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Leasing Overview

Anatomy of an Oil & Gas Lease,
Current Issues and Trends

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The Parties

- Lessor
 - Individual, Family or Commercial Entity
 - Who must execute?
 - Co-tenants (Harrison v. Cabot Oil & Gas Corp.)
 - Tenants by the entirety

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The Parties (cont.)

- Lessee
 - Landman/Broker
 - Gas Company
 - Must the Lessee sign? (Snyder v. Rex Energy)

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The Leasing Clause

- What rights are granted to Lessee
 - To drill
 - For oil? gas? What types? Other Minerals? Utica?
 - Dunham’s Rule
 - Ownership of coal bed methane

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The Leasing Clause (cont.)

- Surface Use
 - Pipelines, Compressor Stations
- Subsurface
 - Water Use, Impoundment, Storage
- Realty Transfer Tax Considerations

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The Leasehold

- What parcel does the O&G lease cover?
 - Tax map identification
 - Legal description
- And beyond
 - Adjoining parcels (Mother Hubbard)
 - After acquired property

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The Money

- The Bonus
 - Identified in Lease or Side Agreement
 - Paid after title/approval period
- Royalties
 - Statutory minimum (1/8) but...
 - Deduction Clauses do not violate Minimum Royalty Act (Kilmer v. Elexco Land Services)

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The Money (cont.)

- Royalties (cont.)
 - Where is the royalty calculated (i.e. – what is in the deduction clause)
- Domestic use gas

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The Term

- The Habendum Clause
 - How Long
 - Primary Term (5 years)
 - Secondary Term
 - Held By Production (HBP) – What activities qualify?
 - “In paying quantities”

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The Term (cont.)

- Secondary Term (cont.)
 - Delay and Shut-In Royalties
 - Limitations on Secondary Term
 - » Pugh Clause (Vertical and Horizontal)
 - » Abandonment

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Operations

- Drilling
 - Well pad on parcel?
 - When do operations begin?
- Surface Use
 - Road
 - Compressor Stations
 - Pipelines

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Operations (cont.)

- Surface Use
 - Barriers
 - Timber
 - Restoration Obligations
- Subsurface Use
 - Impoundment/Storage
 - Water use

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Operations (cont.)

- Surface and Subsurface Use
 - Restoration
 - Indemnity

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Pooling/Unitization

- How is a unit created?
- What parcels are in a unit?
- Effect of Pugh Clause?

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Other Provisions

- Warranty of Title
 - Parcel ownership
 - Mineral Ownership
- Default and Remedies

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