

# Gas and Oil Leases

## *Know what you are signing*



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### Natural Gas in New York

Natural gas use is going to increase throughout the foreseeable future. The demand for it, both in residential and commercial applications, has helped spur exploration of new production areas. These areas include land in Western New York and the Southern Tier, where many companies have already seen some very positive results, especially in the Trenton-Black River Formation. New York farmers, as owners of large tracts of land, have the potential to take advantage of these discoveries and continued exploration by granting a lease to recover these valuable commodities. However, it is very important that land owners carefully read and understand any lease before signing it.

### What is a gas or oil lease?

A gas lease is a contract between a landowner and a company granting exploration and development rights to subsurface oil and gas deposits to the company. In return for granting these rights, a landowner receives financial compensation. If a gas company is interested in leasing the rights for a specific property, a representative from the company will usually approach the landowner. Sometimes this representative may be a professional known as a "landman" whom the company has contracted to secure leases. They usually will offer a pre-printed or standard lease which represents the companies offer. **A landowner is in NO way obligated to sign a lease. It is VERY important that before signing the lease, it be reviewed by an attorney who is knowledgeable about the subject.** While the company may not choose to drill on the property, granting a lease may be viewed as an encumbrance on the property and affect the property's value.



### What are some important gas leasing terms that you may hear?

- **Cash Bonus**-Up front payment-usually computed on a per acre basis-considered first year's rental
- **Primary Term**-Length of lease-can run from one year to 10+ years
- **Delay Rental**-Annual rental payments after the first year-usually on a per acre basis
- **Secondary Term**-An extension of the lease beyond the primary term because it is producing gas
- **Royalty**-Landowners share of gas production from property-usually expressed as a fraction of the gas value
- **Shut-in Royalty**-Payment instead of traditional royalty-paid when well is not producing due to maintenance, etc.
- **Termination**-Occurs at the end of primary term or when production ceases during the secondary term

*Any lease will define the terms used in the lease; if the terms are not defined you may want to have them spelled out.*

### What are some things to think about before signing the lease?



**Landowners have the ability to negotiate the terms of a lease. While the following are a FEW of the general items to consider prior to signing any gas lease, landowners should consult with their attorney to make sure all of their interests are protected.**

- **Land disturbance from an access road and drill site**-Large amounts of equipment may be needed in the drilling process.
- **Damage to crops, buildings and personal property**-Consider having terms in the

lease making the company responsible for any damage done to crops, livestock or property. Required fencing may also be an option.

- **Free gas**-Leases can provide for natural gas for the landowner's use. Consider including that the company is responsible for the cost of equipment installation. Sometimes, due to safety concerns, the company may simply provide monetary reimbursement instead.
- **Underground gas storage**-Some leases allow the company to pump natural gas back into an empty well for storage in return for an annual payment to the landowner. This provision is negotiable.
- **Lease Assignment**-The lease may allow the company to assign or sell the lease to other firms.
- **Reclamation**- Reclamation plans for both productive and unproductive wells can be spelled out in the lease to protect future land uses.

### **Pooling of land area and Compulsory Integration**

Often the underground gas reservoir that a well pulls from runs beneath the properties of several different landowners. In this case, different properties are pooled into one well and royalties are paid based on the landowner's share of the land unit. This set of rights for all property owners to have a share in the production of a well is known as correlative rights. Sometimes wells may pull from a property that has not been leased. In these cases compulsory integration into the unit may occur to ensure that the property owners are compensated.

### **Who regulates gas wells?**

While DEC does not regulate private agreements between landowners and gas companies, DEC's Division of Mineral Resources (DMN) does protect correlative rights, the environment and public safety. They have established rules and regulations which govern the construction of a gas well. These rules focus on protecting water quality and preventing pollution. DMN reviews all of the gas well permit applications and conduct inspections prior to, during and after well construction. Gas companies are required to post a bond with DEC to guarantee plugging of the well and any site reclamation.

### **What is the drilling process?**

Drilling of a gas well usually lasts from two to eight weeks. During this time, depending on the well size and location, a substantial amount of land may be disturbed. If the well is productive, the well-head, meters and tanks will remain on site. If it is not productive, the well will need to be plugged in accordance with state regulations.

### **What if you have not been treated fairly by a drilling company?**

If you feel that you have been treated unfairly by a leasing company, you should contact the State Attorney General's Office at 607-721-8778. **Again you are in no way obligated to sign a gas lease and should work to make sure that all aspects of the lease have been negotiated.**

### **BEFORE SIGNING ANY LEASE BE SURE TO HAVE IT REVIEWED BY A COMPETENT ATTORNEY. THIS INFORMATION IS NOT A SUBSTITUTE!**

Please call NYFB if you have additional questions or concerns at 1-800-342-4143. Also, more information is available from DEC on line at [www.dec.ny.gov/energy/205.html](http://www.dec.ny.gov/energy/205.html) or by phone at 518-402-8056.

*The information contained herein is provided for informational purposes only, it is not intended to be, nor should it be considered, a substitute for legal advice rendered by a competent attorney. If you have any questions about the application of the issues raised herein to your particular situation, seek the advice of a competent attorney.*