

Protecting your Rights in Oil and Gas Development



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I. Phase I: Leasing

A. Negotiate the lease

1. Myth busters:
 - a. Don't presume that no drilling will occur even if that has historically been the case: 1,000+ permits in 1st quarter of 2011 in Colo.
 - b. There is no standard oil and gas lease
 - c. An unwillingness from the other side to negotiate does not mean that you have to sign the lease
2. In order to effectively negotiate, you must know your bargaining power:
 - a. Amount of mineral acres owned
 - b. Proximity to proven production
 - c. Competition for leasing
3. To increase your bargaining power:
 - a. Join with other neighbors or mineral owners
 - b. Consider waiting to sign or negotiate a lease

B. Understand the lease terms

1. **Bonus:** Payment or "reward" for signing lease paid per net mineral acres
 - a. Ask your neighbors what they are being paid
 - b. www.mineralrightsforum.com allows users by county to share amount of bonus payments being paid in area
2. **Bank Draft:** Instrument guaranteeing payment within a certain amount of days, so long as certain conditions, usually confirming ownership, are met
 - a. Preference to exchange certified check and lease
3. **Term:** *Primary term* is fixed time period expressed in lease while *secondary term* would cover extension for continuation of oil and gas production
 - a. Clause for secondary term may extend lease beyond the stated number of years for the primary term
4. **Royalty:** Your fraction or percentage of the proceeds from sale
 - a. Minimum royalty seen in Colorado is usually 1/8 or 12.5%
5. **Warranty of Title:** Your promise to the company you own the minerals
 - a. Do you want to make this promise?
6. **Legal Description:** One or multiple parcels covered by the lease or adjacent acreage
 - a. Use of Pugh clause can eliminate the holding of the lease for dissimilar properties included on the same lease

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I. Phase I: Leasing (continued)

B. Understand the lease terms (continued)

7. Pooling: The joining of two or more properties to form a drilling area in order to develop the lands as if they were under a single lease
 - a. Production in another parcel may extend your lease under pooling
8. Extensions: Option for company to extend lease term at fixed prices if not otherwise continued and/or requirement that you notify company if you receive an offer to lease so that can also make an offer
 - a. Check your old lease before entering into a new lease

C. Protect your property

1. Surface Use of Your Property:
 - a. Enter into a surface use agreement at the same time as oil and gas lease;
 - b. Expressly prohibit all surface uses in the oil and gas lease; or
 - c. Change specific terms in oil and gas lease
2. Consider:
 - a. Loss of use of property due to well pads, roads, pipelines, facilities, etc.
 - b. Disruptions or changes to your operations
 - c. Affect on property values

II. Phase II: Development

- A. Company applies for well permits to COGCC
- B. Company selects locations for wells, roads, pipelines, and related infrastructure
- C. Company disturbs property and begins drilling of well
- D. Defending your rights:
 1. Oil and gas lease or surface use agreement in action
 2. What have you done to protect your rights?

III. Phase III: Production

- A. Terms in the surface use agreement or oil and gas lease are best to protect against noise and preserve aesthetics

IV. Phase IV: Reclamation: Returning the property to its previous condition

- A. Ensure timeliness and financial viability