



**Construction**



**Easements**



**Royalty**

## *Oil & Gas Leases - EXPOSED* by Mark Humphreys

**No Kidding!!** It is amazing how some people approach Oil and Gas leases. When the "Landman" approaches someone about signing a lease, he always seems like an OK person (that is why he is hired). He seems honest, he tells you "It's a standard lease and it's the same as what everyone else is signing". The landman will even tell you about a few things he can add to your lease if you want. After all he may work for the Oil and Gas Company, but he doesn't want you to be taken advantage of.

The land owner of course has usually talked with his next door neighbor or one of the guys down at work, and Yeah he'd like to maybe argue a little but it's not his style and, besides he can't do much anyway.

The above scenario plays out way too much. Other people are more aggressive in the following ways: They get online, on the computer and do some research on the Internet, they talk to several other people, plus they call the relative or friend in the country who has dealt with leases before. Occasionally someone even calls an attorney, like the one who

handled their brother's divorce or who helped with the traffic ticket last year. Of course, most of the time the attorney wisely says he doesn't know that much about Oil and Gas leases or says a few thing he remembers from law school and maybe tells you to talk with someone who works in Oil and Gas Law.



*The Internet is a great resource, but does not make Cognitive decisions like an Attorney.*

Ok...Let's Stop...Clear your mind...Think about this for a minute. First Rule...everything is negotiable: Remember, the oil & gas company are approaching you, they want your land. There are limits to what they can or will do but they have a lot of "wiggle room". There are anywhere from 15 to 30 numbered

paragraphs spread over 2-4 pages in a lease. Most land owners concern themselves with 2 of those paragraphs, the one that tells them how much their signing bonus is going to be and the one that says what their royalty percent is going to be. In urban areas, people want to make sure a paragraph says the gas company isn't going to drill next to the landowner's house. For most people that is it. Except of course the assurance from the landman that it is a standard lease and it's what everyone else is signing.



*Every Lease is negotiable. You just need an experienced lawyer to help you!*

All those other paragraphs with words and clauses you don't really understand..... They do mean something. That's why they are in the lease. And they cover issues that the Oil and Gas Company wants in there for a purpose and the purpose is for their benefit. It is not an exaggeration at all to say that the changes they will readily agree to will mean hundreds or thousands of dollars to the urban land owner and possible even millions to the rural land owner over the course of the lease.

**DID YOU REALIZE THE LEASE COULD LAST THROUGH THE REST OF YOUR LIFETIME AND BEYOND UNLESS YOU KNOW HOW TO PUT LIMITATIONS ON IT?**

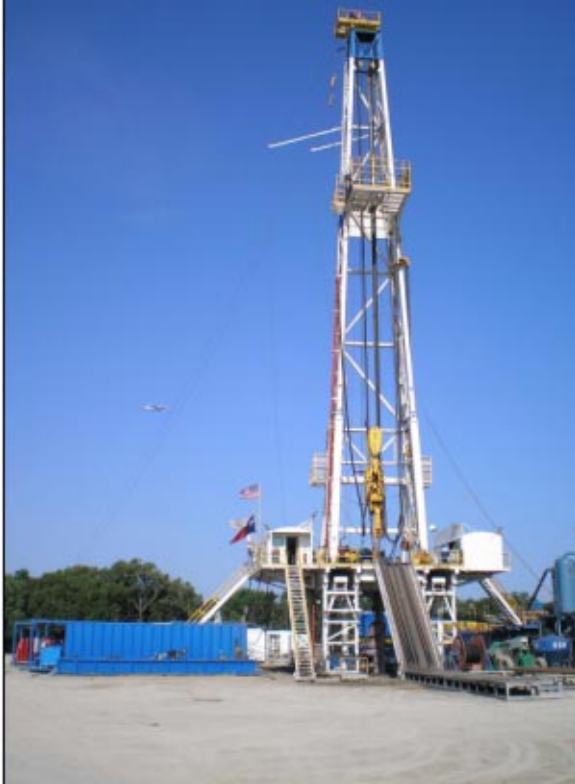
Here are Examples of why you are being rational when you get an experienced Oil and Gas attorney to look at your lease.

A lease that gives a landowner a 25% royalty will almost always result in less money than the lease that gives a 21% royalty if the 21% royalty owner knows how to negotiate the "basis" on which the royalty is paid. Putting in a "Most Favored Nation" clause or paragraph in your lease makes sure you are going to get as good a deal as your neighbor, never worse.

You should always put a "horizon" paragraph in your lease so that the lease you sign today is for only the "play" the gas company is looking for today. If later, new horizons are discovered you are in the driver's seat for negotiating a new lease. Mineral owners all over the state wish they had known this before it was too late.

Paragraphs requesting the Oil and Gas Company to exercise reasonable efforts to develop the lease are vital, especially on leases over 20 acres in size.

Paragraphs limiting the "pool" size increase the percent your acreage will take up of the whole and thus means more money to you. The larger the pool the smaller your interest in the total minerals taken from the ground, and a lesser amount of money to you.



*Issues such as the condition of the land after they are finished should be addressed in the agreement.*

There should be included in the lease a paragraph that limits the size of the drilling unit to the minimum allowed by the Texas Railroad Commission and that lands not developed are released back to the owner.

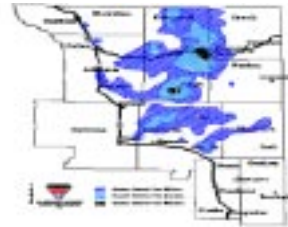
Shut-in Clauses should have cumulative dates, not just language limiting a shut- in or cessation of production to not more than 30, 60, or 90 days at a time.

There should be favorable language (an attorney knows if it is favorable or not) of ingress and egress issues, surface use, water use, pipelines and storage tanks, pits, noise, odors and more.

In an urban setting or a setting where in the country the landscape is appealing, there should be language addressing the drill site such as trees, foliage, fences, etc.

Always make sure there is language releasing you of liability. The Oil and Gas Companies usually have language the other way around in the lease.

There are many other issues, The above is just a sample. The final point to be brought here is, make sure there is a paragraph that says what happens when the lease terminates. Such as, what happens with old equipment, pits, pipeline, etc and ways of dealing with legal releases.



*Make sure to make your property work for you.*

Everything mentioned above is negotiable and more than 95% of the time it can be negotiated in your favor if only an attorney knows how to address these issues with the company.

This article will end the way it started, talking about the landman. These guys get paid for signatures. Most take what is called an “overriding royalty” on the lease. The lease is actually drafted for the benefit of the gas company, by a gas company attorney. But the bottom line is the landman wants a signed lease and having an oil and gas attorney review, and if necessary negotiate a lease is vital and means lots of money to you. After all that is why you want to sign a lease, isn't it?

