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Leasing Your Gas: What You Should Know

A lease is a legal document or contract between a landowner (lessor) and a company or individual (lessee) granting exploration and development rights to subsurface gas and oil deposits. The companies hoping to lease rights to the gas are potentially going to make millions, in some cases billions of dollars from these contracts and they may be willing to pay top dollar for the privilege.

Your bargaining power in negotiating lease terms depends on the following:

- The size of your tract and what minerals you own in the tract
- The proximity of your tract to known production
- Whether multiple companies are competing to acquire leases in your area
- "Going Rates" for bonus and royalty in your area

Often an oil/gas company will designate an area in which it wants to acquire leases, and hires a landman to get as many leases in that area as he can for the least amount of money as possible. If you are approached, consider the offer; revenue paid to owners of leased land can be substantial. Risks and inconveniences, however, are also possible.

Make sure the lease protects your interests. Companies will usually present you with a pre-printed or standard lease and the terms are not likely in your best interest. Review it very carefully. Remember: all lease terms are negotiable. The landman acquiring the lease may not have authority to negotiate those terms, but someone does. Never be bashful about negotiating bonus and royalty rates – it never hurts to ask. Don't be timid.

Remember, it is always best to consult an attorney or other professional who is experienced with oil and gas leases before signing any legal documents. A lease is a binding legal document.

Protect your rights.



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- **Money:** The initial dollar figure and the royalty percentage offered is often the minimum required by law. You have the right to ask for more. **Hint: The more land the company has leased in an area and the more acreage you own the more they may pay you for your property. Be aware of and try to limit any language in the lease that will allow the company deductions of post-production costs.*
- **Lease Term:** The primary term on a lease can be anywhere from 2-5 years. If a well is drilled and producing the secondary term will begin at the end of the primary term. The primary and the secondary term are negotiable and a secondary term is not required. **Hint: The shorter the primary term the better. Be mindful of leases that continue which are not tied to production of gas.*
- **Mineral Rights:** You only want to lease the natural gas, not the minerals on your property. The lease should be limited to natural gas and/oil only. **Hint: You may want to specifically reserve coal bed methane, coalbed gas, methane gas, and GOB gas from the lease.*
- **Land Reclamation:** By law, the company is required to restore your land after drilling. You can negotiate for specifics concerning reforestation or filling to the land's pre-drilling slope for example. **Hint: Take pictures of your land before drilling starts so you will have them to show the difference after reclamation is complete.*
- **Water Reclamation:** There is a legal duty to replace any water supply they damage although it may not be what you are used to. **Hint: Be mindful that your water supply may be affected by drilling.*
- **Timber:** Any trees cleared from your land should be cut and stacked so you can sell it or use it.
- **Pooling or unitization:** This happens when a well is placed on one piece of property and draws gas from surrounding properties. This may be beneficial if you only own a small tract of land.
- **Storage:** Reserve your storage rights! After gas is extracted, companies can use the remaining cavity to store gas. You have the right to additional income from storage and it should be negotiated in a separate lease or reserved.
- **Easements:** Leasing creates an encumbrance on your property. You should get compensated any easements you grant. Do not permit the gas company to store or pipe gas over your property without being paid for it. **Hint: You may be able to specify where the pipes are laid and that that they are buried. Be mindful of access roads and where wells will be drilled.*
- **Domestic gas use:** You may have a right to free gas from your property. However, you may have to pay to transport the gas to your home. **Hint: Try to negotiate a one-time payment instead of the gas.*
- **Indemnity:** You should be held harmless for any claims resulting from the drilling. You do not want to be liable for any drilling activity. **Hint: You may want to make sure you are named as an insured on the gas company's policy for extra security.*