



Oil & Gas Leases and Other Agreements

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Oil & Gas Lease

- Lease Clauses -
 - Granting Clause
 - Term
 - ❖ Primary Term
 - ❖ Secondary Term
 - ❖ Term Related Clauses
 - Options to Extend Primary Term
 - Delay Rental
 - Paid Up Leases

Oil & Gas Lease

- Lease Clauses -
 - Bonus and Royalty Payments
 - ❖ Bonus Payments
 - Not Usually in Lease Agreement
 - Side Letter Agreement or Hand Shake
 - ❖ Royalty Payments
 - 100% Interest in Well = Working Interest + Royalty Interest
 - Working Interest Typically 75% or More
 - Royalty Interest – Typically 25% or Less
 - Royalty Interest Expenses

Oil & Gas Lease

- Lease Clauses –

- Pooling

- ❖ Allows Lessee to combine acreage in two or more Leases
 - ❖ Usually result of Railroad Commission spacing requirements
 - ❖ Two kinds of pooling:
 - Compulsory – Regulated by statute
 - Voluntary

Oil & Gas Lease

- Lease Clauses –
 - Pooling, Cont'd -
 - ❖ Lessees always in favor of pooling provisions
 - Allows Lessee to hold more acreage without drilling more wells
 - ❖ Lessors
 - Considerations
 - Small Tract
 - Large Tract
 - Pugh Clause

Oil & Gas Lease

- Lease Clauses –
 - Surface Use
 - ❖ Mineral Estate Dominant Estate
 - ❖ When Surface and Mineral Estates are Divided
 - ❖ Lessee cannot use Surface Estate in absence of Pooling Agreement to produce minerals from another Lease
 - ❖ Additional Compensation for Surface Estate Use
 - Overriding Royalty
 - Damage to land
 - Access
 - Requirement for fencing
 - Site maintenance
 - Notice of activities

Oil & Gas Lease

- Lease Clauses –
 - ❖ Indemnity
 - Protection for Lessor
 - ❖ Commencement of Drilling
 - Various meanings
 - Specifics
 - ❖ Access and Site Reduction
 - Roads, Gates, etc.
 - Site condition after drilling

Oil & Gas Lease

- Lease Clauses –

- ❖ Force Majeure

- Events beyond Control of Parties
 - Acts of God
 - Other events

- ❖ Shut-In Royalty

- Payment to hold Lease without Production
 - No pipeline available
 - No market

Other Oil & Gas Agreements

- Joint Operating Agreements
 - More than one working interest owner
 - Identifies well operator
 - Rights and obligations of non-operator working interest owner
 - Area of mutual interest agreement

Other Oil & Gas Agreements

- Farm Out Agreements
 - When used
 - Third party operator
 - Right to drill
 - Interest in well

Other Oil & Gas Agreements

- Drilling Contracts
 - Agreement between Lessee and actual driller
 - Compensation options

Other Oil & Gas Agreements

- Division Order
 - Net revenue interest
 - Agreement relied upon for payment
 - Signed by all parties – Tax ID No.

Practical Tips for the Lessor When Negotiating an Oil & Gas Lease

- Make Sufficient Inquiries
- Unique Property Tract
- Primary Term
- Long-Term Royalty Interest
- Competition

Practical Tips for the Lessor When Negotiating an Oil & Gas Lease

- Transportation Costs
- Location of Wells
- Alternate Drilling Sites
- Geological Zones
- Small Independent Operator
- Pipelines

Practical Tips for the Lessor When Negotiating an Oil & Gas Lease

- Urban Tracts
 - Individual Lot Size
 - Landowners and Neighborhood Groups
 - Competition
 - Traffic and Noise Issues
 - More Than One Mineral Interest Owner
 - Bank Drafts - Caution