

WHAT SOME LANDMEN SAY AND WHAT THE REAL ANSWER IS

The landman would like it best if you to signed at the lowest historical royalty (12.5%). One Company according to one of its annual statement paid around 35 % to the Vietnamese and Malaysians, and 51% to the Algerians. Why are we being offered so much less?

Some landman say:

1. 1/8th is “Standard”.

Answer: There is no Standard.

2. If you don't sign we won't drill.

Answer: That has not ever been the case to my knowledge. The operator only needs 60% of the acreage in the unit under control to get a permit and drill. One client had 60 acres in the unit without a lease and the operator still drilled.

3. You will be mired in litigation and not get anything.

Answer: Wrong, well over forty compulsory integration hearings have been completed and some landowners have received returns far greater than the leases would have generated.

4. Everybody else has signed and you are holding up the train.

Answer: Wrong again. As stated above they do not need 100% of the unit signed before they get a permit and drill. Also landmen have been known to say that everyone has signed even when they have not, just so that they can shame you or stampede you and your neighbors into signing.

5. Because you didn't sign you will get nothing and the neighbors will have to wait until you sign or sue.

Answer: Wrong: Payment to you is automatic unless someone contests the size and configuration of the unit. As long as you do not challenge the unit's boundaries, you and your neighbors get paid as soon as the final order of integration is issued by the Department of Environmental Conservation.

THINGS A LANDMAN IS NOT LIKELY TO TELL YOU

1. If you grant surface rights, you will not be able to mortgage your property again without their permission, their release or subordination of the surface rights.

2. The company lease allows the company to place additional gas pipelines across your property without any additional compensation and without your input as to their placement. There go your development plans.

3. The company lease will go on forever “as long as” they produce gas, pay delay rental, pay shut-in rentals, or store gas there, including gas which they have brought from somewhere else. And they will pay you almost nothing for the privilege. Not to mention that if gas is stored no more drilling can take place and you could effectively forfeit your shallow gas.

4. You have to guarantee the title and the company can hire attorneys at urban hourly rates to clear your title and they can charge you for it or withhold that from your royalties.

5. The gas company has said publicly that they have no duty to account to the lease holder, and that you have to accept whatever they say is due.
6. This is a limited resource. Once the gas is gone the company will move on and you will have nothing left and they will have taken 87.5 % of the profit, if your royalty is only 12.5%.
7. It is all about the money for them. The land or the community are a distant second place. Look at their history in Wyoming and Colorado.
8. One company has recovered its investment in some wells five times over in the first year. That is 500% in the first year. In other words, a single successful well of this magnitude will offset in the first year the losses incurred in five dry holes. Why would you think that you shouldn't have a bigger piece of a very short lived pie?
9. Once you sign a lease you have lost all leverage and authority. Their leases have you granting them near complete power over your land. Is this a good thing?
10. The leases give the company the complete authority to determine the boundaries of your unit even if you disagree, and you have no legal way to challenge their determination of the unit. You may challenge the acreage but only if you deliver to them a survey. This is important because if even one foot of your property is in a unit the lease goes on until the well runs dry or as long as they store gas in the dry hole. A well may pay you nearly nothing if only a few feet of your land is in the unit, but the lease will continue nevertheless and you cannot lease to someone else. The company has no duty under the lease to drill a well. They could warehouse your property until just before the lease expires, usually in five to ten years.
11. The primary term of the lease is not meaningful. It is an illusion. The wording directly after it says that the lease will go on "so long as etc." meaning well past the "primary term". In other words there could be no end to it.
12. If you have no lease, it is possible that you can get paid as if you have a lease when you are in the unit, but without all the lease restrictions.
13. Any man or woman can learn from their own mistakes, it is the wise person who learns from the mistakes of others. The companies would like you to learn only after you have made the mistake, even though others in the county have already made the same mistakes.

If you don't sign a lease it is not the end of the game. They won't pay you a signing bonus but you get the 1/8th if you do nothing and you are compulsorily integrated. And you have two other possible ways in compulsory integration to possibly receive far more than 1/8th.

Gas leases are complex business transactions masquerading as a lottery ticket.