Basic Lease Considerations, Pooling & Landowner Groups

By

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Objectives

- Cover important aspects of leasing
- Provide a basic description of pooling and the implications for landowners
- Cover three types of landowner groups most common

Please consult your attorney. This information is purely for educational purposes.
Basic Oil/Gas Lease Considerations

- The lease is for? Hydrocarbons & non-hydrocarbons
- Consideration--Payment/consequences refundable? (USE of Bank Drafts)
- Primary term
- Pugh Clause
- Unitization/max acreage
- Top Lease and Most Favored Nation
- Spud Fee
Basic Oil/Gas Lease Considerations

- Shut-in payment, (when to start)
- Water
  - Protection/quantity/quality/test/results and timely correction
- Royalty – deductions, basis for quantity & price and selling to sister company.
- Default of terms, payment, bankruptcy
- Changes in CAUV or Gov. assessments
- Held by production, storage, injection
- Right of way
Basic Oil/Gas Lease considerations

- Equipment protection/restoration/gates
- Indemnification, Insurance, Arbitration
- Use of resources, land, water, timber
- Location of fixtures, types, and distances
- Assignment
- Audit Rights
- Warranty title
- Paying Quantities
Basic Oil/Gas Lease considerations

- Free Gas provision
- End of lease
- Be Aware companies may have multiple leases and or multiple addendums which contain different terms.
Pooling

- Pooling is a provision that allows for land “lessors” to be combined to form a development or drilling unit. This unit size is determined by the Ohio Division of Mineral resources and is based on a plan. These plans determine acreage requirements and can be specific to the type of well drilled.

- Generally – landowners share in oil and gas proceeds in proportion to their land contribution.
40-acre drilling unit or development unit

Landowner A contributes 10 acres/40 acres or 25%

Landowner B contributes 30 acres/40 acres or 75%
Hypothetical Unitized Farms

**Land Ownership**
- Farm A = 375 acres
- Farm B = 100 acres
- Farm C = **165** acres

640 unitized acres

**Well Development**
- Farm A = 200 acres
- Farm B = **20** acres
- Farm C = **0** acres

220 acres
Pooling and Unitization Concerns

- For small landowners it may provide the best means to participate in royalty.
- For large landowners it may tie up land and cause you to share royalty.
- Is it your choice to be released from the lease if your resource was not utilized?
- Have irregular shapes been created in your parcel that make it unattractive to lease?
Pooling and Unitization Concerns

- For the purposes of royalty calculation how much or how little of your land will be utilized to determine your payment?

- Absent a **Pugh Clause**, a Lessor could be exposed to the entirety of their lands under an oil or gas lease being held by the production (*be sure you define what is considered production*) from a small portion of the lands covered by the lease being pooled or combined with other lands.

- S.B 165 Mandatory Pooling
Landowner Groups

- In General, but there are exceptions---
- Landowner groups have been able to get better terms and or more money for landowners who are leasable.

- There are three basic types and versions of each: *Attorney groups, Brokerage groups, and Independent landowner groups.*
Landowner Groups Advantages and Disadvantages

- You pay—usually a percentage of the signing bonus 1-8% range. Sometimes they require a percentage of the royalty as high as 5%.

- What are your obligations when you join? Landowner associations vary in time commitment required, & what are the consequences of getting out? Up front fees?
Landowner Groups Advantages and Disadvantages

- Landowner groups vary in terms of service after the contract.
- Some groups have a minimum acreage they will accept.
- Some may want you to Warranty Title.
- Some will show you the lease they will acquire others have the right to negotiate.
- Some may allow you to get out at any time and accept or reject the lease.
Landowner Groups Advantages and Disadvantages

- Some may allow you to join more than one group.
- Some are run by a board of directors which may be participating landowners and some allow voting of members.
- Trust & Communication are key.
For more information

- **OSU Extension, My web site:**
  [http://guernsey.osu.edu/topics/agriculture-and-natural-resources/for-your-information](http://guernsey.osu.edu/topics/agriculture-and-natural-resources/for-your-information)

- **ODNR**

- [http://www.marcellus.psu.edu/](http://www.marcellus.psu.edu/)
For more information

- Examples of “Landowner Friendly Leases”
  No Endorsement implied:
  
  http://www.alov.us/
  http://www.homelandenergyventures.com/ohio/
  http://www.pamarcellusshale.com/