose address is _____
6 _____,
7 hereinafter called the "lessee",

8 WITNESSETH:

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

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

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

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

17	<u>Line</u>	<u>SUBDIVISION</u>	<u>Sec.</u>	<u>Twp.</u>	<u>Rge.</u>	<u>Acres</u>	<u>Institution</u>
18	1	_____	_____	_____	_____	_____	_____
19	2	_____	_____	_____	_____	_____	_____
20	3	_____	_____	_____	_____	_____	_____
21	4	_____	_____	_____	_____	_____	_____
22	5	_____	_____	_____	_____	_____	_____
23	6	_____	_____	_____	_____	_____	_____
24	7	_____	_____	_____	_____	_____	_____

25 [~~Said~~] The lands having been awarded to the lessee and
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1 designated as Tract No. _____ at a public sale held by
2 the commissioner of public lands on _____, [19]
3 20__.

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

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

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

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1 option of the lessor, such value to be the price prevailing the
2 day oil is run into a pipeline, if the oil be run into a
3 pipeline, or into storage 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 time
6 and from time to time, the lessee shall pay the lessor as
7 royalty _____ (not less than three-sixteenths nor more than
8 one-fifth, or alternatively, not less than one-fifth nor more
9 than one-fourth if the leased premises is located in whole or
10 in part within the following portions of the restricted
11 districts established pursuant to Section 19-10-16 NMSA 1978:
12 townships 8 to 10 south inclusive, ranges 31 to 38 east
13 inclusive; townships 11 to 15 south inclusive, ranges 31 to 38
14 east inclusive; townships 16 to 20 south inclusive, ranges 21
15 to 39 east inclusive; township 20.5 south, ranges 21 to 23 east
16 inclusive; or townships 21 to 26 south inclusive, ranges 21 to
17 38 east inclusive, N.M.P.M.) part of the gas produced and saved
18 from the leased premises, including casing-head gas. Unless
19 [~~said~~] the option is exercised by the lessor, the lessee shall
20 pay the lessor as royalty _____ (not less than three-
21 sixteenths nor more than one-fifth, or alternatively, not less
22 than one-fifth nor more than one-fourth if the leased premises
23 is located in whole or in part within the following portions of
24 the restricted districts established pursuant to Section
25 19-10-16 NMSA 1978: townships 8 to 10 south inclusive, ranges

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

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

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1 gas or to the promotion or conservation of oil or gas or in the
2 public interest.

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

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

18 [~~3.~~] 4. The lessee agrees to make full settlement on the
19 twentieth day of each month for all royalties due the lessor
20 for the preceding month, under this lease, and to permit the
21 lessor or its agents, at all reasonable hours, to examine the
22 lessee's books relating to the production and disposition of
23 oil and gas produced. The lessee further agrees to submit to
24 the lessor annually upon forms furnished by the lessor,
25 verified reports showing the lessee's operations for the

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1 preceding year.

2 [4.] 5. An annual rental at the rate of \$ _____
3 per acre shall become due and payable to the lessor by the
4 lessee, upon each acre of the land above described and then
5 claimed by such lessee and the same shall be due and payable in
6 advance to the lessor on the successive anniversary dates of
7 this lease, but the annual rental on any assignment shall in no
8 event be less than forty dollars (\$40.00).

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

15 [5.] 6. The lessee may at any time by paying to the
16 lessor all amounts then due as provided herein and the further
17 sum of forty dollars (\$40.00), surrender and cancel this lease
18 insofar as the same covers all or any portion of the lands
19 herein leased and be relieved from further obligations or
20 liability hereunder, in the manner as hereinbefore provided.
21 Provided, this surrender clause and the option herein reserved
22 to the lessee shall cease and become absolutely inoperative
23 immediately and concurrently with the institution of any suit
24 in any court of law or equity by the lessee, lessor or any
25 assignee, to enforce this lease, or any of its terms expressed

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1 or implied.

2 [6-] 7. All payments due hereunder shall be made on or
3 before the day such payment is due, at the office of the
4 commissioner of public lands in Santa Fe, New Mexico.

5 [7-] 8. The lessee with the consent of the lessor shall
6 have the rights to assign this lease in whole or in part.
7 Provided, however, that no assignment of an undivided interest
8 in the lease or in any part thereof nor any assignment of less
9 than a legal subdivision shall be recognized or approved by the
10 lessor. Upon approval in writing by the lessor of an
11 assignment, the assignor shall stand relieved from all
12 obligations to the lessor with respect to the lands embraced in
13 the assignment and the lessor shall likewise be relieved from
14 all obligations to the assignor as to such tracts, and the
15 assignee shall succeed to all of the rights and privileges of
16 the assignor with respect to such tracts and shall be held to
17 have assumed all of the duties and obligations of the assignor
18 to the lessor as to such tracts.

19 [8-] 9. In the event a well or wells producing oil or gas
20 in paying quantities should be brought in on adjacent land
21 [which] that is draining the leased premises, the lessee shall
22 drill such offset well or wells as a reasonably prudent
23 operator would drill under the same or similar circumstances,
24 provided that no such offset well shall be required if
25 compensatory royalties are paid pursuant to an agreement

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1 between the lessor and the lessee.

2 [9-] 10. The lessee agrees to notify the lessor of the
3 location of each well before commencing drilling thereon, to
4 keep a complete and accurate log of each well drilled and to
5 furnish a copy thereof, verified by some person having actual
6 knowledge of the facts, to the lessor upon the completion of
7 any well, and to furnish the log of any unfinished well at any
8 time when requested to do so by the lessor.

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

24 [+0-] 11. In drilling wells, all water-bearing strata
25 shall be noted in the log, and the lessor reserves the right to

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1 require that all or any part of the casing shall be left in any
2 nonproductive well when the lessor deems it to the interest of
3 the beneficiaries of the lands granted hereunder to maintain
4 [~~said~~] the well or wells for water. For such casing so left in
5 wells the lessor shall pay to the lessee the reasonable value
6 thereof.

7 [~~11-~~] 12. The lessee shall be liable and agree to pay for
8 all damages to the range, livestock, growing crops or
9 improvements caused by the lessee's operations on [~~said~~] the
10 lands. When requested by the lessor, the lessee shall bury
11 pipelines below plow depth.

12 [~~12-~~] 13. The lessee shall not remove any machinery or
13 fixtures placed on [~~said~~] the premises, nor draw the casing
14 from any well unless and until all payments and obligations due
15 the lessor under the terms of this agreement shall have been
16 paid or satisfied. The lessee's right to remove the casing is
17 subject to the provision of Paragraph [~~10~~] 11 above.

18 [~~13-~~] 14. Upon failure or default of the lessee to comply
19 with any of the provisions or covenants hereof, the lessor is
20 hereby authorized to cancel this lease and such cancellation
21 shall extend to and include all rights hereunder as to the
22 whole of the tract so claimed, or possessed by the lessee, but
23 shall not extend to, nor affect the rights of any other lessee
24 or assignee claiming any portion of the lands upon which no
25 default has been made; provided, however, that before any such

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1 cancellation shall be made, the lessor shall mail to the lessee
2 so defaulting, by registered or certified mail, addressed to
3 the post office address of such lessee as shown by the records
4 of the state land office, a notice of intention of cancellation
5 specifying the default for which cancellation is to be made,
6 and if within thirty days from the date of mailing [~~said~~] the
7 notice the [~~said~~] lessee shall remedy the default specified in
8 [~~said~~] the notice, cancellation shall not be made.

9 [~~14.~~] 15. If this lease shall have been maintained in
10 accordance with the provisions hereof and if at the expiration
11 of the primary term provided for herein oil or gas is not being
12 produced on [~~said~~] the land but the lessee is then engaged in
13 bona fide drilling or reworking operations thereon, this lease
14 shall remain in full force and effect so long as such
15 operations are diligently prosecuted and, if they result in the
16 production of oil or gas, so long thereafter as oil and gas in
17 paying quantities, or either of them, is produced from [~~said~~]
18 the land; provided, however, such operations extending beyond
19 the primary term shall be approved by the lessor upon written
20 application filed with the lessor on or before the expiration
21 of [~~said~~] the term, and a report of the status of all of such
22 operations shall be made by the lessee to the lessor every
23 thirty days and a cessation of such operations for more than
24 twenty consecutive days shall be considered as an abandonment
25 of such operations and this lease shall thereupon terminate.

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

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

15 ~~[15-]~~ 16. Should production of oil and gas or either of
16 them in paying quantities be obtained while this lease is in
17 force and effect and should thereafter cease from any cause
18 after the expiration of five years from the date hereof, this
19 lease shall not terminate if the lessee commences additional
20 drilling or reworking operations within sixty days after the
21 cessation of such production and shall remain in full force and
22 effect so long as such operations are prosecuted in good faith
23 with no cessation of more than twenty consecutive days, and if
24 such operations result in the production of oil or gas in
25 paying quantities, so long thereafter as oil or gas in paying

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1 quantities is produced from [~~said~~] the land; provided, however,
2 written notice of intention to commence such operations shall
3 be filed with the lessor within thirty days after the cessation
4 of such production, and a report of the status of such
5 operations shall be made by the lessee to the lessor every
6 thirty days, and the cessation of such operations for more than
7 twenty consecutive days shall be considered as an abandonment
8 of such operations and this lease shall thereupon terminate.

9 [~~16-~~] 17. Lessees, including their heirs, assigns, agents
10 and contractors, shall at their own expense fully comply with
11 all laws, regulations, rules, ordinances and requirements of
12 the city, county, state and federal authorities and agencies,
13 in all matters and things affecting the premises and operations
14 thereon [~~which~~] that may be enacted or promulgated under the
15 governmental police powers pertaining to public health and
16 welfare, including but not limited to conservation, sanitation,
17 aesthetics, pollution, cultural properties, fire and ecology.
18 Such agencies are not to be deemed third party beneficiaries
19 hereunder, however this clause is enforceable by the lessor in
20 any manner provided in this lease or by law.

21 [~~17-~~] 18. Should the lessor desire to exercise its rights
22 to take in-kind its royalty share of oil, gas or associated
23 substances or purchase all or any part of the oil, gas or
24 associated substances produced from the lands covered by this
25 lease, the lessee hereby irrevocably consents to the lessor

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1 exercising its right. Such consent is a consent to the
2 termination of any supplier/purchaser relationship between the
3 lessor and the lessee deemed to exist under federal
4 regulations. The lessee further agrees that it will require
5 any purchaser of oil, gas or associated substances to likewise
6 waive any such rights.

7 ~~[18-]~~ 19. The lessor reserves a continuing option to
8 purchase at any time and from time to time, at the market price
9 prevailing in the area on the date of purchase, all or any part
10 of the minerals (oil and gas) that will be produced from the
11 lands covered by this lease.

12 ~~[19-]~~ 20. The lessor reserves the right to execute leases
13 for geothermal resource development and operation thereon; the
14 right to sell or dispose of the geothermal resources of such
15 lands; and the right to grant rights of way and easements for
16 these purposes.

17 ~~[20-]~~ 21. All terms of this agreement shall extend to and
18 bind the heirs, executors, administrators, successors and
19 assigns of the parties hereto.

20 In witness whereof, the party of the first part has
21 ~~[hereunto]~~ signed and caused its name to be signed by its
22 commissioner of public lands ~~[thereunto]~~ duly authorized, with
23 the seal of ~~[his]~~ office affixed, and the lessee has signed
24 this agreement the day and year first above written.

25 STATE OF NEW MEXICO

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By _____
Commissioner of Public Lands, Lessor

(Seal)
Lessee".

SECTION 2. EFFECTIVE DATE.--The effective date of the provisions of this act is July 1, 2025.