



REGULATORY AND LEASING ISSUES



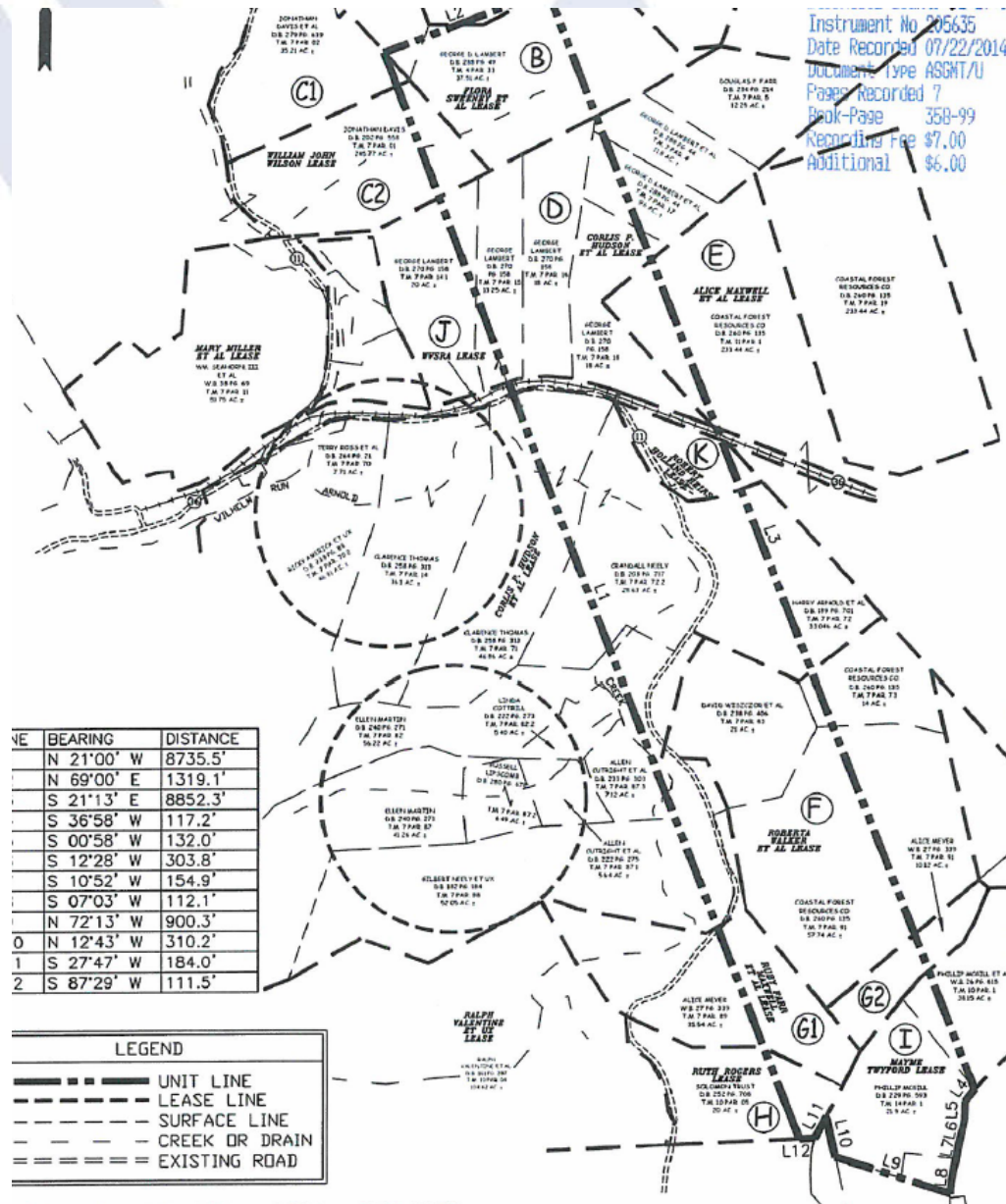
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West Virginia University



Audience and Date
February 19, 2016



Declaration of Pooled Unitization



Lease Information

UNIT LEASE INFORMATION -- TOTAL = 280.1 ACRES				
	LESSOR	UNIT AC.	% IN UNIT	LEASE #
A	JOHNATHAN L. DAVIS ET AL	0.6 AC.	0.22 %	ARAC-DAVIS
B	FLORA SWEENEY ET AL	26.7 AC.	9.53 %	21435
C1	WILLIAM JOHN WILSON	0.3 AC.	0.11 %	ARAC-SMITH
C2	WILLIAM JOHN WILSON	5.5 AC.	1.96 %	ARAC-SMITH
D	CORLIS P. HUTSON ET AL	119.6 AC.	42.70 %	ARAC-KEY-164
E	ALICE MAXWELL ET AL	7.3 AC.	2.61 %	FARR
F	ROBERTA WALKER ET AL	59.1 AC.	21.1 %	3RD PARTY XTO
G1	RUBY FARR MAXWELL ET AL	13.4 AC.	4.76 %	KEY-209
G2	RUBY FARR MAXWELL ET AL	6.1 AC.	2.18 %	KEY-209
H	RUTH ROGERS	4.2 AC.	1.5 %	21927
I	MAYME TWYFORD	25.5 AC.	9.1 %	WV09029
J	WVSRA	3.7 AC.	1.32 %	WVSRA
K	ROBERT HOLLAD HEIRS	8.1 AC.	2.89 %	



Landowner Economics

- Mineral owner lease bonus per acre \$1,000 - \$25,0000
- Royalties – 12.5 % - 20%
- Average IP – 5.0 MMCF
- First month ~\$120,000 @ \$4.00 NYMEX, 20% Royalty, entire unit
- Has meant millions to mineral owners
- Easy right?



Source:marcellusdrilling.com



The other side of drilling, completion, and production – title and contracts

- Must secure rights – through leasing or purchase
- Identify drilling location – must take technical and nontechnical factors into account
- Permit
- Drill and Complete
- File DPU
- Division orders
- Redefine Unit (for new wells or secondary stimulation)
- plugging & reclamation

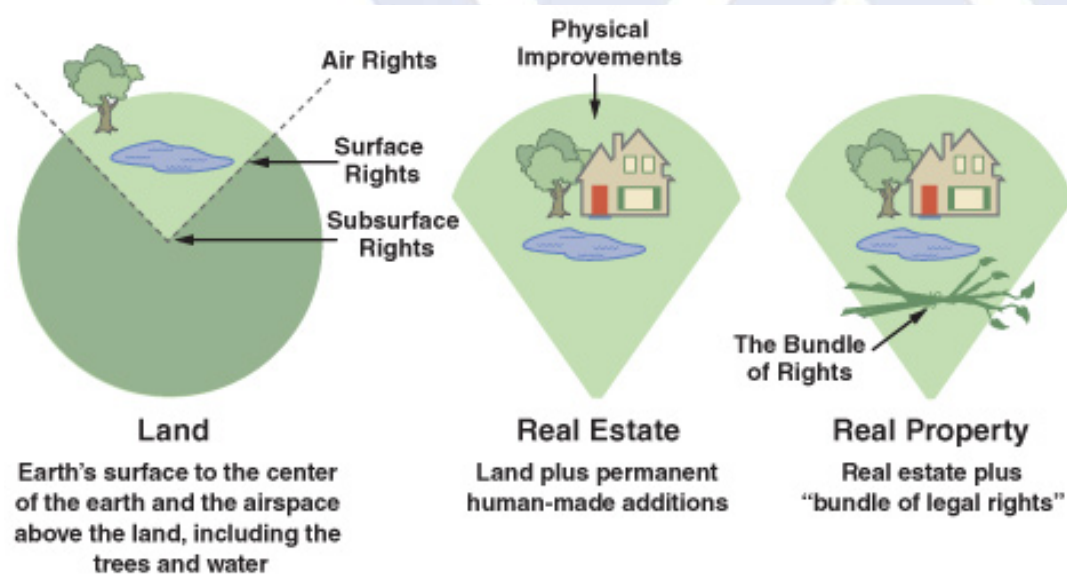


Real property rights

- Largest classification – hereditaments – includes lands, tenements
- Hereditaments divided into corporeal and incorporeal rights



Ownership

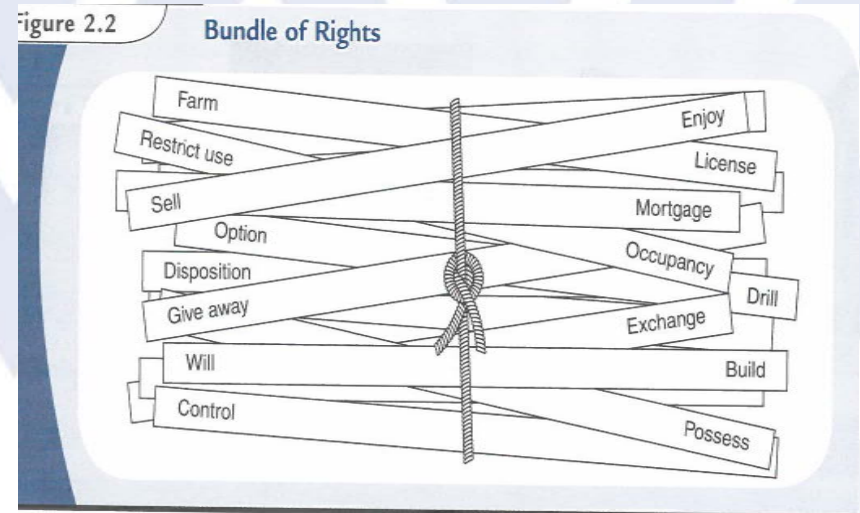


Realstreetblog.files.wordpress.com



Real Property - Private ownership

- Gives owner right to possess and use land to the exclusion of others
- All legal rights attached to property are the owners
- Include:
 - Possess, exclude, sell, lease, mortgage, give away, exchange, and will.
- Combination of privileges is referred to as “bundle of rights”



Ownership broken down

- Surface rights
- Sub-surface rights
- Air rights



Surface rights

- Rights to the land and the improvements on the land
- Improvements include structures, pipeline, pavement, fences
- Ownership also includes rights to use the land and its improvements



Sub-surface rights

- Include anything that is below the land such as coal, water, ore, mineral deposits, etc.
- Typically included in the bundle of rights during a real estate transfer
- Term sub-surface right is defined as the right to all or certain specific natural resources that lie beneath a parcel of land
- Include the right to enter beneath the surface of the land and explore the area beneath the surface of the land for natural resources and extract the natural resources from the land (enter, explore, extract)



Air rights

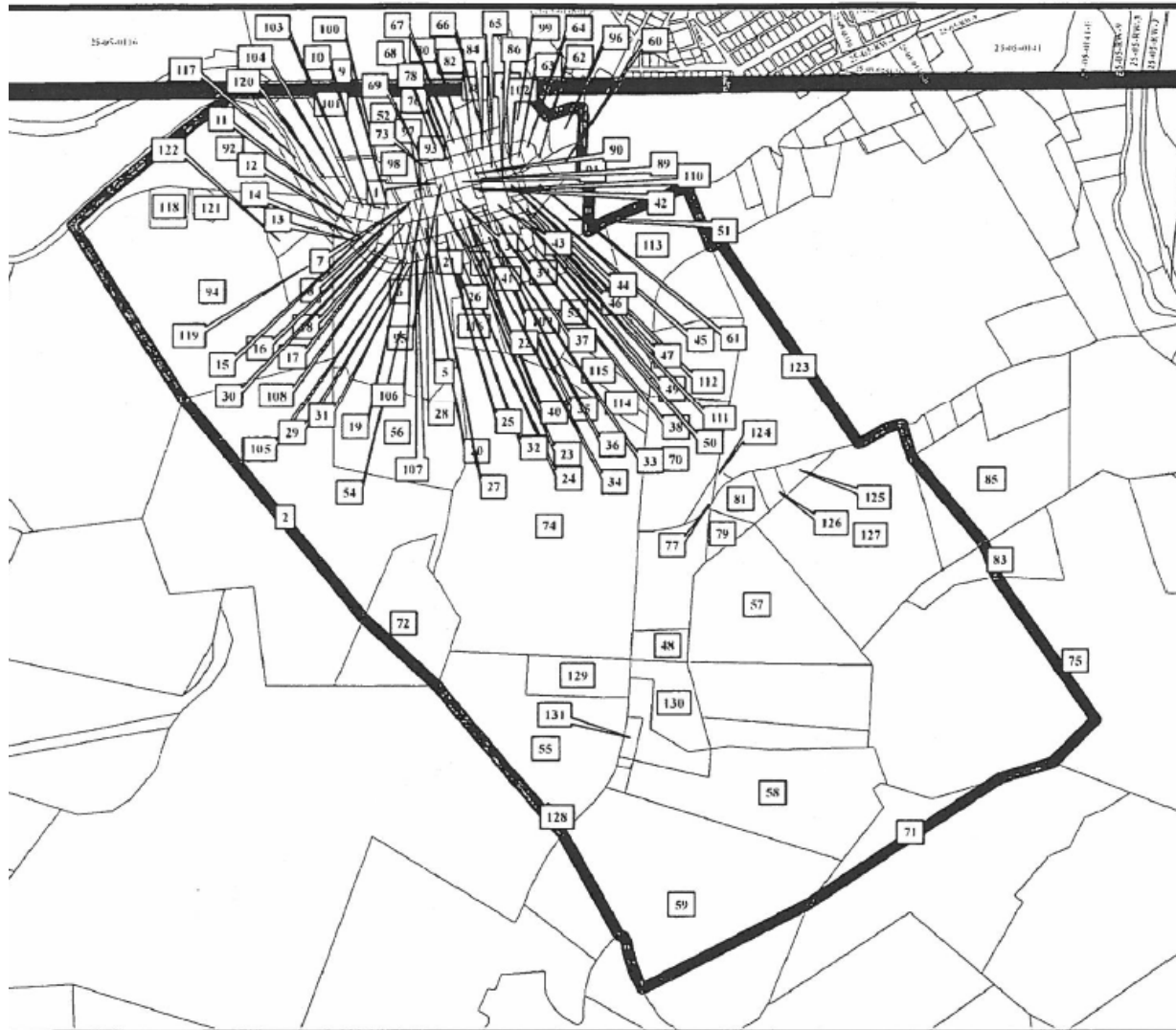
- Air rights include anything that is directly above a parcel of land
- Rights of ownership in land include the rights to occupy and use the airspace above the surface
- Air rights subject to conveyance the same as any other rights
- Also subject to any lien or encumbrance that impacts the land



Fee landowner

- Fee simple – no restrictions, person has right to
 - divide or sever the estate into separate estates
 - Exploit and benefit the estate
 - Lease the estate
 - Convey the estate (devise the estate)





Lease Basics

- Contractual arrangement that pays owner for use of asset (in this case enter agreement with lessor to develop mineral or gas/oil estate)
- Leases have been used since mid 1800s for oil and gas rights in WV – many older leases still in effect
- Lease elements similar, but lease language varies extensively from operator to operator



Important Lease Elements

- Names – Lessor and Lessee
- Granting Clause
- Consideration (in cash and in kind)
- Legal Description
- Mother Hubbard
- Habendum
- Royalty
- Delay Rental
- Shut-in Royalty
- Assignment
- Force Majeure
- Pooling/Unitization
- Pugh Clause



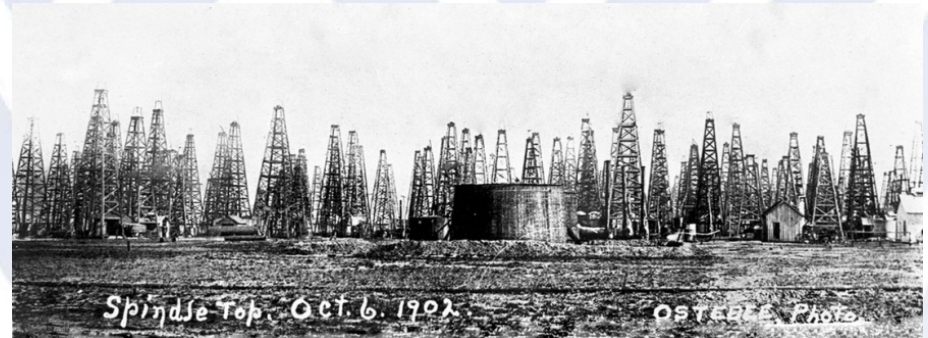
Pooling and Unitization

- Pools – tracts combined into unit big enough to meet regulations for drilling (typically spacing)
- Allows lessees to develop tracts more efficiently
- Allows lessee to pay fewer delay rentals
- Allows smaller parcels to be pooled
- Unless lessor specifies – a well anywhere on the unit will also hold the leases on each pooled tract through primary and secondary terms
- Unitization – more efficiently recover products from large reservoir
 - Unitization requires ratification by substantial majority of owners
 - Pooling requires no consent but requires consent of nonparticipating royalty owners



Pooling

- Can be voluntary – under contractual agreements
- Can be involuntary – forced via legislation written to promote efficient production and development of natural resources

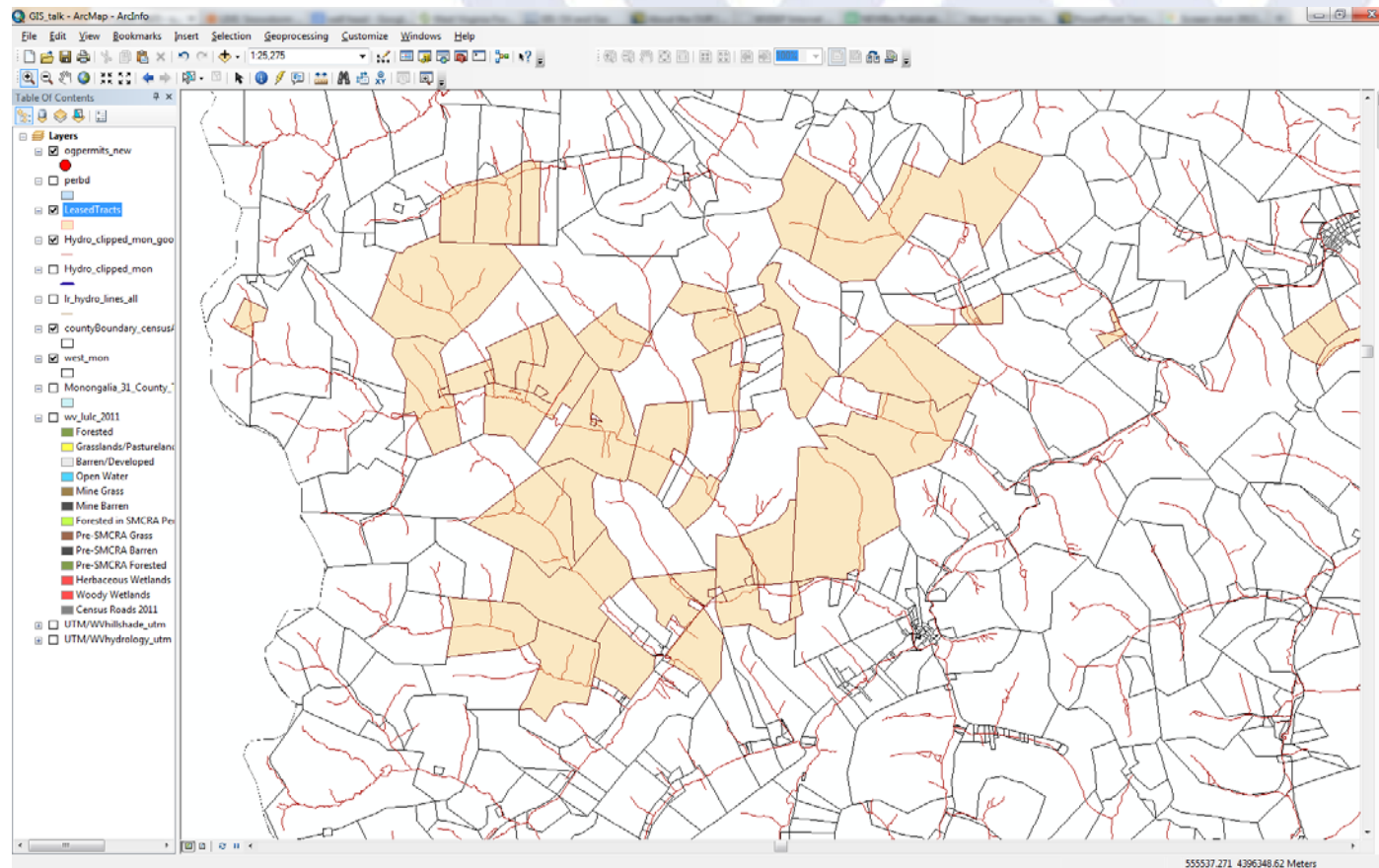


WV

- <3000' – min 1000' from nearest existing well
- >3000' – min 1500' from nearest existing well
- Existing well – any well not plugged within 9 months of being drilled to TD and completed in same target formation or those permitted for same target formation
- If coal owner objects, must establish need if nearest existing well is between 1500-2000'
- Deep wells – below Onondaga – oil and gas conservation commission determines spacing

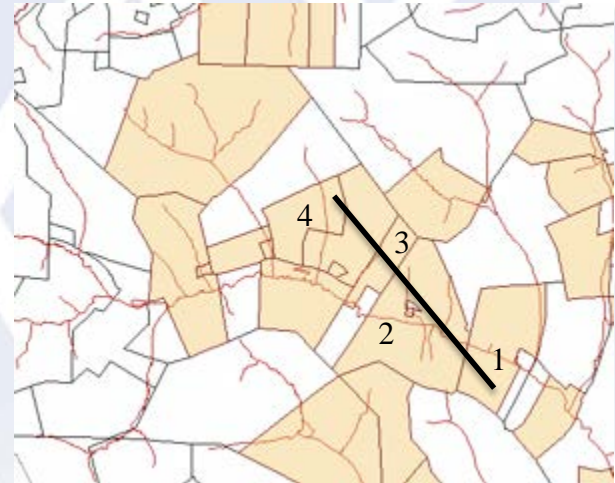


Example - Leasehold



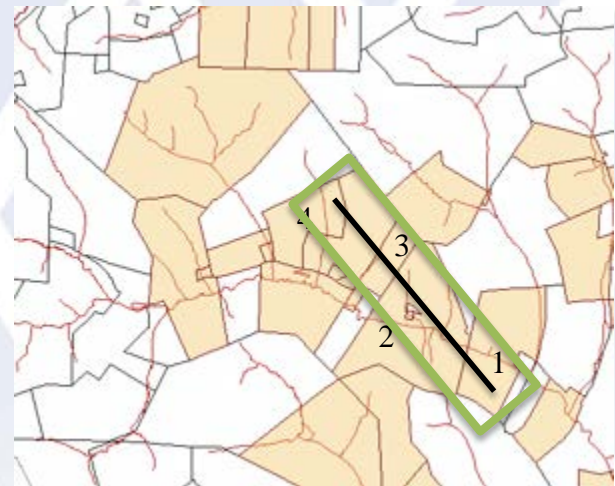
Example

- 55 acre lease tract
- Hold with 1-4 with lease, no pooling in 3 (20 acres)
- 10 owners in 3
 - Lease modifications signed by 5
 - Can't locate 4
 - 1 won't sign
- Hinders development of 3 and 4 – reserves not produced
- Legislation currently being debated



Example – Pugh Clause

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